



DEPARTMENT OF VETERANS AFFAIRS
OFFICE OF INSPECTOR GENERAL

Office of Audits and Evaluations

DEPARTMENT OF VETERANS AFFAIRS

VA's Use of the Defense
Logistics Agency's Electronic
Catalog for Medical Items

REVIEW

REPORT #20-00552-30

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Executive Summary

VA has one of the largest acquisition functions in the federal government, with contracting officers obligating approximately 36.9 billion taxpayer dollars in fiscal year 2020 alone.¹ To fulfill these procurement needs, VA developed various procurement options, including the Medical/Surgical Prime Vendor–Next Generation (MSPV–NG) Program, other mandatory-use contracts, and VA's Federal Supply Schedule (FSS) contracts.² In October 2017, VA entered into an interagency agreement with the Defense Logistics Agency (DLA) to use its Electronic Catalog (ECAT) as an additional procurement option.³ ECAT was introduced to VA facility personnel to supplement VA's medical logistics processes only when medical or surgical supplies and equipment were not available through existing contracts.⁴ As of April 1, 2021, VA had spent approximately \$592 million on purchases through ECAT.⁵

The VA Office of Inspector General (OIG) conducted this review to determine whether VA's procurements of medical supplies and equipment through ECAT complied with acquisition regulations, policies, and the terms and intent of the interagency agreement between VA and DLA.

What the Review Found

The OIG found that the Procurement and Logistics Office (P&LO) did not adequately govern the ECAT program. This finding is based on three observations:

- Ordering officials did not follow the ordering guide for ECAT.
- The *ECAT Ordering Guide* is incomplete and inaccurate.
- P&LO did not conduct required annual reviews of the interagency agreement.

¹ "Awards by Contractor Type," General Services Administration (GSA), accessed June 9, 2021, <https://sam.gov/>. (This is an internal website not publicly accessible.)

² For the purpose of the report, FSS refers to VA's FSS, not the GSA's FSS. VA's FSS includes Federal Supply Classification Groups 65 and 66.

³ Interagency Agreement between the Department of Veterans Affairs (VA) and the Defense Logistics Agency (DLA), VA IAA Control Number: VA701-17-M-0004, October 2017. DLA is a combat support agency under the Department of Defense and manages the global supply for the military, other federal agencies, and partner and allied nations.

⁴ VHA, Determination and Findings Interagency Acquisition, July 18, 2017.

⁵ The OIG is monitoring developments regarding the recent court decision *Medline Industries, Inc. v. United States*, No. 21-1098, 2021 WL 3483429 (Fed. Cl. July 30, 2021). The decision does not impact the finding in this report.

VA created the *ECAT Ordering Guide* to include VA policies and procedures for placing orders and to outline the ordering officials' responsibilities.⁶ The guide requires a list of documents to be included in the ordering package. However, ordering officials did not always have the required documents for the OIG's sampled ECAT orders. P&LO is required to conduct annual audits to ensure compliance; however, this was not done in fiscal year 2019.⁷ Until P&LO strengthens its oversight, VA does not have assurance that ordering officials are using ECAT in accordance with its policies.

Even if ordering and approving officials had followed the *ECAT Ordering Guide*, they were still at risk of making errors because the guide is incomplete. Before using ECAT for contract purchases, VA acquisition policy requires contracting officers to first use the MSPV-NG and other mandatory-use contracts and then consider the FSS.⁸ However, the *ECAT Ordering Guide* did not direct contracting officers to search for items on FSS first, nor did it require them to document their research to show they had considered FSS contracts before purchasing through ECAT. P&LO program officials stated FSS was not mandatory because they believed that FSS contracts were a pricing agreement rather than a contract and therefore did not think FSS consideration was required or should be included in the ordering guide. Because VA has an FSS Service and uses its contracts, and the VA Acquisition Regulation (VAAR) refers to FSS as a contract vehicle, the review team considered the officials' interpretation to be unsupported.⁹ After further discussion with the review team, P&LO officials acknowledged that FSS should be considered before using ECAT. Therefore, P&LO should revise the guide with steps to ensure staff consider FSS contracts before ordering through ECAT.

Because of this omission from the guide, the review team compared the ECAT unit price for each sampled item to the item's FSS contract price to see if VA overpaid for these items. The team determined that VA paid higher prices using ECAT for 147 of 398 sampled items (approximately \$34 million of over \$165 million in sales). Many of the items purchased through ECAT were available from the same suppliers on FSS at lower prices. If the ordering guide had correctly required VA ordering officials to consider FSS contracts for these sales orders, VA could have saved up to \$4.4 million by purchasing through FSS.¹⁰ VA officials repeatedly cited processing and delivery times as key factors in placing orders through ECAT rather than utilizing FSS contracts.

⁶ The original ordering guide was effective October 1, 2017. However, P&LO has issued three total versions of the *ECAT Ordering Guide*. The review team used the version dated August 6, 2019.

⁷ VHA, *ECAT Ordering Guide*, rev. 3, August 6, 2019.

⁸ VA Acquisition Regulation (VAAR) 808.004-70.

⁹ VAAR 808.004-70.

¹⁰ Appendix A presents the review scope and methodology, and appendix B outlines monetary benefits.

The guide was not only incomplete but also inaccurate in explaining the Rule of Two. Through application of this rule, VA ensures that service-disabled and other veterans who own small businesses are considered for contracts. The Rule of Two requires VA contracting officers to award contracts to veteran-owned small businesses if the contracting officer reasonably expects that at least two such businesses will submit offers and that the awards can be made at fair and reasonable prices that offer the best value to the government.¹¹ However, in illustrating how to apply the Rule of Two, the guide did not correctly reflect requirements in VA regulations to first identify potential veteran-owned small businesses capable of performing the work before selecting the contract vehicle.¹² Instead, the guide instructed contracting officers to first consider only veteran-owned small businesses with ECAT contracts. This potentially excluded other veteran-owned small businesses from the opportunity to fulfill supply orders.

Finally, P&LO did not conduct required annual written reviews of the interagency agreement that established VA's use of ECAT. The point of the reviews is to account for and implement any necessary updates. Although VA officials indicated to the team that contracting and program officials held meetings, they were unable to provide any written documentation showing reviews of the agreement. By not complying with these required annual reviews, VA may miss opportunities to identify issues and improve the agreement.

What the OIG Recommended

The OIG recommended the executive director of procurement and logistics update the *ECAT Ordering Guide* and provide additional guidance to ensure staff consider FSS contracts before ordering medical supplies and equipment through ECAT. VA should also establish a process to monitor orders and identify recurring acquisitions that could be purchased through other contract vehicles at lower prices. VA should require a justification for ECAT orders if FSS contracts are available and not used.

In addition, the OIG recommended that the executive director of procurement and logistics responsible for Rule of Two correct and monitor compliance with the Rule of Two diagram in the ordering guide, establish a process to ensure documentation and audits of orders meet the ordering guide requirements, and conduct and document annual reviews as required in the interagency agreement.¹³

¹¹ 38 United States Code (U.S.C.) § 8127.

¹² VAAR 808.004-70.

¹³ The Rule of Two diagram is a step-by-step process to guide ECAT ordering officials on how to apply the rule.

Management Comments

The acting under secretary for health responded to the report and concurred, or concurred in principle, with the report's finding and recommendations and submitted action plans for recommendations 1 through 6. Appendix C provides the full text of his comments.¹⁴

OIG Response

The action plans are responsive to the intent of the recommendations. The OIG will monitor the implementation of the recommendations until all actions are documented as completed. The acting under secretary for health provided three general comments, and the OIG incorporated clarifying information in the executive summary and narrative of the report where appropriate and added explanatory footnotes as needed to address these general comments.



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¹⁴ P&LO falls under VHA's Office of the Assistant Under Secretary for Health for Support Services.

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Abbreviations

CPAP	continuous positive airway pressure
DLA	Defense Logistics Agency
ECAT	Electronic Catalog
FAR	Federal Acquisition Regulation
FSS	Federal Supply Schedule
GSA	General Services Administration
IFCAP	Integrated Funds Distribution, Control Point Activity, Accounting and Procurement
MedPDB	Medical Product Data Bank
MSPV–NG	Medical/Surgical Prime Vendor–Next Generation Program
OIG	Office of Inspector General
P&LO	Procurement and Logistics Office
VAAR	VA Acquisition Regulation
VHA	Veterans Health Administration



Introduction

VA has one of the largest acquisition functions in the federal government, with contracting officers obligating approximately \$36.9 billion in fiscal year 2020 alone.¹⁵ Those obligations include the hundreds of millions of dollars VA spends annually on medical supplies for its healthcare facilities. To fulfill these facilities' needs, VA procurement officials purchase medical supplies and equipment through various procurement methods, including the Medical/Surgical Prime Vendor–Next Generation (MSPV–NG) Program contracts, other mandatory-use contracts, and VA's Federal Supply Schedule (FSS) contracts.¹⁶

In October 2017, VA and the Defense Logistics Agency (DLA) entered into an interagency agreement that allowed VA to begin using DLA's Electronic Catalog (ECAT) to augment VA's existing procurement methods.¹⁷ ECAT allows the Department of Defense and federal customers to browse, compare, and order a wide range of medical supplies and equipment. ECAT was introduced to VA facilities' personnel to supplement VA's logistics processes when medical or surgical supplies and equipment were not available through other programs or contracts.¹⁸ According to the interagency agreement, VA procurement officials were to use ECAT only when an item was not available through VA's existing procurement methods. However, VA has increasingly relied on ECAT instead of other preferred contracts. Although VA spent \$4 billion through the FSS program between January 2018 and April 2021, VA spent a total of approximately \$592 million through ECAT for the same period. One program official stated that use of ECAT is being encouraged and predicted that VA would eventually become a majority stakeholder in ECAT.

The VA Office of Inspector General (OIG) conducted this review to determine whether VA's procurement of medical supplies and equipment through ECAT complied with acquisition regulations, policies, and the terms and intent of the interagency agreement between VA and

¹⁵ "Awards by Contractor Type," General Services Administration (GSA), accessed June 9, 2021, <https://sam.gov/> (This is an internal website not publicly accessible.)

¹⁶ For the purpose of the report, FSS refers to VA's FSS, not the GSA's FSS. VA's FSS includes Federal Supply Classification Groups 65 and 66. "About GSA Schedule," GSA, accessed June 21, 2021, <https://www.gsa.gov/buying-selling/purchasing-programs/gsa-schedule/about-gsa-schedule>. FSS is a long-term, government-wide contract with commercial companies that provides access to millions of commercial products and services at fair and reasonable prices to the government.

¹⁷ DLA is a combat support agency under the Department of Defense and manages the global supply for the military, other federal agencies, and partner and allied nations. Although the interagency agreement to allow VA to use ECAT was effective in October 2017, the ECAT ordering system was not made generally available to medical facilities until January 2018.

¹⁸ VHA, *ECAT Ordering Guide*, rev. 3, August 6, 2019.

DLA.¹⁹ The team's review focused on whether VA should have used or considered FSS contracts before procuring goods through ECAT.

The following sections introduce relevant background information:

- Roles and responsibilities of related entities
- VA's ordering hierarchy
- Overall supply ordering process

Roles and Responsibilities of Relevant Entities

Two main VA offices are involved in the Veterans Health Administration's (VHA) acquisition of medical supplies and equipment: VHA's Procurement and Logistics Office (P&LO) and the FSS Service.

VHA P&LO

P&LO oversees purchasing and distribution to VHA healthcare facilities of pharmaceuticals, medical and operational supplies, prosthetics, high-tech medical equipment, and other critical patient care items.²⁰ The office serves as the primary agent for designing, developing, and deploying logistics and program management activities.²¹ With respect to the interagency agreement, P&LO responsibilities include

- adhering to and complying with all applicable and relevant Federal Acquisition Regulation (FAR) rules and policies;²²
- ensuring VA users are aware of the need to apply the Rule of Two, which requires contracting officers to award contracts on the basis of competition restricted to veteran-owned small businesses if there is a reasonable expectation that two or more will submit offers and the award can be made at a fair and reasonable price that offers the best value to the government;²³ and

¹⁹ The OIG is monitoring developments regarding the recent court decision *Medline Industries, Inc. v. United States*, No. 21-1098, 2021 WL 3483429 (Fed. Cl. July 30, 2021). The decision does not impact the finding in this report.

²⁰ "Who We Are," VHA Procurement & Logistics Office, accessed March 31, 2021, <https://www.va.gov/plo/>.

²¹ VA Functional Organization Manual, ver. 6, September 1, 2020.

²² Addendum to the Interagency Agreement between VHA and DLA, VA IAA Control Number: VA701-17-M-0004, no date.

²³ 38 United States Code (U.S.C.) § 8127. Addendum to the Interagency Agreement between VHA and DLA, VA IAA Control Number: VA701-17-M-0004, no date.

- ensuring VA ordering facilities follow ECAT protocols.²⁴

P&LO developed an ECAT guide for ordering officials to follow and is responsible for maintaining the guide. The office is also responsible for conducting annual audits to ensure VA uses ECAT as a supplement to the MSPV–NG and the national equipment catalog. Within P&LO is the Logistics Medical Supply Program Office, whose role is to establish efficient, cost-effective, standardized methods of providing healthcare-related commodities to VA facilities.

VA's FSS Service

The FSS Service is directed and managed by the General Services Administration (GSA) and provides federal agencies with a simplified process for obtaining commercial supplies and services at prices associated with buying in volume. Since 1960, GSA has delegated authority to VA to manage healthcare-related schedules.²⁵ VA's FSS Service is responsible for managing and administering nine healthcare-related schedules by reviewing, negotiating, awarding, and administering contracts.²⁶ For the purpose of the report, the terms "schedules" or "FSS" refer specifically to VA's FSS contracts.

VA's Ordering Hierarchy

The VA Acquisition Regulation (VAAR) and memorandums define mandatory and nonmandatory sources of supply and provide the policies on the ordering hierarchy VA should follow. Before 2016, the VAAR specified MSPV–NG and FSS contracts among the mandatory sources; however, this changed in 2016.²⁷ Figure 1 illustrates a timeline of changes in VA's policies regarding the ordering hierarchy in 2016.

²⁴ Addendum to the Interagency Agreement between VHA and DLA, VA IAA Control Number: VA701-17-M-0004, no date.

²⁵ Schedules are long-term, government-wide contracts with commercial firms providing government buyers with access to commercial products and services at volume discount pricing.

²⁶ VA Functional Organization Manual; "Schedule," VA Federal Supply Schedules, accessed March 24, 2021, <https://www.fss.va.gov>.

²⁷ VA memo, "Class Deviation from VAAR 808.001, Priorities for Use of Government Supply Sources," October 7, 2002.

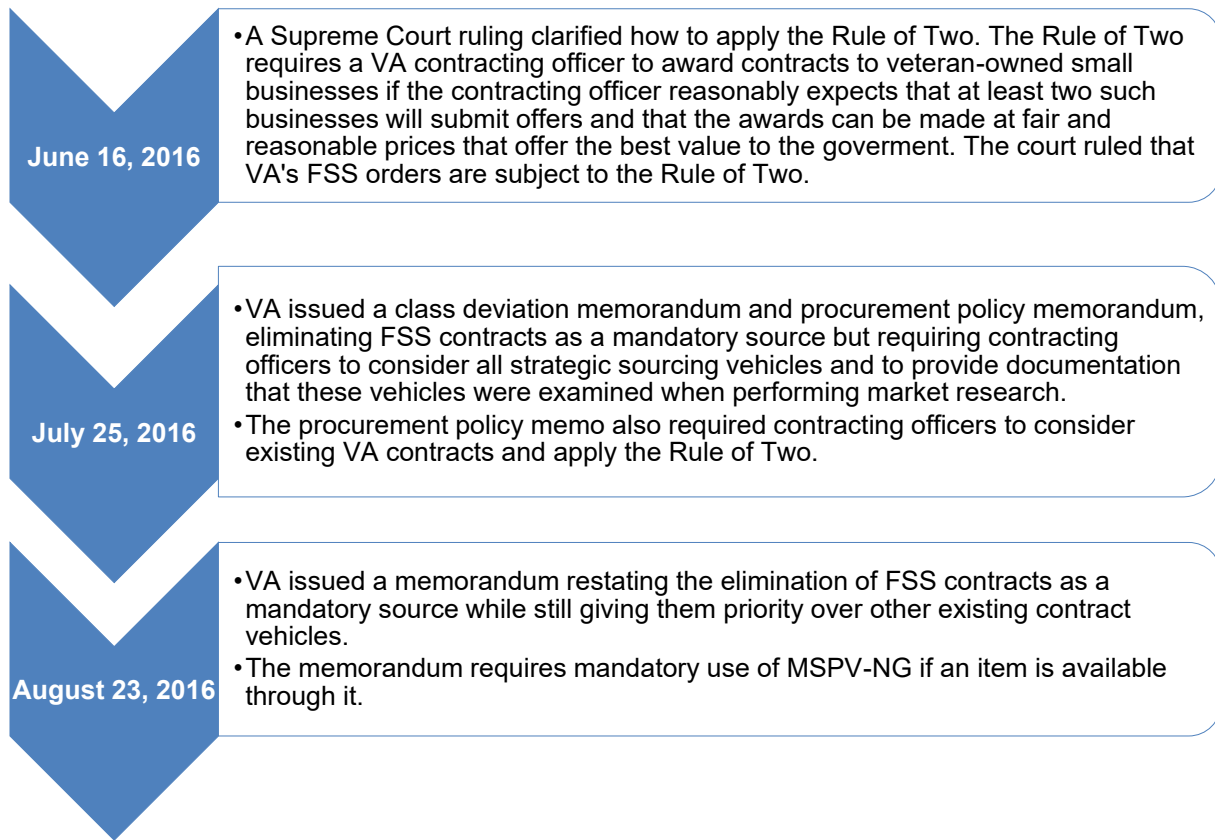


Figure 1. Timeline of relevant VA procurement policies in 2016.

Source: VA OIG's analysis of applicable VA procurement policies.

In July 2016, in response to a Supreme Court ruling, a class deviation to the VAAR changed VA mandatory contract vehicles to nonmandatory.²⁸ The class deviation specified that contracting officers shall consider MSPV-NG and VA FSS contracts before using other existing contracts. Revised policy further states contracting officers “shall consider all strategic sourcing vehicles and document in the market research report that these vehicles were examined when performing market research.”²⁹ The ruling also prompted VA to clarify in the July memo how to apply the Rule of Two for veteran-owned small businesses.³⁰ In a separate memo outlining the class

²⁸ For the ruling, see *Kingdomware Technologies Inc. v. United States*, 136 S. Ct. 1969 (2016). A deviation is the issuance or use of a policy, procedure, solicitation provision, contract clause, method, or practice of conducting acquisition actions of any kind at any stage of the acquisition process that is inconsistent with the Federal Acquisition Regulation or VAAR. A class deviation affects more than one contract action.

²⁹ VA Procurement Policy Memorandum 2016-05, “Implementation of the Veterans First Contracting Program,” July 25, 2016.

³⁰ VA Procurement Policy Memorandum 2016-05, “Implementation of the Veterans First Contracting Program,” July 25, 2016.

deviation, certain VA contracting vehicles were eliminated as mandatory sources while still giving them priority over other contract vehicles.³¹

Although the Office of Acquisition and Logistics' August 2016 memorandum requires use of MSPV–NG contracts, the VAAR deviation made FSS contracts nonmandatory.³² If an item is not available through MSPV–NG or other mandatory-use contracts, the ordering official must consider FSS contracts before ordering through ECAT.³³ If purchasing through ECAT is determined to be in the best interest of VA and meets procurement requirements, the ordering official must ensure the acquisition complies with the FAR and VA's Rule of Two.³⁴

VA's Supply Ordering Process

At VA medical facilities, individual department heads are responsible for determining their department's supply needs. The department head must submit a requisition request to the local acquisition team, which conducts market research to develop requirements, selects an appropriate contract, and verifies that capable service-disabled and other veteran-owned small businesses were considered. The ordering process differs based on the type of contract selected.

MSPV–NG Ordering Process

The MSPV–NG program is VA's national program for procuring medical or surgical supplies across VHA. Through this program, VA awarded indefinite-delivery, indefinite-quantity contracts to multiple prime vendors. The contracts enable VA to streamline purchasing and provide just-in-time distribution for medical, surgical, dental, and select prosthetic and laboratory supplies. Supplies that can be purchased through the program appear on a list called a formulary. When a medical center needs medical supplies, the logistics staff order them from the designated prime vendor formulary. Delivery time varies based on availability of the item but is generally expected within three days after the order is accepted, which is faster than ordering from an FSS contract. The MSPV–NG is a mandatory program with distribution fees that vary based on the items and delivery days. VHA policy states that using MSPV–NG is mandatory if the items are available through the formulary. For items not available through the formulary, the order should be placed through other mandatory contracts, if available.³⁵ If not, VA should consider FSS contracts before ordering through other existing contract vehicles such as ECAT.³⁶

³¹ VA memo, "Class Deviation-Implementation of the Veterans First Contracting Program as a Result of the U.S. Supreme Court Decision," July 25, 2016.

³² VA memo, "Mandatory Use of Prime Vendor Distribution Contracts and National Contracts," August 23, 2016.

³³ VA memo, "Mandatory Use of Prime Vendor Distribution Contracts and National Contracts." VAAR 808.004-70.

³⁴ FAR 15.1; 38 U.S.C. § 8127.

³⁵ VA memo, "Mandatory Use of Prime Vendor Distribution Contracts and National Contracts."

³⁶ VAAR 808.004-70. The VAAR specifically mentions that FSS is a key strategic sourcing contract vehicle.

VA's FSS Ordering Process

The FSS provides federal agencies with a simplified process of acquiring commercial supplies.³⁷ If the purchase amount is above the micropurchase threshold (\$10,000) and under the simplified acquisition threshold (\$250,000), a network contracting officer surveys, reviews pricelists, or requests quotes from at least three suppliers in the program and then places the order with the supplier that can provide the supply or service that represents the best value.³⁸ According to a VA official, when a facility acquires items through FSS, it must place the order through the network contracting office and wait an average of 90 days for delivery.

ECAT Ordering Process

Ordering officials should follow the process in the *ECAT Ordering Guide*. The process starts with a researcher, who compiles the acquisition request. The researcher can search, browse, review, and compare items in ECAT but cannot create orders. Logistics personnel—known as builders—at the individual VA facilities conduct market research, create an order package in ECAT, and set up the order in the Integrated Funds Distribution, Control Point Activity, Accounting and Procurement (IFCAP) System.³⁹ Part of the market research includes the builder searching for the requested item in the Medical Product Data Bank (MedPDB) to confirm the item is not available through MSPV–NG.⁴⁰ Because MSPV–NG is the mandatory program for VA to order medical supplies, ECAT cannot be used if the item is available through MSPV–NG. The facility chief supply chain officer reviews the builder's order package to ensure research is documented and then submits the package for approval and ordering.⁴¹

³⁷ FAR 38.101.

³⁸ Network contracting officers are under VHA's regional procurement offices. Each network contracting office provides local, regional, and national procurement support to VA.

³⁹ IFCAP is a software system that provides information on supplies, equipment, vendors, procurement history, and fund control point activity.

⁴⁰ MedPDB is a supply chain database, updated monthly by DLA, containing contract and historical purchase information for VA and the Department of Defense. Builders and authorizers use it as a research tool before placing orders through ECAT.

⁴¹ *ECAT Ordering Guide*.

Figure 2 provides a general overview of ECAT ordering officials' responsibilities and the ECAT ordering process.

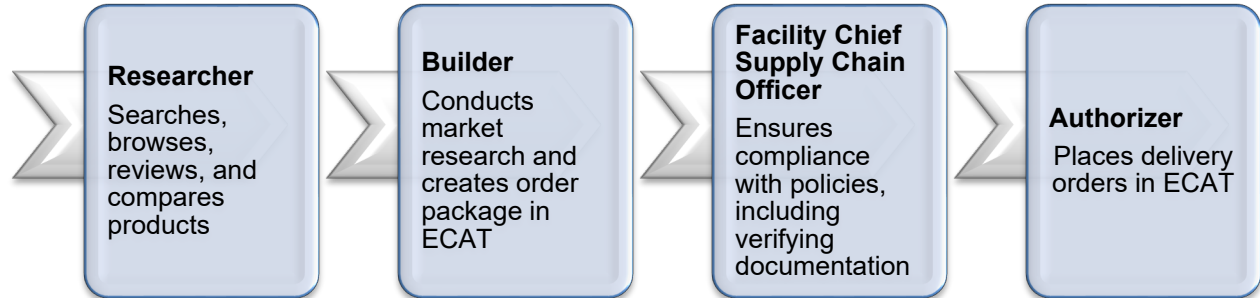


Figure 2. Overview of ECAT ordering officials' responsibilities.

Source: ECAT Ordering Guide, dated August 6, 2019.

The builder does not have the authority to approve orders. Only warranted contracting officers at P&LO's Program Contracting Activity Central office have the authority to submit ECAT orders to suppliers. As authorizers, these contracting officers are responsible for awarding delivery orders within ECAT as quickly as possible (not to exceed 10 business days).⁴² The Program Contracting Activity Central office receives notification that an ECAT order is ready for processing and assigns it to an authorizer. The builder is notified who the authorizer will be and submits the order.⁴³ The authorizer then places the order in accordance with the fair opportunity requirements of DLA's contracts and applicable regulations.⁴⁴

⁴² ECAT Ordering Guide. Although authorizers are warranted contracting officers, when they place the delivery orders in ECAT, they are not actually awarding the order but are only recording the obligation to DLA.

⁴³ ECAT Ordering Guide.

⁴⁴ ECAT Ordering Guide.

Results and Recommendations

Finding: VA Overpaid an Estimated \$4.4 Million for Medical Supplies and Equipment Because P&LO Did Not Adequately Govern the ECAT Program

P&LO is responsible for ensuring VA's procurements of medical supplies and equipment through ECAT comply with VA acquisition policies and the interagency agreement. However, the OIG found P&LO did not provide adequate guidance or properly monitor VA's implementation and use of ECAT. Ordering officials did not maintain required ECAT documentation. Also, because P&LO did not include FSS contract preference in the ordering guide, ordering officials purchased medical supplies and equipment through ECAT that could have been purchased through FSS at lower prices. This resulted in taxpayers overpaying an estimated \$4.4 million for medical supplies and equipment. The ordering guide also did not provide accurate guidance regarding preference for veteran-owned small business concerns, potentially depriving them of opportunities to sell to VA, in violation of law. In addition, P&LO did not conduct written annual reviews as required by the interagency agreement. Until P&LO updates its guidance and conducts the required monitoring of the ECAT program, VA may continue to unnecessarily pay higher prices and exclude some veteran-owned small businesses.

What the OIG Did

The review team examined federal and VA regulations related to mandatory and nonmandatory sources of supply, as well as the *ECAT Ordering Guide* and other policies related to ECAT and the Rule of Two. The team also reviewed the interagency agreement between VA and DLA and conducted interviews with VA program and ordering officials to understand the ECAT ordering process. In addition, the team reviewed a sample of ECAT transactions totaling over \$165 million (of a total of \$220 million purchased through ECAT) from September 1, 2018, through October 31, 2019, to analyze how ECAT prices compared with FSS prices. Each ECAT sales transaction was assigned a delivery order number, many of which included multiple sales transactions for the items purchased by VA facilities. The team reviewed a sample of 38 ECAT delivery orders to determine if required documentation was included in the ordering packages. Appendix A provides additional details on the review's scope and methodology.

The finding is based on three observations:

- Ordering officials did not follow the ordering guide for ECAT.
- The *ECAT Ordering Guide* is incomplete and inaccurate.
- P&LO did not conduct required annual reviews of the interagency agreement.

Ordering Officials Did Not Follow the Ordering Guide

After VA and DLA entered into the interagency agreement, P&LO developed an ECAT guide that included VA policies and procedures applicable to ECAT orders and ordering officials' responsibilities.⁴⁵ The guide requires a list of documents to be included in the ordering package. However, VA did not always include the required documents for the sampled ECAT orders.

VHA's *ECAT Ordering Guide* details the policies and processes for ordering items through ECAT and includes a requirement for the builder to perform and document market research.⁴⁶ Market research includes checking for the requested item in the MSPV-NG formulary or other mandatory use contracts, applying the Rule of Two to determine if ECAT is the appropriate acquisition vehicle, and verifying supplier status.⁴⁷ Although the guide requires ordering officials to compile an order package and maintain certain required documents, the review team found the required documents were missing from 14 of 38 sampled delivery orders.

The facility chief supply chain officer or the officer's delegate approves the completed ECAT delivery order before it is entered into the system and placed.⁴⁸ Table 1 provides an overview of the ECAT ordering process and required documentation.

Table 1. Overview of Ordering Process and Required Documentation

Step	Action	Responsible party	Required documentation	Purpose of documentation
1	Search for the requested item in MedPDB	Builder	MedPDB screenshot for each item on the requisition	To confirm the requested item is not available from the MSPV-NG
2	Select supplier according to the order of precedence and verify supplier status in the Vendor Information Pages database	Builder	Vendor Information Pages screenshot	To confirm supplier's status as a service-disabled or other veteran-owned small business
3	Apply the Rule of Two if applicable	Builder	Rule of Two analysis if ECAT supplier is not a service-disabled veteran-owned small business or a veteran-owned small business	To demonstrate VA considered the Rule of Two on orders not awarded to a service-disabled or other veteran-owned small business

⁴⁵ The original ordering guide was effective October 1, 2017. However, P&LO has issued three versions of the guide. The version used by the review team was dated August 6, 2019.

⁴⁶ *ECAT Ordering Guide*.

⁴⁷ *ECAT Ordering Guide*.

⁴⁸ *ECAT Ordering Guide*.

Step	Action	Responsible party	Required documentation	Purpose of documentation
4	Enter requested item information in ECAT, select authorizer for the award, and review the order in ECAT cart	Builder	ECAT cart screenshot	To ensure the ordered item, unit price, and quantity match the invoice
5	Initiate, complete, and sign ECAT order checklist	Builder	Signed ECAT order checklist	To ensure the delivery order includes all required documentation
6	Review ECAT ordering package and ensure funds are obligated	Facility chief supply chain officer	IFCAP requisition showing item(s) ordered and obligated	To show the requisition is complete and funds can be committed
7	Place delivery order within ECAT and ensure the order file is complete	Authorizer (contracting officer)	N/A	N/A

Source: VA OIG analysis of VHA's ECAT Ordering Guide.

The review team found ordering officials did not comply with documentation requirements in 14 of 38 sampled ECAT delivery orders (37 percent).⁴⁹ Table 2 shows the required documents and the number of ECAT sales transactions missing these documents.

⁴⁹ A delivery order may contain more than one ECAT sales transaction.

Table 2. Summary of Missing Documentation

Required document	ECAT transactions missing documents
ECAT order checklist	11
Vendor Information Pages screenshot	7
MedPDB screenshot	3
IFCAP requisition	3
Rule of Two analysis*	2
ECAT cart screenshot	1

Source: VA OIG analysis of 38 delivery orders from 40 sampled ECAT sales transactions.

Note: Some orders had more than one document missing.

*The review team found 28 ECAT transactions of 40 reviewed (consisting of 26 delivery orders) were awarded to veteran-owned small businesses or service-disabled veteran-owned small businesses. The team reviewed the remaining 12 ECAT transactions' market research documents and found two instances where the market research did not include the Rule of Two analyses.

VA's documentation requirements are intended to ensure ECAT orders comply with acquisition regulations and policies. For example, documenting the application of the Rule of Two shows that contracting officials considered veteran-owned small businesses. The MedPDB screenshots are used to verify whether P&LO met the requirement for mandatory use of MSPV-NG contracts by showing the builder researched the availability of items from prime vendors.⁵⁰

The ordering guide states P&LO is responsible for conducting annual audits to ensure compliance with procedures and for using ECAT as a supplement to other existing contract vehicles.⁵¹ In addition, a program official from the Program Contracting Activity Central office initially stated that routine and random audits are conducted to ensure compliance with the Rule of Two.⁵² However, when the team requested the annual audit for fiscal year 2019 and the routine and random audits performed by the Logistics Medical Supply Program Office, P&LO stated they did not conduct any of these.

Although the review team confirmed that the items purchased from the sampled 38 ECAT delivery orders were not available through the MSPV-NG contracts, the high occurrence of

⁵⁰ VA memo, "Mandatory Use of Prime Vendor Distribution and National Contracts."

⁵¹ These audits are distinct from the review required of the *agreement* annually, discussed later in this report.

⁵² Program Contracting Activity Central procurement policy memo, "Auditing for Compliance with the Rule of Two Required with Using ECAT," September 30, 2019.

missing documentation indicates P&LO did not adequately monitor ECAT orders.⁵³ Until the Logistics Medical Supply Program Office strengthens its oversight, VA does not have assurance that ordering officials are using ECAT in accordance with its policies.

The *ECAT Ordering Guide* Is Incomplete and Inaccurate

Even if ordering and approving officials had followed the *ECAT Ordering Guide*, the guide omits steps and is inaccurate. The interagency agreement stated VA would only use ECAT for medical supplies and equipment unavailable through its MSPV–NG formulary, FSS contracts, or other existing VA contracts. An addendum to the interagency agreement required P&LO to ensure VA ordering facilities followed ECAT ordering protocols. However, the ordering guide does not address considering FSS contracts before ordering supplies through ECAT as required by the interagency agreement and the VAAR.⁵⁴ The guide also does not correctly explain the Rule of Two, which could lead to VA excluding some veteran-owned small businesses from the contracting process.

The Guide Does Not Address FSS Contracts

The *ECAT Ordering Guide* does not require the ECAT builder to search for the requested item on the FSS or document consideration of FSS contracts. When a builder searches for the requested item in MedPDB to confirm the item is not available on the MSPV–NG formulary, the search also shows the item's FSS availability and past prices paid through FSS.

Despite the readily available FSS information, the ordering guide does not require ECAT builders to document the FSS contract search results in the market research or to justify why ECAT was used if FSS was available. In addition, the team found no documentation that FSS contracts were considered during the procurement of the 38 delivery orders reviewed.

Before VA entered the interagency agreement, an attorney in VA's Office of General Counsel provided a legal opinion stating VA must show lack of availability through mandatory and priority sources of supply, including MSPV–NG and FSS, before placing orders through ECAT.⁵⁵ However, P&LO did not revise the ordering guide to instruct ordering officials to consider using FSS contracts before using ECAT.

During initial interviews with the review team in February 2020, a VA program official responsible for ECAT stated that the guide does not address FSS because FSS is only a pricing agreement, not a contract vehicle from which VA can order. In May 2021, the program official also stated that this position was communicated directly from the executive director of the Office

⁵³ *ECAT Ordering Guide*.

⁵⁴ Although the interagency agreement stated VA would not use ECAT if an item is available on FSS, the VAAR only requires that FSS be considered.

⁵⁵ The opinion cited VAAR 808.004-70, which requires VA to prioritize FSS contracts.

of Acquisition and Logistics.⁵⁶ Because VA has an FSS Service and uses its contracts, and the VAAR refers to FSS as a contract vehicle, the review team questioned the interpretation that FSS is only a pricing agreement. After further discussion with the team, P&LO officials acknowledged that FSS should be considered before using ECAT. Therefore, P&LO should revise its *ECAT Ordering Guide* to add steps to ensure ordering and approving officials consider FSS contracts before ordering through ECAT, similar to the steps for documenting whether an item is available through MSPV–NG.

VA memorandums do state contracting officers must consider FSS contracts and document that consideration in the market research reports. However, the memorandums do not indicate the specific information needed in the documentation. VA should clarify the requirement to consider FSS contracts before using ECAT and require written justification for orders placed through ECAT when items are available on FSS contracts.

The review team found VA contracting officials ordered medical supplies and equipment through ECAT regardless of whether the items were available on the FSS at lower prices. The review team identified about \$106 million of the approximately \$165 million worth of the 3,534 sampled ECAT transactions where the purchased items in ECAT were also available via FSS. The team compared the ECAT unit price paid for each sample item with the FSS contract price in effect at the time of the order and found the ECAT unit prices were higher than the FSS contract prices for over \$72 million in sales. If the ordering guide had required VA to consider FSS contracts for these sales orders, ordering officials could have saved up to \$4.4 million by purchasing through FSS (table 3). The potential cost savings for about \$1.2 million of the \$4.4 million (26 percent) came from items available from the same suppliers through both FSS and ECAT.

Table 3. Cost Saving from Sampled ECAT Sales

Cost saving	FSS
Based on the same supplier offering identical items through FSS and ECAT	\$1,171,320
Based on different suppliers offering identical items through FSS and ECAT	\$3,249,560
Total cost saving	\$4,420,880

Source: VA OIG analysis of ECAT sales database from September 1, 2018, to October 31, 2019, and FSS price list.

In some instances, VA's use of ECAT yielded savings. The FSS contract prices were higher than the ECAT unit prices for almost \$34 million worth of sampled ECAT sales; in those cases, VA

⁵⁶ The Office of Acquisition and Logistics supports VA by providing acquisition, logistics, and financial services. Office of Acquisition and Logistics officials have not confirmed that FSS is only a pricing agreement.

saved over \$4.8 million by using ECAT. However, without documentation of the reason for selecting ECAT over other purchasing vehicles, VA lacks assurance that the ECAT purchases met procurement requirements.

In addition, the review team found that some ECAT suppliers might not have complied with the economic price adjustment clause that requires ECAT prices not to exceed FSS prices. Based on the team's analysis of ECAT solicitations and contracts, ECAT contract prices can be tied to suppliers' commercial catalog prices and FSS or other government contracts if applicable.⁵⁷ Some ECAT contracts contain an economic price adjustment clause that requires ECAT suppliers to provide DLA with their current FSS or other government contracts if available. The clause also states that the offered ECAT price should not exceed the current FSS or other government agency's unit price. Once the contract is awarded, the clause also requires ECAT contract prices to decrease whenever the FSS or other federal agency price decreases.⁵⁸

The review team also analyzed two of eight ECAT contracts that included the economic price adjustment clause.⁵⁹ Table 4 summarizes the results of the team's comparison of FSS and ECAT prices for the two suppliers reviewed.

Table 4. ECAT and FSS Prices for Items Available through Both Contracts

Description	Number of items (supplier 1 as of April 17, 2019)	Number of items (supplier 2 as of July 29, 2019)
Higher ECAT unit price (including fee)	59	13
Higher FSS unit price (including fee)	82	45
Total	141	58

Source: VA OIG analysis of ECAT and FSS unit prices.

Despite the clause stating that the offered ECAT price should not exceed the current FSS price, both suppliers had items with higher prices in ECAT. Although discrepancies can occur due to the timing of price adjustments, the high number of items with higher ECAT prices indicates that ECAT contractors may not have complied with the economic price adjustment clause. If ECAT prices are not correctly lowered per the economic price adjustment clause, VA could pay higher-than-permissible prices.

⁵⁷ The review team examined 10 ECAT contracts from four solicitations.

⁵⁸ Defense Logistics Acquisition Directive 52.216-9040, Economic Price Adjustment—Established Catalog Price Two Upward Adjustments Per Year Open Season E-CAT Solicitation, March 2016.

⁵⁹ Appendix A provides additional information on the scope and methodology, and appendix B outlines monetary benefits.

VA officials repeatedly cited processing and delivery times as key factors in placing orders through ECAT rather than utilizing FSS contracts. According to program officials, ECAT is easier to use than FSS, and the average order processing time is about nine days rather than up to 90 days. This timing discrepancy could be due to ECAT having a designated contracting team that is only responsible for placing ECAT orders, whereas FSS orders are placed through network contracting offices that are responsible for other procurements. Even if FSS orders may take longer than ECAT, VA still is required by its own regulations to consider FSS before using ECAT. Although timeliness may occasionally be a justification for using ECAT, medical facilities should plan their purchases, when possible, to allow for effective stewardship of taxpayer dollars. Such justification for using the contracting vehicle should be adequately documented in the market research report in accordance with VHA Procurement Manual Part 810.001-70, VA procurement policy memorandum 2016-05, and the VA Market Research Guide for Acquisition Teams.

Purchases of anesthesia machines, continuous positive airway pressure (CPAP) machines, and bladder scan systems show the effect of VA purchasing items from ECAT for higher prices. For items like CPAP machines, VA may have to place repeat purchases to meet ongoing needs. Anesthesia and bladder scan machines are large pieces of equipment, with a considerable price per unit, that VA should have planned to purchase. Table 5 shows how VA's failure to obtain the lowest price resulted in VA potentially spending more taxpayer dollars than necessary.

Table 5. ECAT vs. FSS Cost-Saving Analysis

ECAT supplier	Business class	ECAT price	FSS price	Price difference	Quantity	Potential cost saving
Anesthesia Machines						
Supplier 1	Large	\$47,434.64	\$39,502.65	\$7,931.99	6	\$47,592
CPAP Machines						
Supplier 2, purchase price 1	Service-disabled veteran-owned small business	\$440.25	\$428.74	\$11.51	17,011	\$195,797
Supplier 2, purchase price 2	Service-disabled veteran-owned small business	\$499.24	\$428.74	\$70.50	600	\$42,300

ECAT supplier	Business class	ECAT price	FSS price	Price difference	Quantity	Potential cost saving
Bladder Scan System						
Supplier 3, purchase price 1	Large	\$11,493.90	\$9,447.24	\$2,046.66	124	\$253,786
Supplier 3, purchase price 2	Large	\$9,546.00	\$9,447.24	\$98.76	148	\$14,616
Total						\$554,091

Source: VA OIG analysis of VA ECAT purchases from suppliers 1, 2, and 3 from September 1, 2018, through October 31, 2019.

As seen in table 5, the items were available from the same supplier with lower prices on FSS than ECAT. Therefore, if VA had considered FSS first, VA could not have justified ordering through ECAT based on price but may have justified use of ECAT based on the processing time or ease of ordering. However, the interagency agreement only allows ECAT to be used if an item is not available on FSS. Furthermore, acquisition regulations and policies direct the ordering officials to give priority to FSS and other existing contracts. For expensive, high-cost, or routine items, VA should adequately plan and consider available procurement options.

Example 1 shows how medical facilities need to assess and plan for routine medical equipment needs.

Example 1

From September 1, 2018, through September 30, 2019, a VA medical facility purchased an average of 306 CPAP units every month. It spent over \$1.7 million on CPAP machines through ECAT, consistently purchasing through ECAT even though the machines cost less through FSS. If the facility had planned its recurring need for this item, it could have saved over \$45,000.

Although it may be reasonable to purchase through ECAT if items are needed quickly, this medical facility purchased almost 4,000 units over a 14-month period—enough time to anticipate future purchases. By complying with regulations, the facility could have saved taxpayers over \$45,000. VA should consider the effect of facilities making similar routine purchases of items nationwide.

The Guide Does Not Illustrate the Rule of Two Correctly

VA is legally required to set annual goals for contracting with service-disabled and other veteran-owned small businesses.⁶⁰ As previously mentioned, to help reach those goals, a provision known as the Rule of Two requires VA contracting officers to restrict competition to veteran-owned small businesses if they reasonably expect that at least two such businesses will submit offers and that the award can be made at a fair and reasonable price that offers the best value to the government.⁶¹ In 2016, in response to the Supreme Court ruling outlined in figure 1, VA issued a memorandum to provide updated guidance in interpreting and applying the Rule of Two.⁶² According to this memorandum, when performing market research, contracting officers must

- search the Vendor Information Pages database to determine the availability of the eligible sources and then consider the VAAR and other internal agency policies,
- consider all strategic sourcing vehicles and document in the market research report that these vehicles were examined when performing market research, and
- use the contract file to comprehensively document the market research that considers service-disabled and other veteran-owned small businesses.⁶³

Since VA has a wide range of acquisition options, contracting officers are required to examine all sourcing vehicles and document the results in the market research. If service-disabled or other veteran-owned small businesses are not available in the acquisition vehicle, the contracting officer should pursue an open market option.

The *ECAT Ordering Guide* requires the builder to use the “Process Diagram for Applying the Rule of Two” reproduced in figure 3 to determine if ECAT is the appropriate acquisition vehicle.

⁶⁰ The Veterans Benefits, Health Care, and Information Technology Act of 2006, Pub. L. No. 109-461 (2006), codified at 38 U.S.C. § 8127.

⁶¹ 38 U.S.C. § 8127(d).

⁶² The Supreme Court ruling was *Kingdomware Technologies Inc. v. United States*, 136 S. Ct. 1969 (2016).

⁶³ VA procurement policy memo 2016-05, “Implementation of the Veterans First Contracting Program,” August 6, 2019.

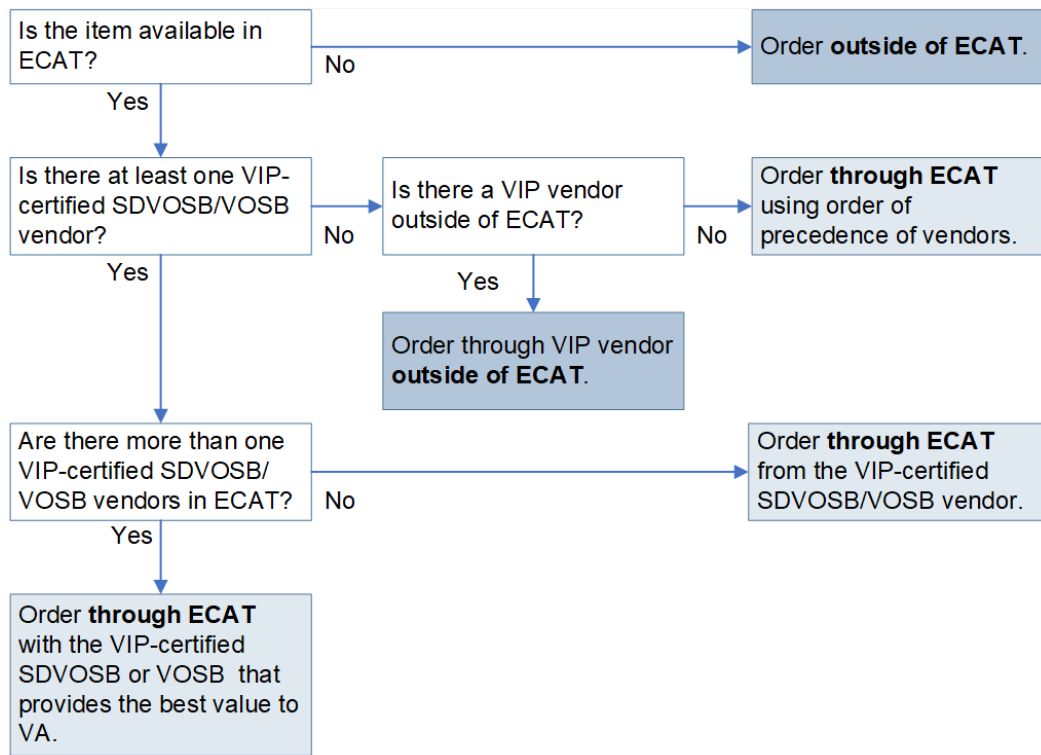


Figure 3. Steps according to the ECAT Ordering Guide for applying the Rule of Two.

Source: VA OIG replication.

The review team found the Rule of Two process diagram did not comply with VA procurement policy and the VAAR. The policy and the VAAR require contracting officers to review verified firms in the Vendor Information Pages database and then determine if there are existing contracts that are appropriate.⁶⁴ Although the search for veteran-owned small businesses should happen before the vehicle is selected, the diagram in the guide shows this step happening after ECAT is selected as the sourcing vehicle. In addition, when there is only one veteran-owned small business under ECAT, the diagram incorrectly instructs the contracting officer to award the order to that one supplier without searching veteran-owned small businesses outside of ECAT. The team confirmed with P&LO that the diagram reflected actual practice.⁶⁵ The guide should be updated to reflect the correct application of the Rule of Two.

The review team assessed 38 delivery orders and found 26 were awarded to veteran-owned small businesses. The remaining 12 orders were awarded to large businesses or small businesses not owned by veterans. The team did not find any evidence in the market research documents showing the ordering officials had searched for veteran-owned small businesses outside of

⁶⁴ VA procurement policy memo 2016-05; VAAR 808.404-70.

⁶⁵ VHA, email response to questions from VA OIG, received May 26, 2021.

ECAT for these 12 orders.⁶⁶ When the team contacted Program Contracting Activity Central staff, they provided a memorandum as explanation:

Currently, our market research reports are our only means of documentation; however, we don't supply any supporting documentation to our statements (i.e., screenshots of searches showing no results, emails from vendors, etc.), because these purchases are a simplified method of procurement.⁶⁷

By limiting the Rule of Two analysis to only available ECAT suppliers, VA is not evaluating other possible veteran-owned small businesses with existing contracts that may have priority over ECAT. As a result, VA may face legal actions from these businesses for missed opportunities to receive awards. Until VA updates guidance to clarify that the Rule of Two must be applied before selecting a sourcing vehicle, some veteran-owned small businesses may not be receiving preference as legally required.

P&LO Did Not Conduct Required Annual Reviews of the Interagency Agreement

The interagency agreement requires VA review at least annually, stating that the agreement shall be reviewed every year or upon policy changes affecting changes in the terms of this agreement. Each review shall determine if any modifications are required to clarify terms or condition, or if the agreement should be terminated. Each review shall be written and shall be signed by all responsible command officials.⁶⁸

Although VA officials indicated to the team that contracting and program officials conducted meetings, they were unable to provide any written documents to show reviews were conducted, as required. VA's noncompliance resulted in lack of transparency in its review process for identifying systemic issues and implementing improvements to the agreement. In addition, VA's legal counsel recommended executing an updated determination and findings document each year to support the propriety and legality of VA's continued use of the interagency agreement. To support the continued use of ECAT, VA should consider implementing this recommendation.

Conclusion

The OIG found P&LO did not adequately govern the ECAT program. Due at least in part to officials' interpretation that FSS is only a pricing agreement, P&LO did not include FSS contract

⁶⁶ A delivery order package was associated with the 38 deliveries; each includes one market research document.

⁶⁷ Program Contracting Activity Central procurement policy memo, "Auditing for Compliance with the Rule of Two Required with Using ECAT."

⁶⁸ Addendum to the Interagency Agreement between VHA and DLA, VA IAA Control Number: VA701-17-M-0004, no date.

preference in the ordering guide, and officials purchased items through ECAT that were available on FSS at lower prices. As a result, VA overspent an estimated \$4.4 million in taxpayer dollars over a 14-month period, in conflict with its own policy. Inaccurate information in the ordering guide may also have led to some veteran-owned small businesses being excluded from fulfilling VA's supply needs. Because ordering officials did not always maintain required ECAT documentation, VA lacks assurance that ECAT is being used as intended. VA missed opportunities to identify weaknesses and improve the program by not conducting written annual reviews as required by the interagency agreement. Until P&LO updates guidance and improves its monitoring of the ECAT program, VA may continue to pay higher prices and not comply with its own policies.

Recommendations 1–6

The OIG made six recommendations to the executive director of procurement and logistics:

1. Update the *Electronic Catalog Ordering Guide* with additional guidance to clarify the requirement to consider Federal Supply Schedule contracts before ordering medical supplies and equipment through the Defense Logistics Agency's Electronic Catalog and monitor compliance.
2. Establish a process to monitor orders through the Defense Logistics Agency's Electronic Catalog to identify recurring acquisitions that could be purchased through other contract vehicles at a lower price.
3. Require a justification for every order through the Defense Logistics Agency's Electronic Catalog if a Federal Supply Schedule contract is available.
4. Correct and monitor compliance with the Rule of Two diagram in the *Electronic Catalog Ordering Guide*.
5. Establish a process to ensure appropriate documentation and audits of orders in accordance with the *Electronic Catalog Ordering Guide*.
6. Conduct and document annual reviews as required in the interagency agreement.

Management Comments

The acting under secretary for health responded to the report and concurred, or concurred in principle, with the report's finding and recommendations and submitted actions plans for recommendations 1 through 6.⁶⁹ The acting under secretary for health also provided technical comments, which the OIG addressed below. Appendix C provides the full text of their comments.

⁶⁹ P&LO falls under VHA's Office of the Assistant Under Secretary for Health for Support Services.

In response to recommendation 1, P&LO will update the ordering guide and develop a process to monitor compliance.

For recommendation 2, the Logistics Medical Supply Program Office will establish a process to monitor DLA ECAT orders to identify recurring acquisitions that should be added to the MSPV–NG contracts. In addition, the Logistics Medical Supply Program Office will assist VHA's Office of Operations in creating a process that ensures items available through MSPV–NG, VA FSS, VA/VHA, and other mandatory contract vehicles are considered before ECAT purchases.

For recommendation 3, VHA will strengthen documentation to meet the requirement that VA FSS contracts must be considered. VHA will update the ordering guide to include requirements for how to properly document that all sources were checked.

For recommendation 4, VHA will update the ordering guide to correct the Rule of Two diagram.

For recommendation 5, VHA will establish a review process to ensure appropriate documentation and interagency agreement transactional orders are in accordance with regulations.

For recommendation 6, the Logistics Medical Supply Program Office will conduct and document annual reviews as required in the interagency agreement with DLA.

OIG Response

The corrective action plans are responsive to the intent of the recommendations. The OIG will monitor the implementation of the recommendations until all actions are documented as completed. The acting under secretary for health provided three general comments, and the OIG incorporated clarifying information in the executive summary and narrative of the report where appropriate and added explanatory footnotes as needed to address these general comments.

First, the OIG clarified its usage of the term *FSS* throughout this report to emphasize those instances that are specific to VA's FSS and are not referring to GSA's FSS.

Second, the OIG changed its usage of *contracting official* where appropriate to *approving official* because the contracting officer places and approves ECAT orders and records the obligation to DLA. However, the OIG did not use the suggested term *interagency agreement transaction official* because the OIG did not find cited support for this term in the VA Acquisition Manual 817.504. The OIG also did not change its usage of *delivery order* as this is the term used in the ECAT transactional sales data, as well as in the IFCAP requisition documents. VHA did not provide, and the OIG did not find, any documents to support the use of the term *interagency agreement transaction*.

Third, the OIG did not include the fully burdened costs when evaluating product price because these data were not available for the specific transactions sampled, so the OIG did not assess the

potential impact.⁷⁰ Furthermore, the OIG clarified that the potential cost savings only reflected the difference in ECAT price paid and the available FSS price at the time the data were reviewed. The OIG acknowledged other factors may be involved in the decision to order through ECAT.

The acting under secretary for health provided four additional technical comments in its response to this report. For the first technical comment, the OIG did not change figure 2 to show “Authorizer: Records obligation to DLA” because the figure represented the process stated in the ordering guide, and “records obligation to DLA” was not stated. However, the OIG further clarified the role of the authorizer in footnote 42. For the remaining three technical comments, the OIG revised the responsible program office and clarified the applicable policies.

⁷⁰ Fully burdened costs refer to the additional costs associated with acquiring a product via manual processes instead of through electronic data interchange utilized by the ECAT system.

Appendix A: Scope and Methodology

Scope

The review team conducted its work from September 2019 through October 2021. The team reviewed VA's total ECAT usage data (the total number of sales per month) from January 2018 through March 2021 to identify VA's overall ECAT purchase amount. Then, the team focused its analysis on VA's ECAT purchase data from September 1, 2018, through October 31, 2019, totaling \$220,202,207. This represented the 14-month period immediately before the team began its fieldwork. Sales data contain detailed transaction information such as the product number and the ordering facility.

Methodology

To determine whether VA's procurements of medical supplies and equipment through ECAT complied with acquisition regulations and policies, the review team analyzed ECAT sales data and delivery orders. The team took the following steps:

- Interviewed ECAT ordering officials regarding the ECAT ordering process
- Reviewed public law, FAR, VAAR, VA policies, and the interagency agreement related to VA procurements
- Reviewed the *ECAT Ordering Guide* and procedures
- Selected the top 398 items with the highest sales totaling \$165,154,733 in ECAT and compared the prices paid to the FSS contract prices in effect at the time of the orders
- Reviewed 38 delivery orders in support of 40 ECAT transactions based on the 25 items with the highest potential savings and compared the documents in the orders against the list of required documents⁷¹

Fraud Assessment

The review team assessed the risk that fraud and noncompliance with provisions of laws, regulations, policies, and contracts, significant in the context of the review objectives, could occur during this review. The team exercised due diligence by staying alert to any fraud indicators.

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

⁷¹ All 38 reviewed delivery orders had a purchase amount above the micropurchase threshold (\$10,000) and under the simplified acquisition threshold (\$250,000).

Data Reliability

To generate a sample, the review team obtained ECAT sales database that contained a population of all ECAT sales transactions from September 1, 2018, through October 31, 2019. The data were tested for validity by comparing the sales information in the database to information in delivery orders. The team determined that the data were reliable to support its findings, conclusions, and recommendations. As usage data were consolidated by VA, data reliability testing was not performed.

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: Monetary Benefits in Accordance with Inspector General Act Amendments

Recommendations	Explanation of Benefits	Better Use of Funds	Questioned Costs
1 and 2	Potential savings related to utilizing FSS contracts instead of ECAT for items with lower FSS prices ⁷²	\$4,420,878	
	Total	\$4,420,878	

⁷² In some cases, the FSS contract prices were higher than the ECAT unit prices, so VA saved over \$4.8 million by using ECAT. However, no offset is included here because without documentation of the reason for selecting ECAT over other purchasing vehicles, VA lacks assurance that the ECAT purchases met procurement requirements.

Appendix C: Management Comments, Acting Under Secretary for Health

Department of Veterans Affairs Memorandum

Date: November 12, 2021

From: Acting Under Secretary for Health

Subj: OIG Draft Report, VA's Use of the Defense Logistics Agency's Electronic Catalog for Medical Items (#2020-00552-PE-0028) (VIEWS 6196747)

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

1. Thank you for the opportunity to review and comment on the Office of Inspector General (OIG) Draft Report, VA's Use of the Defense Logistics Agency's (DLA) Electronic Catalog (ECAT) for Medical Items. VHA would like to thank OIG for identifying the errors in the ECAT ordering process. VHA concurs with the recommendations and provides an action plan in the attachment.

2. We appreciate OIG clarified that the usage of Federal Supply Schedule (FSS) throughout the report refers to VA's FSS and not the General Service Administration's FSS (See footnote 27). However, we think this content should be written in the body of the report rather than relegated to a small footnote where the reader could miss it. We note that this language is referenced in the following locations in the report: page i, paragraph one, second sentence; page one, paragraph one, sentence three; page three, footnote 23, second sentence; page four, footnote 27; page six, title one.

3. VHA would like to clarify that VHA staff are not the contracting officials (CO) on the Economy Act Interagency Agreement (IAA). Per IAA block 12, the CO is only recording the obligation to DLA; DLA is the CO of record. VHA asks OIG to consider changing the word "contracting" to "IAA transaction official" as well as the phrase "delivery orders" to "IAA transactions." The term "transaction official" also conforms to the language used in VAAM 817.504. VHA acknowledges that this is incorrectly stated in the ECAT ordering guide and requires correction. VHA notes that these phrases are referenced in the following locations in the report: page ii, paragraph two, first sentence; page nine, paragraph two, last sentence; page nine, paragraph three, second sentence; page nine, Table 1, Step 5 and Step 7; page ten, footnote 51; page 11, paragraph three, first sentence; page 11, paragraph four, first sentence, and page 12, paragraph two, second sentence.

4. VHA believes it is important to consider the fully burdened costs when evaluating product price for a product acquired via manual processes and a product acquired via electronic data interchange (EDI). The cost difference between manual processes and EDI are well studied and documented. For example, a single product order/invoice adds \$35 - \$138 a transaction. VHA asks OIG to please take this into consideration throughout the report, specifically, on page ii, paragraph three, sentences two thru three as well as page 8, first paragraph.

5. VHA would like to provide the remaining technical comments to improve accuracy and completeness of the draft report.

- a. Page 7: In the last block of figure 2, it says, "Authorizer: Awards delivery orders in ECAT." VHA asks OIG to change the phrase to "Records obligation to DLA." Per IAA block 12, the authorizer is recording the obligation to DLA.

- b. Page 11: In the third sentence of paragraph two, VHA requests OIG replace “Program Contracting Activity Central” with “Logistics Medical Supply Program Office (MSPO)” for to accurately reflect the program office responsible for the annual audit and any routine or random audits.
- c. Page 11: In the second sentence of paragraph three, VHA requests OIG replace “Program Contracting Activity Central” with “Logistics MSPO Program Office” to accurately reflect the program office responsible for ECAT oversight.
- d. Page 14: In the last sentence of paragraph three, VHA requests OIG replace the reference “in accordance with VHA Procurement Manual Part 810.001” with “in accordance with the VAAR 810.001-70, VA PPM 2016-05, August 6, 2019, and the VA Market Research Guide for Acquisition Teams.”

The OIG removed point of contact information prior to publication.

(Original signed by)

Steven L. Lieberman, M.D.

Attachment

VETERANS HEALTH ADMINISTRATION (VHA)

Action Plan

**VA's Use of the Defense Logistics Agency's Electronic Catalog
(DLA's ECAT) for Medical Items
(#2020-00552-PE-0028)**

Recommendation 1. Update the Electronic Catalog Ordering Guide with additional guidance to clarify the requirement to consider Federal Supply Schedule contracts before ordering medical supplies and equipment through the Defense Logistics Agency's Electronic Catalog, and monitor compliance.

VHA Comments: Concur. VHA Procurement and Logistics Office (P&LO) will update the Guide and develop a process to monitor compliance.

Status: In Progress Target Completion Date: June 2022

Recommendation 2. Establish a process to monitor orders through the Defense Logistics Agency's Electronic Catalog to identify recurring acquisitions that could be purchased through other contract vehicles at a lower price.

VHA Comments: Concur in Principle. The Logistics/Medical Supply Program Office (MSPO) will establish a process to monitor Defense Logistics Agency (DLA) Electronic Catalog (eCAT) orders to identify recurring acquisitions that should be added to the Medical Surgical Prime Vendor (MSPV) contracts as stated in the Interagency Agreement (IAA) with DLA., VA IAA Control Number: VA701-17-M-0004, October 2017. MSPO will assist VHA's Office of Operations in creating a process that ensures items on MSPV, VA Federal Supply Schedule (FSS), VA/VHA and other mandatory contract vehicles are considered prior to eCAT purchases as stated in the IAA with DLA, VA IAA Control Number: VA701-17-M-0004, ECAT Ordering Guide, page 1, paragraph 3 in the Policy section, page 4, paragraph 5.1 in the Procedures section, Determination and Findings, page 1, paragraph 1 and the Addendum To The Interagency Agreement, page 2, paragraph V. Scope of Work.

Status: In Progress Target Completion Date: June 2022

Recommendation 3. Require a justification for every order through the Defense Logistics Agency's Electronic Catalog if a Federal Supply Schedule contract is available.

VHA Comments: Concur in Principle. Per VA policy, VA FSS contracts must be considered, and the results documented during the market research process. VHA will strengthen documentation to meet this requirement. VHA will update the ordering guide to include requirements on how to properly document that all sources were checked.

Status: In Progress Target Completion Date: June 2022

Recommendation 4. Correct and monitor compliance with the Rule of Two diagram in the Electronic Catalog Ordering Guide.

VHA Comments: Concur in Principle. The diagram in the Electronic Catalog Ordering Guide requires updating. VA must monitor compliance with the Rule of Two. VHA will update the ordering guide to correct the Rule of Two diagram.

Status: In Progress Target Completion Date: June 2022

Recommendation 5. Establish a process to ensure appropriate documentation and audits of orders in accordance with the Electronic Catalog Ordering Guide.

VHA Comments: Concur in Principle. VHA Procurement will establish a review process to ensure appropriate documentation and IAA transactional orders are in accordance with regulations.

Status: In Progress Target Completion Date: January 2022

Recommendation 6. Conduct and document annual reviews as required in the interagency agreement.

VHA Comments: Concur. VHA Logistics MSPO will conduct and document the annual reviews as required in the IAA with DLA. VA IAA Control Number: VA701-17-M-0004, Attachment 2 – ECAT Ordering Guide, page 3, section 4.3.3 and the Addendum To The Interagency Agreement, page 4, section VIII, and in the legal notes from Benjamin Ratichek provided on page 2 in the section titled “A few additional notes”, paragraph 1 October 2017.

Status: In Progress Target Completion Date: June 2022

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

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