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BEFORE THE
HOUSE COMMITTEE ON VETERANS' AFFAIRS
DECEMBER 7, 2017

Good morning Chairman Roe, Ranking Member Walz and Members of the Committee. Thank you for the opportunity to discuss VA's Medical/Surgical Prime Vendor (MSPV) program and the related Government Accountability Office (GAO) draft report. I am accompanied by Mr. Philip Christy, Associate Executive Director, Strategic Acquisition Center.

Introduction and History of MSPV

VA is committed to providing our Veterans the best care available while being good stewards of taxpayers' dollars. Part of meeting these commitments is making sure that our medical centers have the right supplies and equipment to deliver the care our Veterans need.

The Department once relied on its own procurement, storage and transportation system to distribute relatively low cost and frequently demanded medical and surgical supplies until the mid-1990s. VA then did away with this in-house system and converted to a commercially sourced MSPV program to provide this capability. Since then, the MSPV program has been the primary method used to provide our medical centers these kinds of supplies.

The primary source of supplies for previous generations of MSPV contracts was the Federal Supply Schedule (FSS). Use of FSS, when combined with local and regional contracts, resulted in our hospitals having access to a clinically viable selection of supplies. However, this operational model did not facilitate clinical product decisions on a national level that would allow VHA to leverage its purchasing power.

Adoption of clinically driven strategic sourcing was, and continues to be, envisioned to leverage VA enterprise-wide purchase volume in order to drive lower prices and improve product quality. The MSPV-Next Generation (MSPV-NG) contract was conceived, in part, to address these issues through the development and use of a mandated national catalog or formulary.

Current Medical/Surgical Prime Vendor

In 2016, the Office of Acquisition Operations, Strategic Acquisition Center, in partnership with VHA, announced the award of four Indefinite Delivery Indefinite Quantity (IDIQ) contracts in support of MSPV-NG. The program was mandatory for all VA medical centers. Medical centers pay prime vendors a distribution fee plus the product price. Product prices were primarily established by negotiated blanket purchase agreements against FSS contracts, VA national indefinite delivery contracts, and local contracts to support Veterans Integrated Service Networks. The distribution fee was a markup to the product prices intended to cover prime vendor costs for managing customer inventories and ensuring the timely delivery of needed products to customers. As documented in the GAO report, this contract has not been as successful as we would have liked, due to the time required to solicit and award enough medical and surgical products to meet the needs of our medical centers. Accordingly, VHA has decided to move forward with modifying the current contracts or developing replacement contracts to rectify the issues identified in the GAO audit. In determining how to potentially improve the availability of items under the current MSPV contract, we are considering the contracting process used by the Defense Logistics Agency (DLA) to efficiently establish pricing agreements that enable over 100,000 medical and surgical items to be available through DLA's MSPV contract.

An acquisition plan has not been finalized for replacement of MSPV. VA is exploring a different approach to MSPV, where potential prime vendors can propose a full catalog of medical and surgical products. This would depart from the current approach to MSPV where individual contracts are negotiated with each supplier to form a book of contracts that MSPVs can distribute against. The potential benefits of MSPV 2.0 would be a more robust catalog of items than we have today that could be available

from the beginning of the contract and lower prices. VA is conducting market research to identify the best commercial solutions to meet its mission needs in this area. Additionally, the administrative resources and time required to negotiate thousands of individual contracts would be reduced if VA only negotiated with the prime vendors for both medical and surgical products and distribution services. There have been multiple meetings with industry leaders to obtain feedback regarding the proposed approach to MSPV 2.0 and that feedback is currently being considered. Feedback will also be obtained from VA clinicians before VA makes any final decisions regarding a new MSPV. This is why our efforts to make the current MSPV contracts more robust are important. We want to make sure the needs of our medical centers are met while we develop a better approach to MSPV.

GAO Report

GAO recently released the report, “Veterans Affairs Contracting: Improvements in Buying Medical and Surgical Supplies Could Yield Cost Savings and Efficiency.” GAO made 10 recommendations concerning our current MSPV management processes, and VA has already begun to institute each of them:

- VHA is developing an implementation plan that clearly articulates our strategy for the MSPV program. The plan will include how to prioritize categories of supplies for future requirement development and contracting. This document will also serve as a communication tool for all stakeholders involved in MSPV. We expect the first draft to be completed by the end of calendar year (CY) 2017.
- Hiring a permanent program office director for MSPV is a high priority. We expect a vacancy announcement to be posted by the end of CY 2017.
- VA acknowledges that the role of Chief Acquisition Officer should be assigned to a non-career employee, per the third GAO recommendation, but our flexibility is limited by restrictions on non-career positions within the Department.

- To ensure we are providing complete guidance for matching equivalent supply items, VHA has replaced the MSPV Item Conversion Tracker Tool with the Medical Product Data Bank eZSave program, which collects product information from over 80 government and private sources. We will conduct a review by the end of this CY to measure our success.
- Similarly, we are developing a communication plan to ensure frequent and effective outreach to the medical centers concerning the criteria and processes for changing items of the formulary. We fully expect that several modes of communication will be in use by the end of this CY.
- VHA is developing a new metric for MSPV cost avoidance. The implementation of this metric is contingent upon the completion of a separate data standardization project, but we anticipate this new metric will take effect by June 2018.
- VHA plans to replace or modify the current MSPV contract and formulary process with a contract which will facilitate greater access to a wider variety of products, using best commercial and government practices. This plan includes providing improved service until the current contract is modified or replaced.
- VHA will emphasize the importance of clinical program offices' involvement in MSPV requirements development and standardization efforts. Proposed guidance is being finalized, enabling clinical program offices to directly manage the selection of items in the formulary related to their clinical expertise. By the end of CY 2018, clinical program offices will prioritize their requirements and will emphasize standardization where clinically acceptable.
- VHA is formalizing guidance for contracting offices, the Supply Chain Data and Informatics Office, and medical centers to ensure they work together to identify opportunities for strategically obtaining goods and services on an emergency basis. The target completion date is June 2018.

- VHA will establish a process to identify commodities and supplies that are frequently purchased using emergency procurement methods. These items will be evaluated for inclusion in the MSPV formulary, if appropriate, by June 2018.

Conclusion

VA seeks to continue to provide our Veterans with the timely care they have earned and deserve. At the same time, we are seeking new and innovative ways to be more responsible stewards of the taxpayers' dollars. We are grateful to GAO for their report and to the Committee for their commitment to helping the Department improve. I look forward to responding to any questions you may have.