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Office of Audits and Evaluations

VETERANS HEALTH ADMINISTRATION

Financial Efficiency Inspection of the VA Pittsburgh Healthcare System

Financial Inspection | **23-03278-233** | **September 11, 2024**

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Executive Summary

The VA Office of Inspector General (OIG) conducted this inspection to assess the stewardship and oversight of funds by the VA Pittsburgh Healthcare System and to identify potential cost efficiencies in carrying out healthcare system functions.[1] To determine whether the healthcare system had appropriate controls and oversight in place, the OIG identified four financial activities and administrative processes that draw on considerable VA financial resources and made recommendations to promote the responsible use of VA's appropriated funds: (1) use of managerial cost accounting information, (2) open obligations oversight, (3) purchase card use, and (4) supply chain management operations.[2]

What the Inspection Found

The team identified several opportunities for improvement in the areas inspected, as discussed in the sections that follow.

Use of Managerial Cost Accounting Information

Obligations at the healthcare system grew from about $856.4 million in fiscal year (FY) 2021 to approximately $1.0 billion in FY 2023, an increase of almost $176.0 million (21 percent). The team reviewed the healthcare system's monthly budget updates for FY 2023. This reporting provided evidence that the healthcare system is using financial information to compare budgeted amounts to actual results as described in VA policy.[3]

The inspection team also compared healthcare system financial management practices with federal financial accounting standard practices. Using document reviews and interviews with healthcare system leaders, the inspection team determined that the healthcare system's managerial cost accounting information is not used for the essential purposes of performance measurement, budgeting, and cost control, or for making economic choices as described in the federal financial accounting standards.[4] While these federal financial accounting standard practices are not required, healthcare system leaders could consider implementing them to

[1] The VA Pittsburgh Healthcare System serves veterans at two medical center locations in Pittsburgh, five outpatient clinics in Pennsylvania (Beaver County, Fayette County, Washington County, Westmoreland County, Monroeville) and one in Ohio (Belmont County) as well as three veteran centers in Pittsburgh, Pennsylvania; White Oak, Pennsylvania; and Wheeling, West Virginia.

[2] Open obligations include those that are not considered closed or complete and have a balance associated with them, whether undelivered or unpaid.

[3] VA Financial Policy, "Managerial Cost Accounting," in vol. 13, *Cost Accounting* (Dec 2019), chap. 3.

[4] Federal Accounting Standards Advisory Board (FASAB), "Statement of Federal Financial Accounting Standards 4: Managerial Cost Accounting Standards and Concepts," in *FASAB Handbook of Federal Accounting Standards and Other Pronouncements*, *As Amended*, Version 21 (June 30, 2022).

potentially help with budget formulation and other program activities like the resource management committee.

The OIG also determined that managerial cost accounting is not a fundamental part of financial management activities at the healthcare system. The healthcare system provided evidence that cost accounting information or reports are used consistently to compare planned amounts to actual results, but the healthcare system focuses on ensuring that cost accounting information is accurate for use in VA's cost accounting system and does not have a consistent process in place to ensure the cost accounting data are used to reduce costs and enhance efficiency. There are ongoing efforts on the part of the healthcare system to review cost data in a more detailed manner. As recently as February 2024 the facility conducted an internal audit of some allocation cost structures and as a result of these efforts made many costing corrections.

Open Obligations Oversight

The inspection team evaluated whether the healthcare system followed VA policy by performing monthly reviews and reconciliations of sampled undelivered orders and outstanding accruals to ensure they were valid and should remain open. The team also evaluated whether the healthcare system reconciled end dates and order amounts between the Financial Management System (FMS) and the Integrated Funds Distribution, Control Point Activity, Accounting and Procurement System (IFCAP).[5] The OIG found healthcare system staff could improve management of open obligations by reviewing inactive open obligations in conjunction with the requesting office and by creating an escalation process to notify leaders when services are not providing the status of open orders. As a result of the healthcare system's lack of review, the team found approximately $87,000 that could have been put to better use.[6]

Purchase Card Use

VA's Government Purchase Card Program was established to reduce administrative costs related to the acquisition of goods and services. When used properly, purchase cards can help facilities simplify acquisition procedures and provide an efficient vehicle for obtaining goods and services directly from vendors. Documenting transactions as required helps VA and other oversight

[5] FMS is considered the primary accounting system for VA. All accounting transactions record in FMS, but not all transactions record in IFCAP. Finance is the only service that has ability to perform transactions in FMS and it is considered to contain most current, accurate information for monitoring and reporting purposes. IFCAP, also referred to as VistA, is considered the "front end" of the accounting system - automating the creation, approval, forwarding, monitoring, and payment of requests for supplies and services. Each day FMS interfaces with IFCAP, passing along accounting activity in the form of fund control point balance adjustments. A transaction's end date (which is critical to determining whether an obligation should remain open) may be modified due to delays or scope changes. The modification may not be recorded in both systems because staff can manually change end dates in one system without changing them in the other.

[6] See appendix C for further information on monetary benefits.

authorities identify potential fraud, waste, and abuse.[7] Using contracts for frequently purchased goods or services allows VA to obtain competitive pricing, a process known as strategic sourcing, generally providing optimal savings to VA. The team found that while healthcare system staff mostly complied with purchase card program policies and procedures, improvements could be made regarding approval reviews, ensuring an avoidance of split purchasing, and consideration of contracts.

Supply Chain Management Operations

Supply chain management integrates people, processes, and systems for the management of product and service planning, sourcing, purchasing, delivery, and receiving. Veterans Health Administration (VHA) policy requires medical facilities to establish, operate, and maintain a supply chain management program that is effective, cost-efficient, transparent, and responsive to customer requirements and to continually identify ways to ensure high-quality veteran care.[8] The inspection team evaluated whether staff managed the healthcare system's supply chain operations effectively, the accuracy of inventory data, and the ability to meet the days of stock on hand performance metric—a nationally set level of inventory for expendable Medical/Surgical Prime Vendor (MSPV) program items and non-MSPV items.[9] The team found that the healthcare system's supply chain management was not sufficient to ensure the days-of-stock-on-hand metrics were met or supply chain data were accurate. Strengthening local processes and procedures for the timely review of data to detect and correct errors would increase the reliability of inventory data and could help ensure metrics are met.

What the OIG Recommended

The OIG made six recommendations for improvement to the healthcare system director. The intent is for system leaders to use these recommendations as a road map to improve financial operations. The recommendations address issues that, if left unattended, may eventually interfere with financial efficiency practices and the strong stewardship of VA resources.

The OIG recommended that the healthcare system director (1) establish a plan to use VA's cost accounting system information to identify alternative ways to reduce costs, enhance efficiency, and inform business decisions as identified by VA financial policy, and (2) consider a plan to align VA Pittsburgh Healthcare System financial management practices with federal financial accounting standard practices, which could include using cost information for performance measurement, budgeting, cost control, and making economic choices.

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[7] VA Financial Policy, "Government Purchase Card for Micro-Purchases," in vol. 16, *Charge Card Programs* (May 2022), chap. 1B.

[8] VHA Directive 1761, *Supply Chain Management Operations*, December 30, 2020.

[9] The MSPV program is a national program providing a customized distribution system to meet or exceed facility requirements through an efficient, cost-effective, just-in-time distribution catalog ordering process.

To strengthen review of open obligations, the director should (3) ensure requesting offices are trained to effectively communicate status of open obligations in a timely manner so healthcare system finance staff can comply with VA policy by ensuring monthly that open obligation balances are valid and should remain open or are closed in a timely manner, and (4) establish an escalation process to notify the appropriate leaders if the requesting office does not provide a response to the finance office's monthly request for status of outstanding obligations.

Related to purchase card transactions, the director should (5) establish controls to confirm approving officials and cardholders review purchases for VA policy compliance, ensuring purchases are not being split and strategic sourcing is pursued for ongoing or repetitive purchases. The OIG also made a recommendation related to supply chain management for the director to (6) ensure supply chain managers implement a plan to detect and correct data validity issues within inventory systems.

VA Management Comments and OIG Response

The VA Pittsburgh Healthcare System executive director concurred with recommendations 1–6 and provided responsive corrective action plans for those recommendations. The OIG considers all recommendations open. The OIG will monitor the implementation of all planned actions and will close the recommendations when the healthcare system provides sufficient evidence demonstrating progress in addressing the intent of the recommendations and the issues identified. Appendix D includes the healthcare system executive director's comments.

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Abbreviations

FMS	Financial Management System
FY	fiscal year
IFCAP	Integrated Funds Distribution, Control Point Activity, Accounting and Procurement System
MSPV	Medical/Surgical Prime Vendor
OIG	Office of Inspector General
SCCOP	Supply Chain Common Operating Picture
VHA	Veterans Health Administration
VISN	Veterans Integrated Service Network

Introduction

The VA Office of Inspector General (OIG) conducts financial efficiency inspections to assess stewardship and oversight of funds at VA healthcare systems, identify opportunities to achieve cost efficiencies, and promote best practices. Inspection teams identify and examine financial activities that are under the healthcare system's control and can be compared to healthcare systems similar in size and complexity across VA.

This inspection focused on the VA Pittsburgh Healthcare System. The OIG assessed four financial activities and administrative processes to determine whether appropriate controls and oversight were in place during fiscal year (FY) 2023. FY 2021 and FY 2022 were also part of the inspection scope for the review of the system's use of managerial cost accounting information.

I. **Use of managerial cost accounting information.** Managerial cost accounting identifies, measures, and analyzes cost information to help managers make informed decisions about allocating federal resources, authorizing and modifying programs, and evaluating program performance. The team evaluated how healthcare system officials used VA's managerial cost accounting system to identify the cost of goods and services, review available workload data, identify alternatives to reduce costs, enhance efficiency, and make effective business decisions. Using reliable and timely cost information when making programmatic decisions reduces the risk of waste and inefficiency.

II. **Open obligations oversight.** An obligation is a legally binding commitment of appropriated funds for goods or services.[10] Open obligations include those that are not considered closed or complete and have an unliquidated obligated balance associated with them.[11] They can be either undelivered orders or delivered unpaid orders, known as accruals. VA financial policy requires that all finance offices with open obligations perform monthly reviews to ensure that their obligations are valid, beginning and ending dates are accurate, and open and accrued balances are accurate and agree with source documents, such as contracts and purchase orders, receiving reports, invoices, and payments.[12] VA is also required to deobligate stale obligations that were not established by a contracting officer, unless the requesting office can demonstrate that the obligations are valid and should remain open. For obligations that were established by a contracting officer, necessary actions to deobligate should be coordinated with the logistics and

[10] VA Financial Policy, "Obligation," in vol. 2, *Appropriations, Funds, and Related Information* (April 2022 and May 2023), chap. 5.

[11] The term unliquidated obligation means an obligation incurred by a nonfederal entity that has not been paid (liquidated) or for which the expenditure has not been recorded; 2 C.F.R. § 200.1 (2021).

[12] VA Financial Policy, "Obligation."

procurement offices.[13] The inspection team evaluated whether the healthcare system performed monthly reviews and reconciliations of sampled obligations to ensure validity of the balance and prompt deobligation of excess funds. When excess funds are not deobligated promptly, the risk that unused funds will not be reallocated for other goods and services to benefit veterans or will be returned to the US Department of Treasury increases. Further, failure to properly manage accruals increases the risk of disbursing funds for goods or services not received and may lead to misstatements in VA's annual financial statements.

III. **Purchase card use.** VA's Government Purchase Card Program was established to reduce administrative costs related to the acquisition of goods and services. The inspection team examined whether healthcare system staff complied with purchase card program policies and procedures and considered using contracts for frequently purchased goods or services, which is an aspect of strategic sourcing.[14] When used properly, purchase cards can help facilities simplify acquisition procedures and provide an efficient vehicle for obtaining goods and services directly from vendors. Documenting transactions as required helps oversight authorities within the VA identify potential fraud, waste, and abuse. Using contracts for common purchases has several benefits, such as allowing VA to optimize purchasing power and obtain competitive pricing.

IV. **Supply chain management operations.** Supply chain management integrates people, processes, and systems for the management of product and service planning, sourcing, purchasing, delivery, and receiving. Veterans Health Administration (VHA) policy requires medical facilities to establish, operate, and maintain a supply chain management program that is effective, cost-efficient, transparent, and responsive to customer requirements and to continually identify ways to ensure high-quality veteran care.[15] The inspection team evaluated whether the healthcare system met performance metrics for days of stock on hand and complied with policies and procedures for supply chain management. The days-of-stock-on-hand metric measures supply performance and can be used to promote efficient inventory management for items purchased through both the Medical/Surgical Prime Vendor (MSPV) program and non-MSPV inventory items.[16] To evaluate whether the system complied with policies and procedures, the team assessed data validity, identified inventory factors that affected the healthcare system's supply

[13] A stale obligation is more than 90 days beyond the period-of-performance end date or has had no activity in the past 90 days.

[14] VA Financial Policy, "Government Purchase Card for Micro-Purchases," in vol. 16, *Charge Card Programs* (May 2022), chap. 1B.

[15] VHA Directive 1761, *Supply Chain Management Operations*, December 30, 2020.

[16] MSPV is a national program providing a customized distribution system to meet or exceed facility requirements through an efficient, cost-effective, just-in-time distribution catalog ordering process.

chain management, and conducted physical walkthroughs at two inventory points. Unreliable inventory data can lead to the purchase of unnecessary supplies, overstocking, and spoilage. More importantly, errors indicating that supplies are available when they are not could adversely affect the healthcare system's ability to effectively plan and budget for the purchase of supplies to operate and meet patient care needs.

Facility Profile

The VA Pittsburgh Healthcare System, part of Veterans Integrated Service Network (VISN) 4, serves veterans at two main locations: the H. John Heinz III VA Medical Center and the Pittsburgh VA Medical Center-University Drive.[17] The healthcare system also provides services at six community-based outpatient clinic locations in Pennsylvania, and one in Ohio. There are also three veterans centers, two in Pennsylvania and one in West Virginia.[18] In FY 2023, the VA Pittsburgh Healthcare System operated just under 550 hospital beds among its facilities and provided services to approximately 90,400 veteran patients. The medical care budget grew from about $847.4 million in FY 2021 to approximately $1.0 billion in FY 2023, an increase of $169.4 million, or 20 percent.[19] Budgeted funds, disbursed for non-VA care, also grew from FY 2021 to FY 2023, reflecting consistent increases each year of approximately 10 percent. The VA Pittsburgh Healthcare System is primarily affiliated with the University of Pittsburgh and offers a wide range of health, support, and facility services. Figure 1 provides general background information for this level 1a, high-complexity healthcare system.[20]

[17] VHA divides the United States into 18 Veteran Integrated Service Networks, which are regional systems that work together to meet the local health care needs and provide greater access to care.

[18] The VA Pittsburgh Healthcare System serves veterans at two medical center locations in Pittsburgh, five outpatient clinics in Pennsylvania (Beaver County, Fayette County, Washington County, Westmoreland County, and Monroeville) and one in Ohio (Belmont County) as well as three veteran centers in Pittsburgh, Pennsylvania; White Oak, Pennsylvania; and Wheeling, West Virginia.

[19] Rounded numbers are used throughout the report so numbers do not always sum. The FY 2023 budget was $1,016,778,995; the FY 2021 budget was $847,372,891.

[20] The Veterans Health Administration (VHA) uses a facility complexity model that classifies its facilities at levels 1a, 1b, 1c, 2, or 3, with level 1a being the most complex and level 3 being the least complex. The VA Pittsburgh Healthcare System a level 1 high-complexity facility, meaning it has high risk patients, most complex clinical programs, and large research and teaching programs.

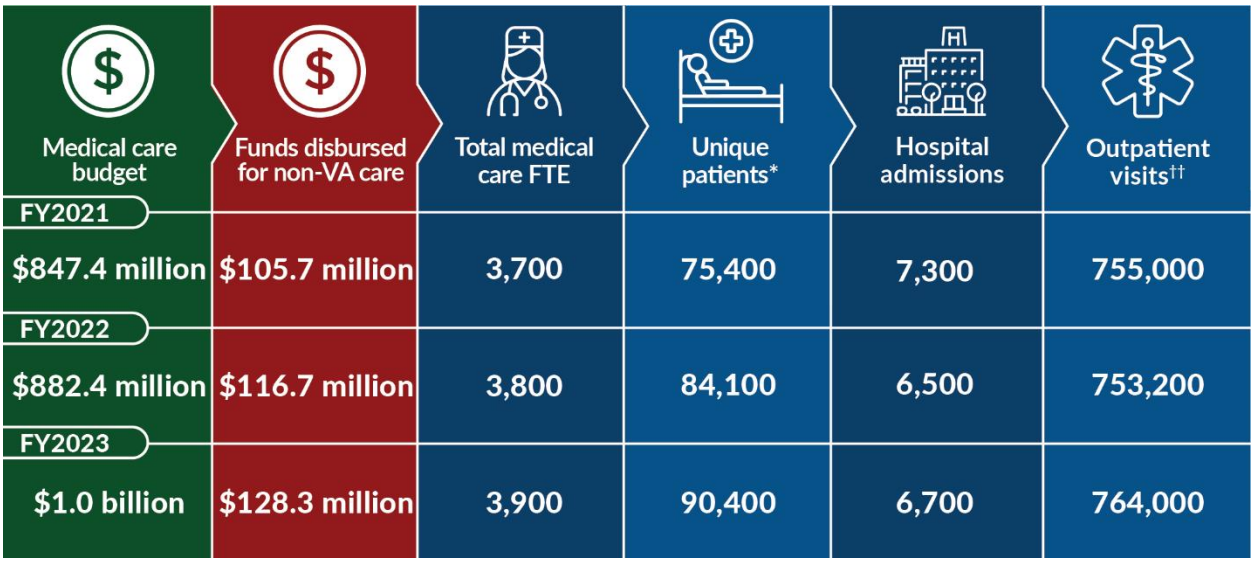

Figure 1. *Facility profile for VA Pittsburgh Healthcare System, FY 2021–FY 2023.*

Source: VA OIG analysis of data from the VHA Support Service Center, Trip Pack and Operational Statistics report.

Note: FTE stands for full-time equivalent positions. This category includes both direct medical care FTEs in budget object code 1000–1099 (Personal Services) and all cost centers. The inspection team did not assess VA's data for accuracy or completeness.

** Unique patients include VA and non-VA but exclude pharmacy-only.*

†† Outpatient visits exclude non-VA care visits.

Facility Selection

The inspection team evaluated VA data to identify healthcare systems with the greatest potential for financial efficiency improvements based on data from the VHA Office of Productivity, Efficiency and Staffing's efficiency opportunity grid. VHA developed the efficiency opportunity grid, a collection of 12 statistical models, to give facility leaders insight into areas of opportunity for improving efficiency. The grid allows for comparisons between VHA facilities by adjusting data for variations in patient and facility characteristics and in geography. The grid also describes possible inefficiencies and areas of success by showing the difference between a facility's actual and expected costs. The team uses the facility rankings from the stochastic frontier analysis model in the grid to select facilities for financial efficiency inspections.[21] The inspection, while limited in scope and not intended to be a comprehensive inspection of all financial operations at

[21] Stochastic frontier analysis is a modeling principle to estimate the optimal or minimum cost (input) after controlling for risks and random factors for each VA medical center given a set of outputs and output characteristics. Based on the optimal cost, an efficiency score is derived for each facility; an efficiency score of one is most efficient, and values greater than one are associated with increasing inefficiency.

the VA Pittsburgh Healthcare System, set forth a goal to recommend opportunities for process improvement and greater efficiencies and to promote the responsive use of appropriated funds.

Results and Recommendations

I. Use of Managerial Cost Accounting Information

VA financial policy describes managerial cost accounting as a fundamental part of overall financial management activities and states that managerial cost accounting should be integrated with the financial system for expenses, workload, utilization, performance measurement, and reporting.[22] Also, the policy states VA's cost accounting system will be used to help identify cost reduction alternatives and enhance efficiency, and requires VA to use managerial cost accounting information to make business decisions.

Managers can measure and analyze cost information to make informed operational decisions and meet the objectives of their organizations. The federal managerial cost accounting standards developed by the Federal Accounting Standards Advisory Board require that each reporting entity regularly accumulate and report the cost of its activities for management information purposes. Cost information, according to these standards, is essential for managers to make economic choices and informed decisions in the areas of performance measurement, budgeting, and cost control.[23] For VA, this applies to critical decisions regarding veteran care, such as whether to expand services at VA facilities rather than relying on community care. If healthcare system officials do not use reliable and timely cost information for these purposes, they increase the risk of waste or inefficient use of resources and increase the risk of suboptimal results for patients.

The team reviewed the following areas related to the use of managerial cost accounting information:

- **Obligation trends.** The inspection team reviewed obligation amounts originating from the Financial Management System (FMS) to identify trends and areas of significant obligation.
- **Healthcare system internal reporting.** The inspection team reviewed cost and performance reports for planning, budgeting, cost reduction, efficiency improvement, and comparing planned-to-actual results. The team used document reviews and interviews to determine whether the healthcare system's use of managerial cost accounting information aligned with federal financial accounting standard practices and VA financial policy.[24]

[22] VA Financial Policy, "Managerial Cost Accounting," in vol. 13, *Cost Accounting* (December 2019), chap. 3.

[23] Federal Accounting Standards Advisory Board (FASAB), "Statement of Federal Financial Accounting Standards 4: Managerial Cost Accounting Standards and Concepts," in *FASAB Handbook of Federal Accounting Standards and Other Pronouncements, as Amended*, Version 21 (June 30, 2022).

[24] VA Financial Policy, "Managerial Cost Accounting."

Finding 1: The Healthcare System Needs to Improve Its Use of Managerial Cost Accounting Information

The OIG found that the healthcare system could use managerial cost accounting information more effectively to help make financial decisions. The healthcare system's chief financial officer and assistant financial manager reported they do not use cost accounting information in fiscal operations to reduce costs, enhance efficiency, or make business decisions. Instead, they are primarily focused on ensuring the accuracy of the data. The healthcare system can also improve its performance measurement process to ensure cost inaccuracies are corrected in a timely manner.

Obligation Trends

According to FMS reports, the healthcare system's obligations grew from about $856.4 million in fiscal year (FY) 2021 to approximately $1.0 billion in FY 2023, an increase of almost $176.0 million (21 percent) as shown in figure 2.

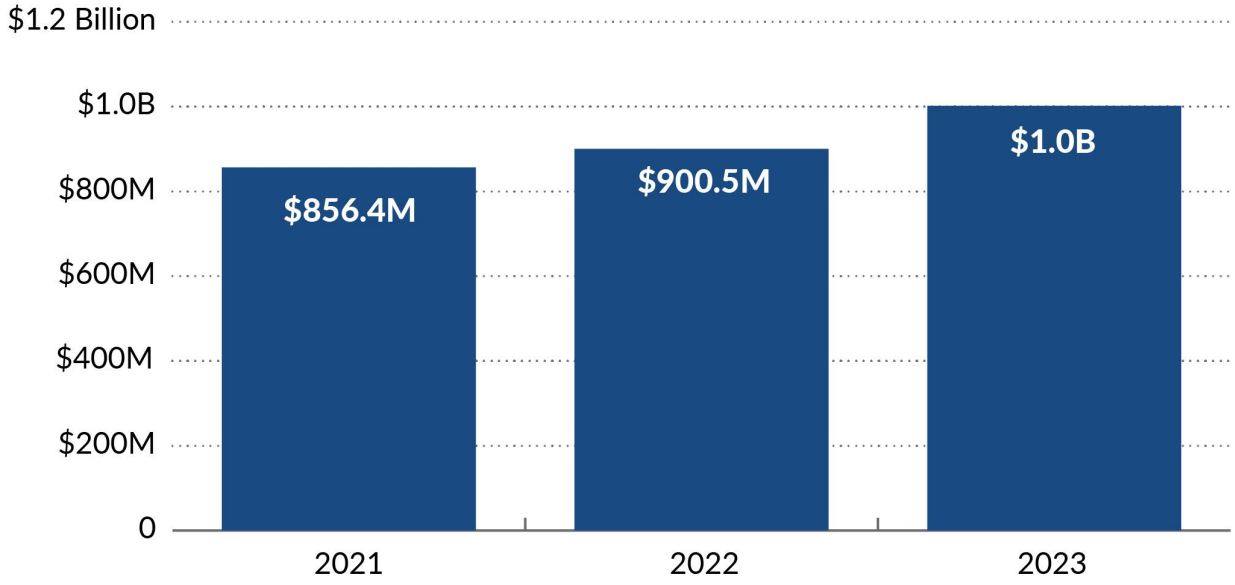

Figure 2. *VA Pittsburgh Healthcare System obligations, FY 2021–FY 2023.*

Source: VA OIG analysis of FMS 887 Obligations report.

Note: Numbers do not always sum due to rounding.

The inspection team identified obligation growth for personnel, buildings, medical care contracts and agreements (representing care provided to veterans through community providers), and prosthetic supplies. These areas accounted for approximately $144.8 million (82.3 percent) of the almost $176.0 million overall growth in obligations. From FY 2021 through FY 2023, personnel such as physicians, physician assistants, nurses (both registered nurses and nurse practitioners), pharmacists, social workers, and administrative personnel accounted for almost $87 million, or about 49 percent, of the growth. The inspection team reviewed the obligation data reports

provided by healthcare system leaders. To understand financial management practices particularly in areas where obligations are growing at the healthcare system, the inspection team requested internal managerial cost accounting reports, analyzed performance measurement data, and interviewed healthcare system leaders.

Healthcare System Internal Reporting

The OIG determined that the healthcare system prepared financial information to compare planned amounts to actual results as described in VA policy. The inspection team reviewed monthly budget reports compiled by the healthcare system finance office at the end of the first, second, and third quarters of FY 2023. These reports showed estimated revenues and expenses that totaled to either a projected operating surplus or deficit for the healthcare system. The first-quarter report, dated December 2022, amounted to just over $5.6 million in surplus. The reports for the second and third quarters, dated March and June 2023 respectively, reflected deficits of about $14.6 million and $5.4 million, respectively. The VISN 4 chief financial officer told the OIG that the healthcare system looks at other stations for excess funds that can be moved over to closeout. There was no deficit nor did the station run out of funds at the end of FY2023. The team did not test the accuracy or methodology used by the healthcare system to compile these budget projections.

To gain an understanding of how the healthcare system used managerial cost accounting data, the inspection team interviewed healthcare system leaders, the VISN 4 chief financial officer, and two members of the VISN 4 managerial cost accounting team. During the OIG's review of the available managerial cost accounting reports, the auditors determined that the healthcare system reports included information on VISN 4 stop code and specialty outliers, a labor-mapping-history dashboard, the medical center director's annual certification of use of the managerial cost accounting system, and a managerial cost accounting dashboard.[25] However, the healthcare system's chief financial officer reported they do not use cost accounting information in fiscal operations to reduce costs, enhance efficiency, or make business decisions.

Staff tasked with managerial cost accounting coordination reported that their day-to-day activities are primarily focused on data accuracy. Specifically, the managerial cost accounting manager oversees VISN 4 Managerial Cost Accounting Office operations, while an assigned program analyst is responsible for coordinating accuracy and completeness of managerial cost accounting at the facility level. Staff stated they have deadlines to complete audits received from

[25] VA Financial Policy, "Managerial Cost Accounting." Each year, facilities are required to submit an annual certification of cost that affirms the data within the managerial cost accounting system accurately represent the costs of operations. The facility is required to review stop codes which are used by VHA staff to correctly identify and capture clinical workload prior to its entry into the cost accounting process. Stop codes can be used to compare costs between facilities. Facilities also are required to review specialty outliers, which are observations among specialties that are distant from the rest of the service line data. For example, a significant deviation in cost or utilization from the patient population average.

VA's Managerial Cost Accounting Office and conduct their own local reviews and audits to maintain data integrity. However, the managerial cost accounting supervisor stated she assists the healthcare system with interpreting cost accounting data. Overall, the OIG determined that the healthcare system focuses on ensuring the cost accounting information is accurate for VA's cost accounting system; however, the healthcare system does not have a consistent process in place to ensure the data are used to reduce costs and enhance efficiency.

Performance Measurement

Federal financial accounting standards state that measuring cost is an integral part of assessing performance in terms of efficiency and cost-effectiveness.[26] Specifically, the standards highlight cost per unit of output as a methodology to evaluate a government entity's efforts and accomplishments. Additionally, VA financial policy states that the managerial cost accounting system will identify the costs of products and services.[27] The VHA Managerial Cost Accounting Office developed a modeling tool to assist cost accounting staff and managers with analyzing their department cost accounting information. The training guide for the model recommends that cost accounting staff analyze cost workload products in various ways.[28] For example, the guide recommends that users sort by highest cost, then determine whether the cost is reasonable or an outlier.

Using the modeling tool developed by the VHA Managerial Cost Accounting Office, the inspection team identified and analyzed 10 high-cost products and seven high-volume products from the July 2023 product cost report. The OIG provided its results to the healthcare system's managerial cost accounting team. In response, the healthcare system shared further information related to the opening of a new community-based outpatient clinic that temporarily reported costs as much higher than normal. The OIG therefore determined that for all 10 high-cost products and the seven high-volume products, no corrections were necessary in the July 2023 report.

Using the same modeling tool, the inspection team conducted a product comparison for a 30-minute primary care appointment. From the September 2023 product cost report, the inspection team reviewed three primary care clinics that provide 30-minute appointments with a physician. Year-to-date (September 2023), the healthcare system reported about 12,000 appointments among the three locations with a total cost per visit ranging from about $1,225 to $1,492. The team further identified that indirect, direct, and variable cost inputs differed significantly among

[26] FASAB, *Statement of Federal Financial Accounting Standards 4*.

[27] VA Financial Policy, "Managerial Cost Accounting."

[28] VA administrations identify workload as the distinct activities (such as outputs, products, or services) they provide. For VHA, workload products include things such as laboratory tests, medical ward bed days, clinic appointments, and magnetic resonance imaging procedures.

the locations. Table 1 shows the actual, indirect, direct, and variable costs associated with a 30-minute primary care visit at each of the three clinics.

Table 1. 30-Minute Primary Care Visits

Clinic type	Number of visits	Actual cost per visit	**Fixed** Indirect cost*	**Fixed** Direct cost†	Variable cost‡
Primary Care #1	6,694	$1,491.96	$851.61	$95.13	$545.22
Primary Care #2	4,944	$1,224.59	$625.93	$148.44	$446.90
Primary Care #3	416	$1,406.23	$278.75	$917.64	$209.84

Source: VA OIG analysis of cost associated with 30-minute primary care visit data from the National Data Extracts.

Note: The inspection team did not test the accuracy of the costs reported by the healthcare system.

* *Fixed indirect cost: The costs not directly related to patient care, and therefore not specifically identified with an individual patient or group of patients. These costs are allocated to direct departments through the indirect cost allocation process. Examples include utilities, maintenance, and administration costs. All indirect costs are classified as fixed.*

† *Fixed direct cost: The costs of direct patient care that do not vary in direct proportion to the volume of patient activity. The word "fixed" does not mean that the costs do not fluctuate, but rather that they do not fluctuate in direct response to workload changes. Examples include depreciation of medical equipment and salaries of administrative positions in clinical areas.*

‡ *Variable cost: The costs of direct patient care that vary directly and proportionately with fluctuations in workload. Examples include salaries of providers and the cost of medical supplies. Variable direct cost = variable supply cost + variable labor cost.*

The OIG provided its results to the healthcare system's managerial cost accounting team. In response, the healthcare system VISN 4 managerial cost accounting manager attributed some cost variances to the opening of the new community-based outpatient clinic referenced above. The VISN 4 managerial cost accounting manager also acknowledged that in response to other outliers there are ongoing efforts on the part of the facility to review cost data in a more detailed manner. The VISN 4 managerial cost accounting analyst also reported that as recently as February 2024 a review of allocation cost structures had taken place and as a result many costing corrections were made. However, the facility did not expect to fully see the impact of the allocation structure changes until the end of April 2024, when March 2024 data could be incorporated into local reports. Without the ability to monitor and promptly ensure accurate allocation cost structures, the facility is at increased risk of being unable to make business decisions related to the true cost of offering care.

Budgeting and Cost Control

Federal financial accounting standards state that information on program activities costs can be used as a basis to estimate future costs in preparing and reviewing budgets.[29] The standards also explain that federal managers can use cost information to control and reduce costs and avoid waste. The healthcare system chief financial officer reported that budget formulation is currently based on historical spending and not managerial cost accounting information. The managerial cost accounting supervisor said she believes cost accounting information can help with resource management and it could help with budget formulation. The OIG determined that the healthcare system leaders should consider implementing federal accounting standards to potentially help with budget formulation and other program activities like the resource management committee.

Economic Choices

Agencies and programs face choices, such as whether to do a project in-house or contract it out; to accept or reject a proposal; or to continue or drop a product or service. These decisions require cost comparisons among available alternatives.[30] The inspection team asked if the healthcare system compares the cost of using community care to the cost of expanding care services provided at the healthcare system, also known as a make-or-buy analysis. The director of financial policy reported that high-level meetings about cost outliers do occur; however, at the time of the inspection, the managerial cost accounting supervisor stated there were no make-or-buy analysis processes at the healthcare system.

The managerial cost accounting supervisor reported that the team had started using a newly developed tool that would involve a make-or-buy analysis. She also said it has been challenging to ensure all aspects of the analysis are reflected in a newly developed tool so decision makers are able to rely on the tool for decision-making. The use of make-or-buy analyses could have a significant impact on optimizing the resources available to the healthcare system in these areas.

Finding 1 Conclusion

VA expects its healthcare systems to use managerial cost accounting information to enhance efficiency, help reduce costs, and make business decisions as described in VA financial policy.[31] The OIG found that leaders of the VA Pittsburgh Healthcare System did not consistently use managerial cost accounting information for those purposes. Additionally, the healthcare system's use of managerial cost accounting information does not fully align with federal financial accounting standard practices regarding performance measurement, budgeting, cost control, and making economic decisions. Given the significant growth of obligations at the healthcare system,

[29] FASAB, *Statement of Federal Financial Accounting Standards 4.*

[30] FASAB, *Statement of Federal Financial Accounting Standards 4.*

[31] VA Financial Policy, "Managerial Cost Accounting."

consistent use of managerial cost accounting information could promote more efficient use of taxpayer resources.

Recommendations 1–2

The OIG made the following recommendations to the director of the VA Pittsburgh Healthcare System:

1. Establish a plan to use VA's cost accounting system information to identify alternative ways to reduce costs, enhance efficiency, and inform business decisions as identified by VA financial policy.
2. Consider a plan to align VA Pittsburgh Healthcare System financial management practices with federal financial accounting standard practices, which could include using cost information for performance measurement, budgeting, cost control, and making economic decisions.

VA Management Comments

The VA Pittsburgh Healthcare System executive director concurred with recommendations 1 and 2. The responses to all report recommendations are provided in full in appendix D.

The executive director reported that, to address recommendations 1 and 2, a plan has been implemented to increase the healthcare system's review of and reliance on VA's cost accounting system information. This includes regular reviews of managerial cost accounting information by the healthcare system's Veterans Equitable Resource Allocation Oversight Committee and its Executive Leadership Board. In addition, the healthcare system's Resource Management Board has implemented processes that use VA's cost accounting system to support decisions related to approving additional positions. Finally, the Financial Management Service implemented monthly meetings with the managerial cost accounting team to review and determine where costs could be reduced or efficiencies could be gained, and the cost accounting team is offering training to supervisors and staff on cost accounting processes as well as the importance of their roles in producing reliable information.

OIG Response

The healthcare system executive director's action plan is responsive to the recommendations. The OIG will monitor implementation of the planned actions and will close the recommendations when it receives sufficient evidence demonstrating progress in addressing the intent of the recommendations and the issues identified.

II. Open Obligations Oversight

VA policy requires finance offices to perform monthly reviews and reconciliations to ensure that their obligations, including undelivered orders and accruals, are valid.[32] Healthcare system finance office personnel should verify with the requesting office, such as contracting officer's representative, to ensure the obligations' period-of-performance end dates are correct, open balances are accurate and agree with source documents, obligations aged beyond 90 days of the period-of-performance end date or without activity in the past 90 days are valid and should remain open, the accrual flag is set appropriately, and proper accruals have occurred.[33]

VA's management of open obligations has been a long-standing issue and was included as a significant deficiency in the department's FY 2023, FY 2022, and FY 2021 audited financial statements.[34] Additionally, a 2019 OIG report on undelivered orders recommended VHA ensure that staff review and reconcile open orders, identify and deobligate excess funds on those orders, and follow VA policy regarding required reviews of open obligations.[35] If reviews are not conducted, the healthcare system risks not being able to deobligate those funds and use them for other goods or services in that fiscal year to support veterans. And, if reviews are not conducted, the healthcare system risks all activities not being accurately reflected in the financial records and, ultimately, in the financial statements.

The inspection team focused on the following areas related to open obligations:

- **Undelivered orders**. The inspection team assessed whether healthcare system staff performed monthly reviews and reconciliations to ensure that the sampled undelivered orders with no activity for more than 90 days were valid and should remain open.
- **Outstanding accruals.** The inspection team assessed whether the healthcare system performed monthly reviews and reconciliations to ensure that the sampled outstanding accrued orders were valid and should remain open.

[32] An accrual is a delivered order that is unpaid.

[33] VA Financial Policy, "Obligation." An accrual flag is used to automate the accrual process. The automated accrual works well for service orders where about the same amount of service is received each month. However, it is not appropriate to automate all accruals. For example, when projects are paid in advance, if the obligation is accrued, it will result in an overstatement of payables and an abnormal balance in certain general ledger accounts. Obligations not set to auto accrue reflect payable amounts upon processing of receiving actions or reports by Logistics Service.

[34] VA OIG, *Audit of VA's Financial Statements for Fiscal Years 2023 and 2022*, Report No. 23-00940-18, December 12, 2023; VA OIG, *Audit of VA's Financial Statements for Fiscal Years 2022 and 2021*, Report No. 22-01155-14, November 15, 2022; VA OIG, *Audit of VA's Financial Statements for 2021 and 2020*, Report No. 21-01052-33, November 15, 2021. In the reports, CliftonLarsonAllen LLP defines a significant deficiency as a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

[35] VA OIG, *Insufficient Oversight of VA's Undelivered Orders*, Report No. 17-04859-196, December 16, 2019. All recommendations from this report have been implemented and closed.

- **Reconciliations of the Financial Management System (FMS) to the Integrated Funds Distribution, Control Point Activity, Accounting and Procurement System (IFCAP).** The team identified outstanding obligations with different end dates or order amounts between FMS and IFCAP to ensure healthcare system staff reconciled end dates and order amounts between the systems for the sampled obligations.[36]

Finding 2: The Healthcare System Did Not Always Review Inactive Obligations and Ensure Accruals Were Valid

The OIG found healthcare system staff could improve management of open obligations by reviewing inactive open obligations in conjunction with requesting offices and by creating an escalation process to notify leaders when services are not providing the status of open orders. Failure to properly manage open obligations increases the risk that appropriations are not spent within the correct fiscal year and, potentially, that funds will remain attached to orders when they could be used for other purposes.

Figure 3 shows the total number and dollar amount of undelivered orders and accruals, which comprise the total open obligations balance, for the VA Pittsburgh Healthcare System from March through August 2023.

[36] FMS is considered the primary accounting system for VA. All accounting transactions record in FMS, but not all transactions record in IFCAP. Finance is the only service that has ability to perform transactions in FMS and it is considered to contain most current, accurate information for monitoring and reporting purposes. IFCAP, also referred to as VistA, is considered the "front end" of the accounting system—automating the creation, approval, forwarding, monitoring, and payment of requests for supplies and services. Each day FMS interfaces with IFCAP, passing along accounting activity in the form of fund control point balance adjustments. A transaction's end date (which is critical to determining whether an obligation should remain open) may be modified due to delays or scope changes. The modification may not be recorded in both systems because staff can manually change end dates in one system without changing them in the other.

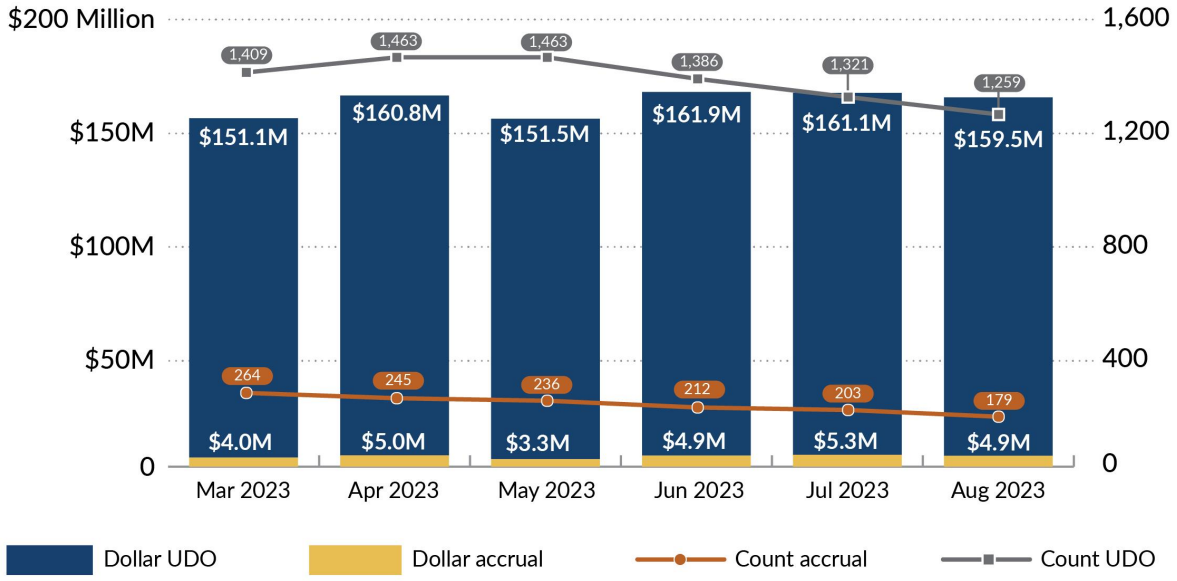

Figure 3. *Count and dollar amount of undelivered orders and accruals.*

Source: VA OIG analysis of VA FMS F850 and F851 Reports. VA Pittsburgh Healthcare System activity occurred from March 15, 2023, through August 15, 2023. Open obligations for the entity were examined as of August 2023.

Note: UDO = undelivered orders

Undelivered Orders

As of August 15, 2023, the healthcare system had 1,259 undelivered orders valued at approximately $159.5 million. Of those orders, 293, valued at about $23.9 million, had been inactive for 90 days or more, requiring review by the healthcare system.[37]

VA financial policy states that open obligations should be reviewed by the finance office, in coordination with the requesting service line, to ensure that obligations without activity in the past 90 days are valid and should remain open.[38] If funds remain on the obligation after delivery, the requesting office has confirmed acceptance of all goods or services, and invoices have been received and paid, the procurement office will modify the contract or order to reflect the final cost and quantity and decrease the remaining funds on the obligation.

The inspection team analyzed obligation data and selected 15 inactive obligations open as of August 15, 2023, totaling about $7.0 million.[39] The team reviewed supporting documentation to assess whether healthcare system staff identified and reviewed the sampled obligations to

[37] VA Financial Policy, "Obligation."

[38] VA Financial Policy, "Obligation."

[39] See appendix B for additional details on the inspection's scope and methodology, and appendix C for details on the inspection's sampling.

determine whether they were still valid and needed to remain open in accordance with VA financial policy.[40] The team was not able to verify that a monthly review was completed from June through August 2023 on 11 of the 15 obligations that had not passed their end dates, totaling just under $3.6 million. Additionally, one of the 15 obligations, which was established by a contracting officer, had approximately $25,000 in outstanding funds that could have been deobligated. As a result of the requesting service line not conducting a monthly review of the obligation, they were unable to efficiently identify and send a request to contracting for deobligation, until prompted by the inspection team for review. Failure to properly monitor and make timely adjustments to open obligations increases the risk that some of these funds will not be made available for other purposes to benefit veterans.

The finance office implemented a local dashboard to facilitate consistent identification and review of open obligations; however, the requesting offices did not always provide responses. Further, the finance office did not always follow up with the service to obtain obligation status and did not have an escalation process in place to notify leaders when no response was received from a service. This occurred because, at the time of the inspection, the finance office reported that the position responsible for overseeing the completion of reviews was not adequately resourced. The staff member that had filled the role had recently moved positions and was limited in the support offered for the management of the reviews of the vacated role. Additionally, the inspection team learned through interviews with staff that service lines were not always fully aware of how to best navigate the new dashboard to ensure comments were documented.

Outstanding Accruals

As of August 15, 2023, the healthcare system had 179 outstanding accruals totaling approximately $4.9 million. Accruals are recorded in FMS after the logistics office processes receipt of a good or service, or through a monthly auto-accrual process to liquidate obligations and record accruals for accounts payable without evidence of goods or services received.

As shown in figure 4—which details the age, number, and dollar amounts of these obligations for the VA Pittsburgh Healthcare System from March 15 through August 15, 2023—96 accruals totaling approximately $1.2 million were outstanding for 181 days or more.

[40] VA Financial Policy, "Obligation."

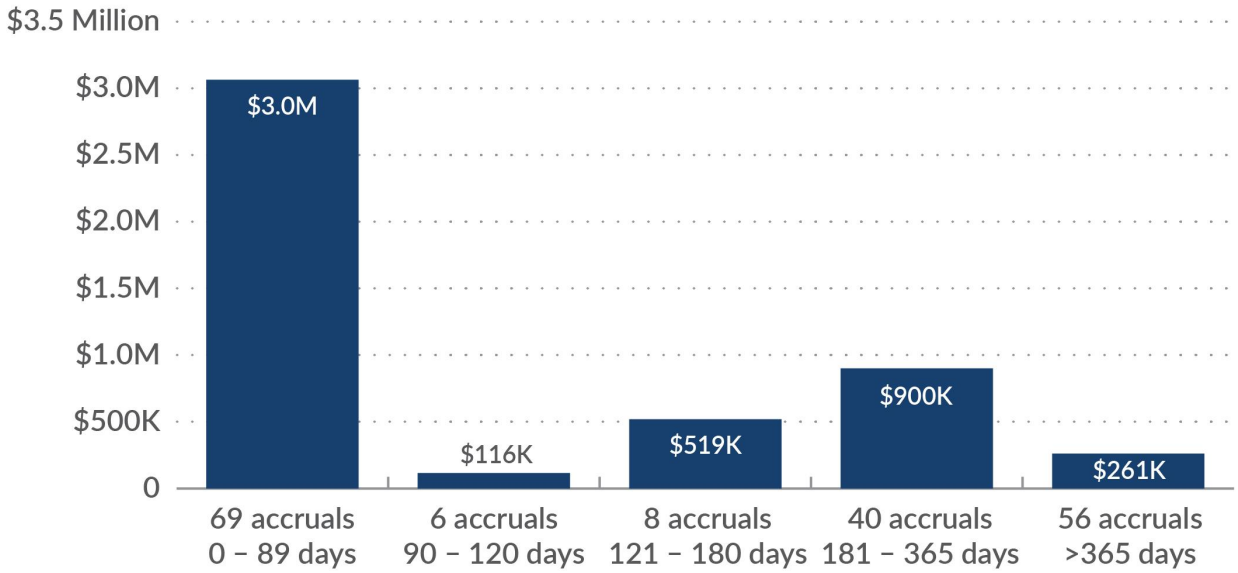

Figure 4. *Age and dollar amount of outstanding accruals.*

Source: VA OIG analysis of VA FMS F851 Reports, outstanding accruals for the VA Pittsburgh Healthcare System, August 15, 2023. Open obligations for the entity examined as of August 2023.

The inspection team analyzed 15 accruals outstanding through August 15, 2023, totaling just under $783,000 and aged between 244 and 613 days.[41] Of these accruals, seven, totaling approximately $188,000, resulted from a receiving action, and eight, totaling approximately $595,000, resulted from an auto-accrual. The team reviewed supporting documentation to assess whether the healthcare system identified and reviewed the sampled accruals to determine whether they were valid and needed to remain open in accordance with VA financial policy.[42]

The team found that the finance office properly identified all 15 of the accruals requiring a monthly review. However, the team could not verify that finance staff and service lines subsequently followed through on the task to conduct the monthly reviews for the identified accruals. The team found 14 of the accruals, totaling just over $775,000, were not reviewed monthly from June through August 2023. This occurred because the finance office did not have enough staff to conduct the reviews, and service lines were not always fully aware of how to best navigate the new dashboard to ensure comments were documented. Further, the team found that two auto-accrual balances totaling about $63,000 were invalid and needed to be reversed and

[41] See appendix B for additional details on the inspection's scope and methodology, and appendix C for details on the inspection's sampling.

[42] VA Financial Policy, "Obligation."

deobligated as a result of the service noting the obligation was no longer needed.[43] The following example details one of these two invalid auto-accruals.

Example 1

One obligation in the amount of $40,000 incurred a closed amount of $8,813 in funds prior to the period-of-performance end date.[44] The remaining balance of $31,187 auto-accrued at the end of the period of performance on September 30, 2022. The healthcare system could not provide evidence of any review of the outstanding accrual. When the inspection team requested a status update, the service noted the amount was invalid and deobligated it. The accrual was invalid for approximately 13 months.[45]

Failure to properly manage accruals increases the risk of disbursing funds for goods or services not received and increases the risk of misstatements to VA's financial statements.

FMS-to-IFCAP Reconciliations

FMS is the primary accounting system for VA, containing the most current, accurate, accounting activity for monitoring and reporting purposes. IFCAP, also referred to as VistA, is considered the "front end" of the accounting system which processes certified invoices and electronically transmits receiving documents to FMS. In addition, IFCAP transfers obligation information back to the control point and automatically updates the control point balance.[46] The end dates in both systems should be the same. However, staff can manually change end dates in one system without changing them in the other. Further, monthly accrual amounts are calculated based on the end date. Therefore, to ensure accurate financial reporting, open obligations should be reviewed monthly by the healthcare system's finance office, in coordination with the requesting office, to ensure period-of-performance dates are correct and match in all systems.[47]

End-Date Discrepancies

The inspection team analyzed FMS-to-IFCAP reconciliation reports for the period of March through August 2023 and identified 32 open obligations that had end-date discrepancies between

[43] The outstanding accrual amount should be canceled and reversed if no payment has been made or if partial payments have been made against the accrual. Deobligation means a cancelation or downward adjustment of previously incurred obligations. VA Financial Policy, "Obligation."

[44] By "closed amount," the team means the paid amount plus the deobligated amount.

[45] VA did not record the obligation adjustment within the current accounting period, when the need for the adjustment was identified, which would have ensured that the net obligated balance in the financial statements was properly reported.

[46] A control point is a financial element used to permit the tracking of monies from an appropriation or fund to a specified service, activity, or purpose.

[47] VA Financial Policy, "Obligation."

FMS and IFCAP for three or more months.[48] To determine whether the end dates were accurate and reconciled between the two systems, the team selected and evaluated six end-date discrepancies, with variances between systems ranging from 106 to 549 days. Three of the six were flagged to auto-accrue the remaining balance of the obligations at the end of the performance period.[49] Obligations flagged to auto-accrue in FMS that have inaccurate end dates result in potential invalid accruals. The FMS and IFCAP discrepancies were corrected as a result of the healthcare system's local review process before the team shared its results with the facility prior to inspection. The facility provided documentation that reflected correct end dates for all six obligations. Further, the team determined the end dates in FMS for the three obligations set to auto-accrue were accurate, leading to correct accruals.

Order Amount Discrepancies

The inspection team identified six open obligations that had order amount discrepancies between FMS and IFCAP for three or more months. To determine whether order amounts were accurate and reconciled between the two systems, the team selected and evaluated four of these open obligations with order amount discrepancies totaling just over $1.0 million from the FMS-to-IFCAP reconciliation reports. The team determined that FMS and IFCAP had been corrected prior to the inspection and reflected correct order amounts for two of the four obligations. The finance staff reported that they review these reports monthly but do not have enough time or staff to correct all discrepancies in a timely manner.[50] The two remaining discrepancies as of September 15, 2023, totaled approximately $58,000.

Finding 2 Conclusion

Healthcare system personnel did not comply with VA policies that require routine monthly review or an escalation process for lack of a service response to improve management and oversight of open obligations. The inspection team found that open obligations, including undelivered orders and accruals, were not always reviewed for validity, resulting in approximately $87,000 that could have been put to better use. Further, the team identified approximately $63,000 from accruals that were not reviewed and canceled in a timely manner. Failure to properly manage undelivered orders and accrued expenses increases the risk of misstated financial statements, improper use of appropriated funds, and erroneous payment for goods or services not received.

[48] "FMS to IFCAP Reconciliation Reports" (website), VHA, https://vssc.med.va.gov/VSSCMainApp/products.aspx?PgmArea=59 (not publicly accessible).

[49] Auto-accrue is when an accrual is processed automatically in FMS for the remaining unpaid balance.

[50] VA Financial Policy, "General Accounting," in vol.1, *Reconciliations*, (Oct 2018), chap 6. Reconciliations must be performed in a timely manner and should be structured, documented, and verifiable.

Recommendations 3–4

The OIG made the following recommendations to the VA Pittsburgh Healthcare System director:

3. Ensure requesting offices are trained to effectively communicate status of open obligations in a timely manner so healthcare system finance staff can comply with VA Financial Policy, vol. 2, chap. 5, "Obligation." by ensuring monthly that open obligations balances are valid and should remain open or are closed in a timely manner.
4. Establish an escalation process to notify the appropriate leaders if the requesting office does not provide a response to the finance office's monthly request for status of outstanding obligations.

VA Management Comments

The VA Pittsburgh Healthcare System executive director concurred with recommendations 3 and 4.

For recommendation 3, the executive director reported that a plan has been established to send monthly emails to requesting offices to address open obligations status, including making sure balances are valid. Under the plan, if an obligation is out of balance, contracting officers will work closely with the requesting office to reconcile issues and make sure the obligations are closed, and the finance office will track and monitor the service responses and escalate as appropriate. Training is being provided to finance staff and facility services on how to review undelivered orders and identify the steps to close them. The finance office will also utilize the FMS-to-IFCAP reconciliation tool monthly to reconcile obligation amounts and end dates.

To address recommendation 4, the executive director reported that an escalation process has been established for nonresponses to status requests of outstanding obligations. If the monthly email described in the response to recommendation 3 does not receive a response, the request will be escalated to the service line vice president or department leader. If a response is still not received, the request will go the appropriate executive leader for resolution.

OIG Response

The healthcare system executive director's action plans are responsive to the recommendations. The OIG will monitor implementation of the planned actions and will close the recommendations when it receives sufficient evidence demonstrating progress in addressing the intent of the recommendations and the issues identified.

III. Purchase Card Use

During FY 2023, the healthcare system spent about $61.8 million through purchase cards, representing about 69,700 transactions. The amount and volume of the healthcare system's spending through the program make it important to have strong controls over purchase card use to safeguard government resources and ensure compliance with policies and procedures that reduce the risk of error, fraud, waste, and abuse.

The team reviewed the following areas through sampled transactions:

- **Purchase card transactions.** The team determined whether the healthcare system processed purchase card transactions in accordance with VA policy, including whether cardholders obtained prior approvals before initiating a purchase and reconciled their transactions in a timely manner. The team also examined whether approving officials promptly approved the transactions, and whether staff maintained segregation of duties.[51] Also, the team assessed if cardholders split purchases, intentionally dividing a single purchase into two or more purchases to avoid exceeding the micropurchase threshold.[52]
- **Supporting documentation.** The team assessed whether the healthcare system maintained supporting documentation, as required, for purchases to provide assurance of payment accuracy and to justify the need to purchase a good or service. This includes approved purchase requests, purchase orders, receiving reports, and vendor invoices.[53] Supporting documentation enables program oversight and helps prevent fraud, waste, and abuse.
- **Use of contracts.** The team inquired whether the healthcare system considered obtaining contracts when regularly procuring goods and services, which is part of "strategic sourcing."[54] Using contracts in place of open market or individual purchases reduces the potential risk for split purchases on purchase cards. VA is also able to leverage its purchasing power through competitively priced contracts.
- **Purchase card oversight.** The team assessed whether the healthcare system tracked purchase card training, had purchase card policies in place, and maintained accurate VA Form 0242s. The team also assessed whether approving officials were assigned no more than 25 purchase card accounts and whether the healthcare system's

[51] VA requires that the duties of the cardholder, approving official, requesting official, and receiving official be separated. An agency or organization program coordinator cannot be a cardholder or an approving official. No one person may order, receive, certify funds, and approve a purchase card purchase.

[52] VA Financial Policy, "Government Purchase Card for Micro-Purchases."

[53] VA Financial Policy, "Government Purchase Card for Micro-Purchases."

[54] VA Financial Policy, "Government Purchase Card for Micro-Purchases." Strategic sourcing includes ensuring employees obtain proper contracts when procuring goods and services regularly.

purchase card coordinator provided oversight of the purchase card program by completing purchase card reviews.[55] These activities are examples of systematic controls that help reduce errors and ensure a facility complies with VA policy.[56]

Finding 3: Healthcare System Staff Did Not Always Process Transactions Properly

The team found that healthcare system leaders did oversee the purchase card program but could improve efficiency by consistently ensuring approving officials and cardholders properly review transactions to validate purchases and avoid split purchases, and consider contracts, if necessary. Based on the results of the review, the team estimated healthcare system staff may have split purchases in approximately 270 purchase card transactions, totaling approximately $403,000 in questioned costs.[57] The healthcare system should continue to ensure internal reviews are conducted to mitigate the risk of fraud, waste, and abuse.

Purchase Card Transactions

The team reviewed transactions to determine adherence to the following three VA policy requirements for using government purchase cards:

- **Prior approval.** Before initiating any purchase, the cardholder must obtain prior approval for the purchase and ensure that the purchase is for a valid business need. The approval may vary in form and content but must be retained as supporting documentation.[58]
- **Reconciliation.** Reconciliation of a purchase should be completed by the cardholder and approved by the approving official no later than the 15th calendar day of the month after the closing of the previous month's billing cycle (accounts not

[55] An approved VA Form 0242, Governmentwide Purchase Card Certification, is used to delegate authority to an individual to use the purchase card to procure and pay for goods and services.

[56] VA Financial Policy, "Administrative Actions for Government Purchase Cards," in vol. 16, *Charge Card Programs* (June 2018), chap. 1A.

[57] 2 C.F.R. § 405 (2022). A questioned cost is (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable. Noncompliance issues were only included once for the purposes of calculating this projection. The team also considered margin of error and median confidence level when projecting questioned costs. For additional information regarding projection totals, see appendix B and tables B.1 and B.2.

[58] VA Financial Policy, "Government Purchase Card for Micro-Purchases." Some examples of approval documentation include emails, requisitions, memos, consults, or notes. Regardless of the form, the documentation must contain a certification from the requestor that the proposed purchase is for a legitimate government need, not for personal benefit, as well as a list of all items to be purchased.

reconciled within 30 days of the due date will have their single-purchase limit lowered).[59]

- **Segregation of duties.** To reduce the risk of fraud, waste, and abuse, healthcare facility staff must maintain appropriate segregation of duties to ensure roles and responsibilities do not overlap among the cardholder, approving official, receiver of purchased items or services, or requesting official.[60]

The inspection team assessed documentation for the 38 statistically sampled purchase card transactions to determine whether these requirements were met. The team found the healthcare system complied with the three requirements.

The inspection team also assessed if cardholders split purchases into two or more transactions to circumvent their authorized single purchase limit. A contract should be used when the total value of the requirement exceeds the micropurchase threshold or the cardholder's authorized single purchase limit. Cardholders must not modify a requirement or order into smaller parts to avoid exceeding their micropurchase threshold or purchase card limit or to circumvent the use of formal contracting procedures.[61] Of the 38 transactions sampled, 18 were identified as potential split purchases.[62] Using the results of the sample, the team estimated that the healthcare system staff may have split purchases and unauthorized commitments in approximately 270 purchase card transactions, totaling approximately $403,000 in questioned costs. After reviewing documentation and interviewing a cardholder, approving official, and purchase card coordinator, the team determined that eight of the 18 sampled transactions were split purchases. Example 2 describes one of those split purchases.

Example 2

On April 28, 2023, healthcare system staff used a purchase card to purchase anesthesia kits and various medical packs from the same vendor. Healthcare system staff ordered and paid for the items in two orders of about $1,100 and $9,750. Together, the purchases would have exceeded the single purchase limit. The split purchase circumvented the use of a formal contract, which the cardholder told the OIG in an interview can take time to establish. The cardholder said the split purchase occurred because the requests were going to different departments of the hospital, which the cardholder did not consider a

[59] VA Financial Policy, "Government Purchase Card for Micro-Purchases."

[60] VA Financial Policy, "Government Purchase Card for Micro-Purchases."

[61] VA Financial Policy, "Government Purchase Card for Micro-Purchases."

[62] VA Financial Policy, "Government Purchase Card for Micro-Purchases." A split purchase occurs when a cardholder intentionally modifies a known single requirement into two or more purchases or payments to avoid exceeding their single purchase limit or the micropurchase threshold.

split purchase. Although the cardholder was aware of both requirements before placing the first purchase, the second order initially was assigned to be processed by a different purchasing team member; however, that team member had called out sick and was unable to complete the purchase. This purchase order was then reassigned to a team member who had already made a purchase to the same vendor on the same day. Per policy, since the total requirement was known before the first purchase was made, it was improper to separate the purchases of the same or similar products from the same vendor on the same day.

The proper way to purchase frequently needed or high-cost goods above the micropurchase threshold is to send the service request to the contracting office. This requires planning to ensure there is sufficient time for a contract to be expanded—or established if none exists—to purchase the products in time for scheduled use. Any VA cardholder or approving official who makes or certifies a purchase exceeding the micropurchase threshold has created an unauthorized commitment that must be ratified.[63]

Supporting Documentation

VA financial policy requires cardholders to upload and electronically store supporting documents for purchase card transactions to a VA-approved document-imaging system. When healthcare system staff buy goods and services, they must maintain supporting documentation, such as approved purchase requests, vendor invoices, purchase orders, and receiving reports, for six years.[64] This documentation verifies that purchase card transactions were properly approved and that payments were accurate.

The inspection team assessed supporting documentation for 38 statistically sampled purchase card transactions to determine whether the medical center maintained required supporting documentation and found that they all had required documentation.[65] See appendix A for additional details on the scope and methodology and appendix B for details on sampling.

Use of Contracts

The inspection team assessed five of the 38 sampled transactions for evidence that healthcare system staff had considered the most appropriate purchasing mechanism. In accordance with policy, VA cardholders should pursue establishing contracts for goods purchased on a recurring or ongoing basis. Known as strategic sourcing, this generally provides greater savings to VA

[63] FAR 1.602-3 (May 22, 2024). "Ratification of unauthorized commitments" defines ratification as the act of approving an unauthorized commitment by an official who has the authority to do so.

[64] VA Financial Policy, "Government Purchase Card for Micro-Purchases."

[65] The inspection team reviewed a statistical sample of 38 purchase card transactions from a population of just over 57,000 purchase card transactions, totaling approximately $50.6 million from October 1, 2022, through July 31, 2023.

rather than using purchase cards for open-market acquisitions without a negotiated price.[66] Approving officials, the agency or organization program coordinator, and cardholders must review purchases to determine when establishing contracts is in the best interest of the government. For the five transactions sampled during the review, the team determined that the healthcare system did not have a process in place to consider strategic sourcing. Additionally, the team found that during FY 2023 the healthcare system made just under 2,000 open-market purchase card transactions, totaling approximately $2.9 million among these five vendors. Generally, VA should consider using contracts if the purchase is for an ongoing order of goods or services. Going forward, the agency or organization program coordinator intends to incorporate a review of strategic sourcing within its quarterly reviews to bring increased awareness to the use of contracts.

Purchase Card Oversight

Periodic purchase card reviews are intended to evaluate and improve the effectiveness of internal controls and compliance with regulations and policies. VA policy requires the purchase card coordinator and the Financial Services Center to conduct reviews to ensure purchases are properly documented and to identify potential split purchases, unauthorized commitments, and fraud, waste, and abuse.[67] These reviews should include an analysis of spending patterns and determine whether cardholders are optimizing purchasing power and cost savings by using strategic sourcing. Lastly, reviewers should identify and report any issues and ensure remediation actions are effective.[68] It is imperative that these internal reviews are consistently completed to help identify purchase card internal control weaknesses and ensure that healthcare system staff take corrective actions to help mitigate the risk of fraud, waste, and abuse.

During the inspection period, the team found that the purchase card coordinator conducted internal purchase card reviews for the first, second, and third quarters of FY 2023. Additionally, the team found that all 14 cardholders responsible for the sampled purchase card transactions had a VA Form 0242. An approved VA Form 0242 is used to delegate authority to an individual to use the purchase card to pay for goods and services.

Finding 3 Conclusion

Healthcare system personnel should be aware of and comply with VA policies on split purchases. Failure to properly manage the purchase card program increases the risk of insufficient documentation, improper purchases, and missed opportunities to optimize cost

[66] VA Financial Policy, "Government Purchase Card for Micro-Purchases."

[67] VA Financial Policy, "Government Purchase Card for Micro-Purchases." The Financial Services Center provides a wide range of financial and accounting products and services to both VA and other government agencies.

[68] VA Financial Policy, "Government Purchase Card for Micro-Purchases."

savings. The healthcare system should continue to ensure reviews are conducted to identify internal control weaknesses to mitigate the risk of fraud, waste, and abuse.

Recommendation 5

The OIG made the following recommendation to the director of the VA Pittsburgh Healthcare System:

5. Establish controls to confirm approving officials and cardholders review purchases for VA policy compliance, ensuring purchases are not being split and that strategic sourcing is pursued for ongoing or repetitive purchases.

VA Management Comments

The VA Pittsburgh Healthcare System executive director concurred with recommendation 5. The executive director reported that a plan has been established to require approving officials and cardholders to complete purchase card training, which includes the policy concerning split purchases and use of strategic sourcing. In addition, approving officials and the purchase card program coordinator are reviewing a sample of purchases quarterly for policy compliance. Purchase card reviews are also conducted annually during Financial Quality Assurance Reviews.

OIG Response

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

IV. Supply Chain Management Operations

The Generic Inventory Package is the software system authorized to manage the receipt, distribution, and maintenance of expendable supplies used throughout VA. This system uses an item master file, created within IFCAP, to store and track information, such as the description, mandatory source or vendor details, unit price, packaging, and manufacturing information for each item. Per VHA policy, it is essential that this information be entered into the IFCAP system completely and correctly.[69]

The team reviewed the following areas:

- **Inventory performance metrics.** The team assessed whether the healthcare system met the performance metric for days of stock on hand for MSPV and non-MSPV items.
- **Inventory data accuracy.** Using analysis of a Supply Chain Data Informatics Office Toolbox report as well as interviews conducted during the inspection, the team completed a physical count of some of the high value items at two of the primary inventory points.
- **Supply chain management oversight.** The team also assessed processes that affected the healthcare system's supply chain management.

Finding 4: The Healthcare System Should Ensure Supply Chain Operations Comply with VHA Policy and Inventory Data Are Accurate

The OIG found that the healthcare system could improve the efficiency of inventory management by strengthening processes and procedures to ensure stock levels and their associated expendable inventory data values are recorded correctly and routinely monitored in the Generic Inventory Package. In addition, the healthcare system did not meet performance metrics that measure days of stock on hand. Failure to properly align systems, personnel, and processes across the supply chain can threaten the healthcare system's ability to effectively plan, mitigate issues, and budget for the purchase of supplies to meet patient care needs. Leadership reported that staffing shortages may have affected the healthcare system's ability to ensure local processes and procedures are effective in conducting supply chain oversight.

Inventory Performance Metrics

Supplies are typically received at the warehouse and distributed to a primary inventory point and then to a secondary inventory storeroom at a medical facility.[70] The Supply Chain Common

[69] VHA Directive 1761.

[70] A primary inventory point contains all expendable items for an inventory account that are replenished by placing orders outside of the VA medical facility. When established, secondaries serve as points of distribution related to, and replenished from, a primary inventory. A primary with no secondary is referred to as a stand-alone primary inventory.

Operating Picture (SCCOP) dashboard tracks the use of these supplies, which comprise both expendable and nonexpendable items. The dashboard, which receives part of its data from the Generic Inventory Package, lists the performance measure for expendable supplies purchased through the MSPV program as 30 days or fewer of stock on hand, whereas non-MSPV items should have 45 days or fewer of stock on hand.[71] Before the inspection site visit, the team accessed the SCCOP dashboard and downloaded the healthcare system's "MSPV Days of Stock on Hand" and "Non-Prime Vendor Days of Stock on Hand" reports from October 2022 through July 2023. To determine whether MSPV and non MSPV items met the days-of-stock-on-hand metrics, the team reviewed the healthcare system's monthly performance and clinical primary inventory points.[72] The team determined that the healthcare system averaged 43 days of stock on hand for MSPV items and 77 days of stock on hand for non MSPV items during the review period.

The team also evaluated a sample of clinical primary inventory points that were subject to days-of-stock-on-hand metrics. However, these metrics were missing from the report for some of the inventories, so the team could not fully determine the number of inventories that met the MSPV or non MSPV metrics. Instead, the team determined that four of 31 clinical primary inventory points (12.9 percent) with MSPV items did not have metric data in the report, and three of 34 clinical primary inventory points (8.8 percent) with non MSPV items did not include metric data.

Using available data pertaining to days of stock on hand, the team found eight of 27 clinical primary inventories with MSPV items (30 percent) did not meet the 30-day metric, and 15 of 31 clinical primary inventories with non MSPV items (48 percent) did not meet the 45-day metric.

Despite the metrics the team found, the facility has made progress to reduce the days of stock on hand. The chief supply chain officer provided the inspection team with a spreadsheet used to track items over 90 days by cardholder, which indicated progress made to reduce the days-of-stock-on-hand levels. In addition, reports the inspection team pulled from the SCCOP dashboard demonstrated that from October 2022 through July 2023, MSPV days of stock on hand for the facility overall dropped from approximately 55 to 39 days. Over the same period, non MSPV items dropped from approximately 130 to 68 days.

The inability to meet the days-of-stock-on-hand metric was primarily due to a lack of staff to conduct required inventory management procedures. Noncompliance with inventory management hinders the healthcare system's ability to obtain accurate and current information

[71] The national MSPV program provides a customized distribution system to meet or exceed facility requirements through a just-in-time distribution catalog ordering process.

[72] The inspection team only considered clinical primary inventory points for analysis.

about stock levels and inventory values on hand when ordering supplies, which increases the risk of overstocking or understocking inventory items.

Inventory Data Accuracy

After analyzing SCCOP reports, the team identified the top two inventory points by value on hand: the C-DIST UD-AA103 and C-PROSTHETICS inventory points.[73] The team then used a Generic Inventory Package report (pulled from the Supply Chain Data Informatics Office Toolbox prior to the walkthrough) to identify the top six items in each inventory and physically counted the stock of the items to assess data accuracy.[74] The team found discrepancies between stock levels reported in the inventory management system and those in storage, Tables 2 and 3 show the discrepancies in the stock levels.

[73] The Inventory Point Identifier (IE) is an internal system identifier, or naming convention, for the inventory point that is automatically assigned when the inventory point is created. C-DIST UD-AA103 represents a clinical inventory point with inventory items for the distribution service line at the VA Pittsburgh Healthcare System University Drive campus. C-PROSTHETICS represents a clinical inventory point with inventory items for the prosthetics service line.

[74] The top two inventories and top six items were selected from a point-in-time determination based on accessing the "All Days of Stock on Hand Summary by Inventory Point" report from the SCCOP dashboard on October 3, 2023.

Table 2. C-DIST UD-AA103 Physical Count of Selected Items

Item	System data		Physical inventory count		Increase/decrease in value
	Number of items	Value on hand	Number of items	Value on hand	
Absorbable surgical knitting for hemostasis, 2×14 inches	6	$7,750	9	$11,625	+ $3,875
Disposable suction canister, 2,100 mL	34	$6,844	32	$6,442	- $403
Identification wristband	29	$6,786	27	$6,318	- $468
Chest drainage kit	117	$6,338	147	$7,963	+ $1,625
Dressing change kit	166	$6,280	211	$7,997	+ $1,717
Flutter valve	51	$5,397	49	$5,185	- $212

Source: VA OIG analysis of C-DIST UD-AA103 inventory data versus a physical inventory count.

Note: Numbers do not always sum due to rounding.

Table 3. C-PROSTHETICS Physical Count of Selected Items

Item	System data		Physical inventory count		Increase/decrease in value
	Number of items	Value	Number of items	Value	
Speaking aid device	12	$11,581	12	$11,581	0
Feeding pump	13	$11,359	21	$18,795	+ $7,436
Transport chair	59	$10,823	85	$15,300	+ $4,477
Blood pressure monitor and cuff	294	$10,493	399	$14,240	+ $3,747
Rollator	42	$9,700	40	$9,200	- $500
Compact battery-operated blood pressure monitor and cuff	262	$8,549	364	$11,877	+ $3,328

Source: VA OIG analysis of C-PROSTHETICS inventory data versus a physical inventory count.

Note: Numbers do not always sum due to rounding.

Following the walkthrough, the facility made adjustments in the inventory management system to correct the number of items in stock for each of the reviewed inventories.

Inventory is replenished through scanning and the use of autogeneration reports. Scanning, at least monthly, allows for the reconciliation of on-hand stock levels. The autogeneration report

process uses the on-hand stock levels to compare against preset inventory levels. The autogeneration report then identifies items that may need to be ordered. Supply chain leaders reported that the facility received and began using new inventory scanners from VISN 4 between January and May 2023. At the time of the site visit, staff reported use of the autogeneration tool. By strengthening the process to consistently scan and verify supply data, the healthcare system could improve efficiencies in the automated ordering of stock.

The team also assessed conversion factor data, which can affect the accuracy of days-of-stock-on-hand metrics. A unit conversion factor is computed by dividing the quantity purchased by the quantity issued.[75] This factor connects how a supply item is purchased and issued. For example, a vendor may sell an item in cases of 24 cans, but the end user (hospital staff) receives individual cans from that case. A "false" conversion factor showing in the SCCOP dashboard may be the result of a conversion being incorrectly entered into the Generic Inventory Package system.

The team accessed the SCCOP dashboard to review the healthcare system's conversion factor primary inventory report.[76] At the time the report was accessed, 465 of 10,877 conversion factors (4.3 percent) had false results, and two of 10,877 conversion factors were blank, for clinical primary inventory points.[77] The OIG considered the two blank conversion results to be immaterial and did not take exception in this review area. A supervisory inventory management specialist stated that during intake training, new employees learned about calculating conversion factors. However, the standard operating procedures were in the process of being updated and new employee training was being enhanced and would take time to implement. Staff may benefit from completed standard operating procedures explaining conversion factors and how they are calculated, which they could reference when questions arise.

Supply Chain Management Oversight

In May 2023, the VISN 4 chief supply chain officer and staff conducted a quality control review of supply chain management practices. Overall, the Pittsburgh facility was 81.25 percent compliant with policy; however, the review yielded 21 items requiring corrective action plans. Of those, eight were high risk, 10 were moderate risk, and three were low risk.

During the site visit, the team interviewed supply chain service leaders and staff to assess factors that affected the healthcare system's oversight controls and efficiency. Both management and

[75] Department of VA Office of Information and Technology Product Development, Integrated Funds Distribution, Control Point Activity, Accounting and Procurement (IFCAP) IFCAP Application Coordinator User's Guide, Version 5.1, October 2000, Revised. October 2019. A conversion factor expresses the ratio between the vendor's unit of measure and the unit of issue and is used to translate the order quantities into supply station amounts.

[76] The inspection team accessed the "Conversion Factor for Primary Inventory Points" report from the SCCOP dashboard on October 3, 2023; this report details point-in-time conversion factor data at the healthcare system.

[77] When a conversion factor does not equal an item's unit of receipt (such as being bought by the case) divided by the unit of issue (distributed by the case), it is flagged as a "false" result.

staff reported inadequate staffing levels and difficulty filling open positions as a result of staff attrition due, for example, to retirements and internal promotions. The chief supply chain officer noted that an informal retention study of front-line service technicians determined that the supply technicians were promoted after about nine months of service. Additionally, the chief supply chain officer provided a logistics vacancies summary as of mid-December 2023, that reflected 37 positions were vacant in supply chain management, including 11 critical supply technician positions. Management and staff also reported a lack of purchasing agents. One staff member believed the purchasing team was overwhelmed and could not keep up with ordering supplies necessary to provide care to veterans. Supply chain managers also reported that official complaints had been filed regarding the work environment within the service line. These issues may have hindered efforts to manage inventory supplies, detect and reduce data validity issues, and to meet the days-of-stock-on-hand metrics.

During interviews conducted with leaders and staff, the inspection team learned that beginning in July 2022 supply chain managers implemented a comprehensive training program for new supply technicians. This training includes a mock supply room wherein sample items are stocked for employees to learn and understand how to complete inventory tasks—for instance, trainees practice scanning, rotating stock, and printing stock labels. Although this training continues to be refined, there is no standardized follow-on training that gives staff a refresher on how to ensure effective task completion over time. Supply chain managers were also in the process of updating standard operating procedures and enhancing new employee training, and they recently revamped individual development plan standards.

Finding 4 Conclusion

Supply chain management at the VA Pittsburgh Healthcare System was not sufficient to ensure the days-of-stock-on-hand metrics were met or supply chain data were accurate. Establishing local processes and procedures for the timely review of data to detect and correct errors would increase the reliability of inventory data and could help ensure metrics are met. Unreliable inventory data can lead to purchasing unnecessary supplies and can adversely affect patient care. By addressing the OIG's recommendations, the healthcare system can more effectively plan and budget for supplies to meet patient care needs.

Recommendation 6

The OIG made the following recommendation to the director of the VA Pittsburgh Healthcare System:

6. Ensure supply chain managers implement a plan to detect and correct data validity issues within inventory systems.

VA Management Comments

The VA Pittsburgh Healthcare System executive director concurred with recommendation 6. The executive director reported that, with the end of the COVID 19 public health emergency, the healthcare system began dispositioning excess stock and cleansing data in the item master file to fix the conversion factors, and that item managers are being held accountable for routinely monitoring exception reports to maintain data integrity. The executive director also stated that benchmarks related to MSPV and non-MSPV days of stock on hand are being met. Monthly reports on these metrics are provided to the healthcare system's associate director.

OIG Response

The healthcare system executive director's action plan is responsive to the recommendation. The OIG will monitor implementation of the planned actions and will close the recommendation when it 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 inspection of the VA Pittsburgh Healthcare System from October 2023 to June 27, 2024, including a site visit during the week of October 16, 2023. The inspection was limited in scope and is not intended to be a comprehensive inspection of all financial operations at the healthcare system.

Methodology

The team evaluated financial efficiency practices among the four review areas for fiscal year (FY) 2023. FY 2021 and FY 2022 were also part of the inspection scope for the review of the system's use of managerial cost accounting information.

To conduct the inspection, the team

- interviewed facility leaders and staff,
- identified and reviewed applicable laws, regulations, VA policies, operating procedures, and guidelines related to the use of managerial cost accounting information, open obligations oversight, purchase card use, and supply chain management operations,
- judgmentally sampled
    - 30 outstanding obligations (15 undelivered orders and 15 accrued expenses) to assess whether healthcare system staff identified and reviewed the obligations to determine whether they were still valid and needed to remain open in accordance with VA financial policy,
    - 10 obligations with differences (six end-date and four order amount) from VA's Financial Management System (FMS) to Integrated Funds Distribution, Control Point Activity, Accounting and Procurement System (IFCAP) reconciliation reports to determine whether end dates and order amounts reconciled between VA's FMS or IFCAP, and
- statistically sampled 38 purchase card transactions to determine whether there was proper oversight and governance of the purchase card program, as well as to assess the risk for illegal, improper, or erroneous purchases.

Internal Controls

The inspection team assessed the internal controls of the VA Pittsburgh Healthcare System significant to the inspection objective. This included an assessment of the five internal control components: control environment, risk assessment, control activities, information and

communication, and monitoring.[78] The team also reviewed the principles of internal controls as associated with this objective. The team identified internal control weaknesses during this inspection in all four subobjectives assessed—use of managerial cost accounting information, open obligations oversight, purchase card use, and supply chain management operations—and proposed recommendations to address the control deficiencies.

Data Reliability

The inspection team used computer-processed data obtained from US Bank files through a corporate data warehouse, a central repository of US Bank data that is updated monthly, cost accounting data from the MCA RVU Modeling Tool, and the Office of Productivity, Efficiency and Staffing operational workforce report. To test for reliability, the team determined whether any data were missing from key fields, including any calculation errors, or were outside the time frame requested. The team also assessed whether the data contained obvious duplication of records, alphabetic or numeric characters in incorrect fields, or illogical relationships among data elements. Testing of the data disclosed that they were sufficiently reliable for the inspection objectives.

In addition, the team used computer-processed data included in reports from FMS to determine open obligation amounts. The team found that summary-level data were sufficiently reliable for reporting on the healthcare system's open obligations.

Also, the team used computer processed data from the Supply Chain Common Operating Picture Dashboard and Supply Chain Data Informatics Office Toolbox. The team determined that limited assessment of this data was sufficient to reduce anticipated risk to an acceptable level.

Government Standards

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

[78] Government Accountability Office, *Standards for Internal Control in the Federal Government*, GAO-14-704G, September 2014.

Appendix B: Sampling Methodology

Open Obligations

The team evaluated a judgmental sample of open obligation transactions from March through August 2023 to determine whether (1) VA Pittsburgh Healthcare System staff performed monthly reviews and reconciliations of the reviewed obligations with no activity for more than 90 days to ensure the obligations were valid and should remain open and (2) healthcare system staff reconciled end dates and order amounts between VA's FMS and IFCAP for sampled obligations.

Population

During August 2023, the healthcare system had 1,438 open obligations, totaling approximately $164.4 million. Of those open obligations, 1,259 obligations, totaling approximately $159.5 million, were undelivered orders and 179 obligations, totaling $4.9 million, were accrued expenses. From March through August 2023, 32 obligations had end-date discrepancies and six obligations had order amount discrepancies between FMS and IFCAP for three or more months.

Sampling Design

The inspection team selected the following judgmental samples:

- **Undelivered Orders.** The team selected 15 obligations with no activity for more than 90 days from the August 15, 2023, FMS F850 report. This report lists each open obligation and its remaining balance. All 15 obligations were still within the period of performance.
- **Outstanding Accruals.** The team selected 15 obligations with outstanding accruals from the August 15, 2023, FMS F851 report. Of the 15 accruals, seven resulted from a receiving action and eight were auto-generated accruals.
- **FMS-to-IFCAP reconciliations.** The team selected 10 obligations with different end dates or order amounts between FMS and IFCAP from VA's FMS-to-IFCAP reconciliation reports for March through August 2023 that contained variances for three months or more.

The samples included 40 total open obligations: 15 undelivered orders with no activity for more than 90 days, totaling about $7.0 million; seven accrued expenses that resulted from a receiving action, totaling approximately $188,000; eight accrued expenses that resulted from an auto-accrual, totaling approximately $595,000; and 10 obligations with different end dates or order amounts between FMS and IFCAP, totaling just under $9.9 million.

The team requested supporting documentation for each of the 40 sampled transactions, including monthly reviews and reconciliations, financial system screen prints and reports, and emails related to the obligations.

Projections and Margins of Error

The inspection team did not use projections and margins of error because statistical sampling was not used.

Purchase Cards

The inspection team evaluated a statistical sample of FY 2023 purchase card transactions to determine whether VA Pittsburgh Healthcare System staff (1) reviewed purchase card payments to ensure they were adequately monitored, approved, and supported by documentation and (2) reviewed transactions for compliance with processes to prevent split purchases and transactions exceeding the cardholder's authorized single purchase limit and to ensure goods or services were procured using strategic-sourcing procedures.

Population

During FY 2023 (October 1, 2022, to September 30, 2023), cardholders at the facility made about 69,700 purchase card transactions totaling approximately $61.8 million. A statistical sample was selected from non-negative transactions from October 1, 2022, to July 31, 2023; this time frame totaled about 56,700 transactions for approximately $51.0 million.[79] This sampling frame was developed inclusive of two strata: potential split transactions and nonpotential split transactions. Approximately 760 transactions were potential split transactions, whereas about 55,900 were nonpotential split purchase transactions.

Sampling Design

For both strata, samples were selected using probability proportional to size within the bundle (for potential split purchases) or individual transactions (for other nonpotential split purchases):

- **Potential split purchases.** The team identified potential split purchases as transactions with the same purchase date, purchase card number, and merchant and an aggregate sum greater than the cardholder's authorized single procurement limit.

[79] To adequately prepare ahead of the site visit the inspection team pulled a statistical sample for the most recently completed months of FY 2023, purchase dates between October 1, 2022, and July 31, 2023. Purchase card data for August 1 through September 30, 2023, were not available until after the site visit. Data for the later three months were added to the project files, when available, to detail the full year of spending.

- **Nonpotential split purchases.** Transactions in this stratum were those that remained after potential split purchase transactions were identified.

The statistical sample included 38 total individual transactions: 18 potential split purchase transactions, totaling approximately $96,000, and 20 nonpotential split purchase transactions, totaling approximately $248,000. To review the 38 sampled transactions, the team requested supporting documentation for each transaction, VA Form 0242, and documentation to support the completion of purchase card reviews.

Projections and Margins of Error

The projection is an estimate of the population value based on the sample. The associated margin of error and confidence interval show the precision of the estimate. If the OIG repeated this inspection with multiple sets of samples, the confidence intervals would differ for each sample but would include the true population value 90 percent of the time.

The OIG statistician employed statistical analysis software to calculate estimates, margins of error, and confidence intervals that 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 the sample review. While precision improves with larger samples, the rate of improvement decreases significantly as more records are added to the sample review (figure B.1).

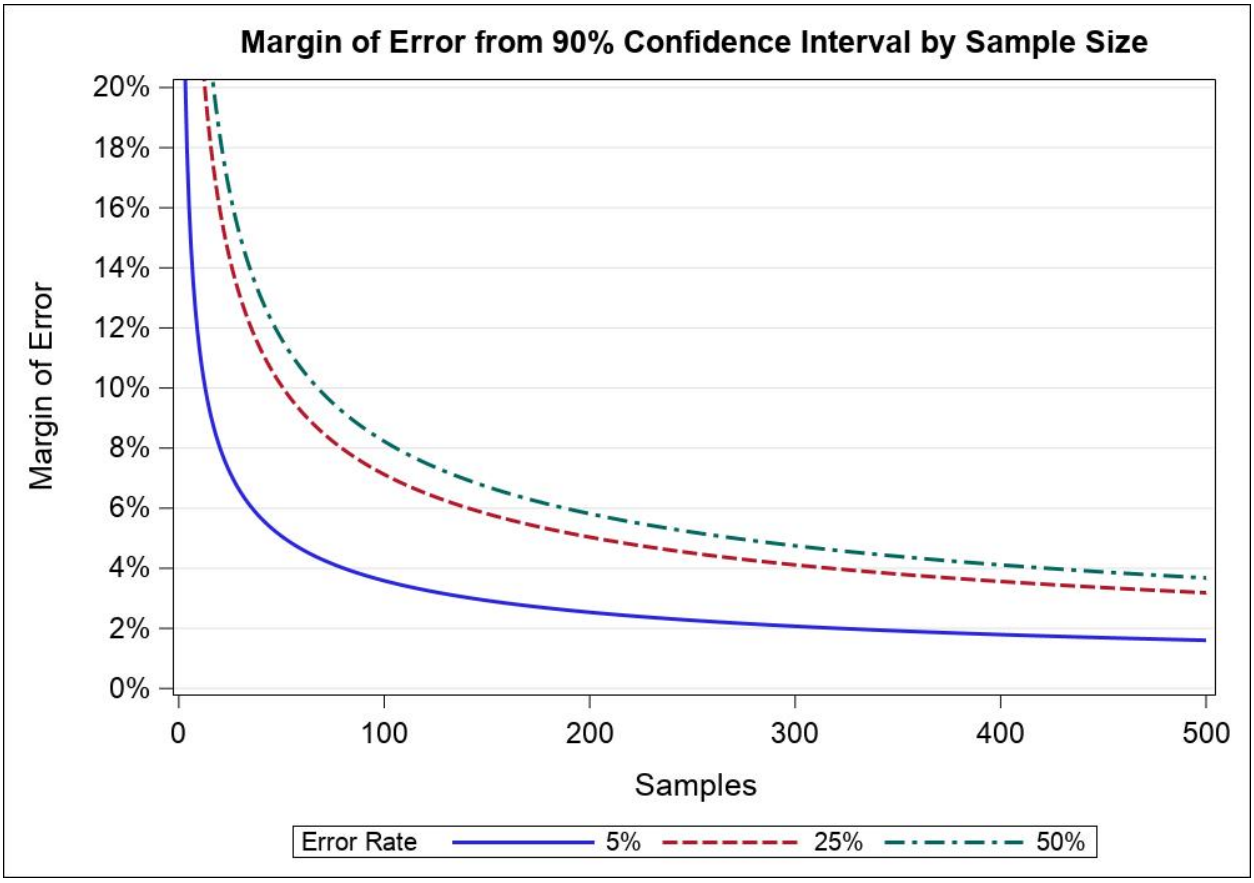

Figure B.1. *Effect of sample size on margin of error.*

Source: OIG statistician's analysis.

Projections

The team reviewed a statistical sample from a population of 57,099 purchase card transactions, totaling approximately $51.0 million. Using the results from the sample, the team estimated healthcare system staff may have split purchases in approximately 270 purchase card transactions, totaling approximately $403,000 in questioned costs, and were not processed in accordance with VA policy.

Tables B.1 and B.2 show statistical projections of purchase card transaction errors and their dollar amounts.

Table B.1. Statistical Projections for Purchase Card Transaction Errors

Estimate name	Estimate number	90 percent confidence interval			Number of errors	Sample size
		Margin of error	Lower limit	Upper limit		
Potential split purchase errors	265	125	140	390	8	38

Source: VA OIG statistician's analysis and team's review of purchase card transactions.

Table B.2. Statistical Projections for Purchase Card Transaction Error Dollar Amounts

Estimate name	Estimate number	90 percent confidence interval			Number of errors	Sample size
		Margin of error	Lower limit	Upper limit		
Potential split purchase errors	$402,953	$232,203	$170,750	$635,156	8	38

Source: VA OIG statistician's analysis and team's review of purchase card transactions.

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

Recommendation	Explanation of Benefits	Better Use of Funds	Questioned Costs[80]
3	Ensure requesting offices are trained to effectively communicate status of open obligations in a timely manner so healthcare system finance staff can comply with VA Financial Policy, vol. 2, chap. 5, "Obligation." by ensuring monthly that open obligations balances are valid and should remain open or are closed in a timely manner.	$87,000	$0
5	Establish controls to confirm approving officials and cardholders review purchases for VA policy compliance and ensure purchases are not being split.	$0	$403,000
	Total	**$87,000**	**$403,000**

[80] The OIG questions costs when VA action or inaction (such as spending or failure to fully compensate eligible beneficiaries) is determined by the OIG to violate a provision of law, regulation, contract, grant, cooperative agreement, or other agreement; when costs are not supported by adequate documentation; or when they are expended for purposes that are unnecessary or unreasonable under governing authorities. Within questioned costs, the OIG must, as required by section 405 of the IG Act, report unsupported costs. Unsupported costs are those determined by the OIG to lack adequate documentation at the time of the audit. Of the $403,000 in questioned costs, $0 were unsupported costs.

Appendix D: VA Management Comments

Department of Veterans Affairs Memorandum

Date: August 9, 2024.

From: Executive Director, VA Pittsburgh Healthcare System (646, 00)

Subj: Financial Efficiency Inspection of the VA Pittsburgh Healthcare System

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

VA Pittsburgh Healthcare System has reviewed the draft report for the Financial Efficiency Inspection of the VA Pittsburgh Healthcare System and provides the attached response.

VA Pittsburgh Healthcare System concurs with all six recommendations. As of August 9, 2024, we have plans implemented for each recommendation with a completion target date of October 31, 2024.

(Original signed by)

Donald Koenig

Executive Director

Attachment

Attachment

Recommendation 1

Establish a plan to use VA's cost accounting system information to identify alternative ways to reduce costs, enhance efficiency, and inform business decisions as identified by VA financial policy.

Medical center: Concur

Target date for completion: October 31, 2024

Medical center response: VA Pittsburgh Healthcare System has implemented a plan to increase its review and reliance on VA's cost accounting system information. The VERA Oversight Committee, which includes Executive Leadership representation and reports to Executive Leadership Board, reviews a monthly update from Managerial Cost Accounting. The VERA Oversight Committee minutes are reviewed at the facility Executive Leadership Board every other month. Second, the facility Resource Management Board has implemented processes that use VA's cost accounting system to support decisions on approval of additional positions. Specifically, service lines and departments are required to provide the cost and efficiency data that validate their request for additional staffing or support a shift to provide services rather than purchase them. Third, Financial Management Service implemented monthly meetings with Managerial Cost Accounting to review cost accounting information which assists in determining where costs could be reduced, or efficiencies gained. Finally, the Managerial Cost Accounting team is providing training opportunities for supervisors and staff to help them understand the processes as well as the importance of their role in producing reliable information.

Recommendation 2

Consider a plan to align VA Pittsburgh Healthcare System financial management practices with federal financial accounting standard practices, which could include using cost information for performance measurement, budgeting, cost control, and making economic decisions.

Medical center: Concur

Target date for completion: October 31, 2024

Medical center response: VA Pittsburgh Healthcare System has implemented a plan to increase its review and reliance on VA's cost accounting system information. First, the VERA Oversight Committee charter will be updated to include facility Executive Leadership. The VERA Oversight Committee reviews a monthly update from Managerial Cost Accounting. The VERA Oversight Committee minutes are reviewed at the facility Executive Leadership Board every other month. Second, the facility Resource Management Board has implemented processes that use VA's cost accounting system to support decisions on approval of additional positions. Specifically, service lines and departments are required to provide the cost and efficiency data that validate their request for additional staffing or support a shift to provide services rather than purchase them. Third, Financial Management Service implemented monthly meetings with Managerial Cost Accounting to review cost accounting information which assists in determining where costs could be reduced, or efficiencies gained. Finally, the Managerial Cost Accounting team is providing training opportunities for supervisors and staff to help them understand the processes as well as the importance of their role in producing reliable information.

Recommendation 3

Ensure requesting offices are trained to effectively communicate status of open obligations in a timely manner so healthcare system finance staff can comply with VA Financial Policy, vol. 2, chap. 5,

"Obligation." by ensuring monthly that open obligations balances are valid and should remain open or are closed in a timely manner.

Medical center: Concur

Target date for completion: October 31, 2024

Medical center response: VA Pittsburgh Healthcare System has established a plan to inform requesting offices, via monthly e-mail notifications, of the process to address the status of open obligations. The monthly e-mail includes ensuring that balances are valid, and, when not balanced, contracting officers are working closely with the requesting office to rectify issues and ensure the obligations are closed. Finance will track and monitor the service responses and escalate to the Medical Center Director as appropriate. These actions reflect Finance responsibilities, per VA Finance Policy Volume II Chapter 5, to manage aging obligations. Training is provided to Finance staff and facility services on how to review the various types of undelivered orders and identify the steps (processing receiving reports, decrease adjustment, request vendor invoices, contract modifications) to close them out. On a monthly basis, Finance service utilizes the FMS to IFCAP reconciliation tool to reconcile obligations to ensure the amounts and end dates reconcile.

Recommendation 4

Establish an escalation process to notify the appropriate leaders if the requesting office does not provide a response to the finance office's monthly request for status of outstanding obligations.

Medical center: Concur

Target date for completion: October 31, 2024

Medical center response: VA Pittsburgh Healthcare System has established an escalation process for non-response to the request for the status of outstanding obligations. If finance's original email request does not receive a response, the request will be escalated to the service line vice president or department leader. If there is still no response, the request will be further escalated to the respective Executive Leadership Team member.

Recommendation 5

Establish controls to confirm approving officials and cardholders review purchases for VA policy compliance, ensuring purchases are not being split and that strategic sourcing is pursued for ongoing or repetitive purchases.

Medical center: Concur

Target date for completion: October 31, 2024

Medical center response: VA Pittsburgh Healthcare System has an established plan in place requiring approving officials and cardholders complete purchase card training. The training includes addressing policy on purchases not being split and strategic sourcing being pursued. In addition, a sample of purchases are reviewed for VA policy compliance quarterly by each cardholder's approving official and by VA Pittsburgh Healthcare System's Purchase Card Program Coordinator. Purchase card reviews also occur annually during the Financial Quality Assurance Reviews.

Recommendation 6

Ensure supply chain managers implement a plan to detect and correct data validity issues within inventory systems.

Medical center: Concur

Target date for completion: October 31, 2024

Medical center response: With the end of the COVID 19 Public Health Emergency, VA Pittsburgh Healthcare System began the task of dispositioning excess stock and systematically cleansing the item master file data to fix the conversion factors. Item Managers are held accountable to routinely monitor exception reports and maintain the integrity of the data. VA Pittsburgh Healthcare System is currently meeting benchmark for Medical Surgical Prime Vendor and Non-Medical Surgical Prime Vendor days stock on hand. The Chief, Logistics provides monthly reports of these metrics, as well as others, to the facility Associate Director.

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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