



DEPARTMENT OF VETERANS AFFAIRS OFFICE OF INSPECTOR GENERAL

STATEMENT OF LEIGH ANN SEARIGHT
DEPUTY ASSISTANT INSPECTOR GENERAL FOR AUDITS AND EVALUATIONS
DEPARTMENT OF VETERANS AFFAIRS OFFICE OF INSPECTOR GENERAL
BEFORE THE
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS AND
SUBCOMMITTEE ON TECHNOLOGY MODERNIZATION
U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON VETERANS' AFFAIRS
HEARING ON
EXAMINING THE U.S. DEPARTMENT OF VETERANS AFFAIRS SUPPLY CHAIN
NOVEMBER 18, 2021

Chairman Pappas, Chairman Mrvan, Ranking Member Mann, Ranking Member Rosendale, and members of the Subcommittees, thank you for the opportunity to discuss the Office of Inspector General's (OIG's) most recent work examining the Department of Veterans Affairs (VA) supply chain. The OIG is committed to serving veterans and the public by conducting oversight of VA programs and operations through independent audits, inspections, reviews, and investigations. That oversight includes tracking VA's progress on supply chain and other modernization efforts. A resilient and responsive supply chain plays a critical role in VA's ability to provide timely and quality healthcare services to more than seven million unique patients at VA facilities across the country. Never has the supply chain been more important or more challenged than during this global pandemic.

The problems that have plagued the VA supply chain, however, are not new. Prior to the pandemic, OIG reports identified long-standing information technology (IT), contracting, and staffing problems that contributed to some VA medical centers not consistently having supplies when and where they needed them for patient care. Facilities have long experienced barriers to real-time tracking of inventory, purchasing, distribution, storage, and other supply management functions, leading to operational breakdowns and the need for work-arounds that sometimes lack compliance with VA policies and procedures. These work-arounds are often the result of dedicated VA clinical staff on the front lines doing whatever is necessary to meet the needs of patients under difficult circumstances. But sometimes even the most well-meaning measures are not enough and can exacerbate the underlying problems.

Inspector General Michael Missal testified before the Subcommittee on Oversight and Investigations in March 2021 regarding VA’s supply chain, and the concerns expressed then persist.¹ My statement will focus on the OIG’s most recent report examining VA’s initial deployment of the Defense Department’s Defense Medical Logistics Standard Support (DMLSS) System at the Captain James A. Lovell Federal Health Care Center (Lovell) in North Chicago, Illinois. Several other OIG reports that examined aspects of supply chain issues and IT acquisitions are also summarized in appendix A.

BACKGROUND

VA manages about \$10 billion each year in medical supplies and equipment inventory.² Prior OIG reports have highlighted the need for VA to address deficiencies with its aging supply chain management system to help ensure that supplies and equipment are available when and where they are needed for patient care and safety.³ Following these reports and in response to prior challenges with updating VA’s IT systems, the then VA Secretary signed two decision memos emphasizing the need to transform VA’s supply chain management. In a 2018 decision memo, VA selected the Lovell facility to be a pilot site for DMLSS because of the site’s unique standing as a joint VA and Defense Department medical facility serving both veterans and active-duty military personnel.⁴ In a March 2019 decision memo, VA directed the enterprise-wide deployment of DMLSS throughout the Veterans Health Administration (VHA) to modernize and standardize its supply chain management processes and replace up to 12 healthcare legacy systems and their functionalities.⁵ The deployment of the DMLSS system is expected to cost \$2.2 billion over 15 years.⁶

The executive director of the Veterans Affairs Logistics Redesign (VALOR) program office informed the OIG on June 29, 2021, that the DMLSS system implementation had been paused due to litigation regarding VA’s engagement of the Defense Logistics Agency. The DMLSS system is dependent on the

¹ [Statement of Inspector General Michael Missal](#), Office of Inspector General, Department of Veterans Affairs, Before the U.S. House of Representatives, Committee on Veterans’ Affairs, Subcommittee on Oversight and Investigations, Hearing on “The Pandemic and VA’s Medical Supply Chain: Evaluating the Year-Long Response and Modernization,” March 24, 2021.

² VA, *Enterprise Supply Chain Modernization (ESCM) Implementation Plan: DMLSS/LogiCole IOC to Full Deployment*, January 10, 2019. The plan states that the \$10 billion for VHA’s supply chain consists of \$5 billion for consumable supplies (expendable supplies that are disposable items typically used one time) and \$5 billion in equipment costs (nonexpendable supplies that cost \$300 or more, or have a life expectancy of two years or more).

³ Reports are listed in appendix A.

⁴ VA memo, “Decision Document—Enterprise-wide Adoption of a VA Health Care Logistics and Supply Chain Solution (VIEWS #62001),” July 20, 2018, signed by VA Secretary August 2, 2018.

⁵ VA memo, “Decision Document—Enterprise-wide Adoption of Defense Medical Logistics Standard Support (DMLSS) as VHA’s Health Care Logistics and Supply Chain Solution (VIEWS 151651),” March 11, 2019, signed by VA Secretary March 27, 2019.

⁶ VHA, *Veterans Affairs Logistics Redesign (VALOR) Defense Medical Logistics Standard Support (DMLSS)/LogiCole Life-Cycle Cost Estimate*, ver. 1.0, May 10, 2019. This cost includes a transition to a cloud-based version of the DMLSS system called LogiCole.

Defense Logistics Agency to purchase medical and surgical supplies, so an alternative is needed if VA is not given that support at future deployment sites.

DMLSS SUPPLY CHAIN MANAGEMENT SYSTEM DEPLOYED WITH OPERATIONAL GAPS THAT RISK NATIONAL DELAYS

In a review published on November 10, 2021, the OIG detailed VA's oversight and coordination of its implementation of the DMLSS system at Lovell.⁷ The review was conducted to identify any functionality or management challenges that could affect future deployments.⁸ The OIG review team's work was conducted between February 2020 and June 2021. No on-site visits were conducted due to pandemic-related precautions, however extensive interviews, virtual site visits, multiple surveys, document reviews, and other methods were used to complete a comprehensive examination.

The OIG found significant, unaddressed operational gaps at Lovell that could affect the prompt delivery of healthcare services and deployments of DMLSS at future VA medical facility sites. That finding is supported by the following determinations:

- The DMLSS system did not meet nearly half of all high-priority needs at Lovell.
- VA did not follow its own acquisition framework requirements.
- The establishment of VALOR as the program oversight office for DMLSS implementation was delayed and lacked a supportive structure, and the office ineffectively coordinated with system stakeholders.

The DMLSS System Did Not Meet Nearly Half of All High-Priority Needs at Lovell

The OIG-identified deficiencies in VA's initial deployment of the DMLSS system should be addressed to avoid reoccurrence and delays at future sites. The DMLSS system did not meet 44 percent of the high-priority business requirements identified by Lovell staff as essential to successful operations when it deployed on August 4, 2020. As a result, Lovell staff had to develop work-arounds just to maintain day-to-day operations.

VA intended DMLSS to be a comprehensive, streamlined supply chain management system that could improve medical supply and equipment procurement and logistics. While VA expected to have a modern, full-spectrum management system that would support VA's supply chain, the review team found that the DMLSS system did not meet 40 of 90 high-priority requirements for daily operations

⁷ VA OIG, [*DMLSS Supply Chain Management System Deployed with Operational Gaps That Risk National Delays*](#), November 10, 2021.

⁸ This report focuses on VA's initial implementation of the DMLSS system and does not assess whether VA's use of the DMLSS system to procure or acquire supplies and equipment complies with all applicable and relevant laws, rules, regulations, and policies.

identified by Lovell staff.⁹ As of September 23, 2020, these unmet requirements translated into functionality gaps in six operational areas: the management of (1) data and information sharing, (2) healthcare technology, (3) equipment, (4) facilities' maintenance and repairs, (5) finances, and (6) materials.

Of these, the review team found that managing data and information sharing, healthcare technology, and equipment were the most deficient. Specifically, the DMLSS system did not meet any of Lovell's data and information-sharing requirements, could not adequately perform routine healthcare technology management functions, and lacked key functions needed to maintain accountability for IT equipment.

Of particular note, as of June 2021, the DMLSS system did not interface with VA's corporate data warehouse, which is used to provide clinical information and data to local facilities and national program offices. Instead, staff at Lovell had to manually extract information to send to the national program offices for critical decision-making. The interface with the corporate data warehouse is also essential for VHA's ability to monitor and manage biomedical equipment, oversee facility performance, and track recalls. For example, the classification of information in the corporate data warehouse allowed the program office to quickly locate VHA's ventilator fleet during the pandemic. VALOR leaders anticipated implementing a permanent solution for the asset classification operational gap in the next DMLSS system upgrade. DMLSS was also unable to provide certain features, such as tracking preventive maintenance work orders for 3,000 medical equipment items, including defibrillators. Lovell staff had to track deferred maintenance manually, making close monitoring more difficult and increasing the risk of equipment malfunctions or failures.

VA Did Not Follow Its Acquisition Framework Requirements

As to the second determination, although VA's acquisition framework policies outline a process to ensure the DMLSS system meets a facility's high-priority requirements, the VALOR program manager during the deployment at Lovell did not follow the framework. He incorrectly asserted that some of the framework requirements were superseded by a memo. VA also commented on the report draft that other requirements were followed instead. These assertions are flawed, as detailed below. According to VA guidance, any VHA acquisition program expenditure that is estimated to exceed \$100 million in one year shall comply with the acquisition framework policy.¹⁰ The DMLSS system's deployment cost was estimated at about \$176 million for fiscal year 2021 alone. The March 2019 decision memo from the VA Secretary that directs the enterprise-wide adoption of the DMLSS system also mandates use of the

⁹ VA OIG, [*DMLSS Supply Chain Management System Deployed with Operational Gaps That Risk National Delays*](#), November 10, 2021. Table 2 on page 15 of the report outlines the 40 high-priority requirements not met by the DMLSS system and includes examples.

¹⁰ VA Handbook 7402, *VA Acquisition Program Management Framework (APMF) Procedures*, June 2, 2017. An acquisition program is defined by the acquisition framework policy as "a program that is achieving its goal through the purchase of a new or enhanced capability or capabilities."

acquisition framework.¹¹ No language in the acquisition framework policy or decision memos can reasonably be interpreted to mean that following these requirements is not mandatory.

Because the cost of the DMLSS system met the threshold that subjects it to the requirements of the acquisition framework policy, VA should have validated that business requirements were identified, documented, and updated as necessary.¹² The framework also required the VALOR program office and VA's chief acquisition officer to demonstrate and validate that the DMLSS system's capabilities met identified business needs and all identified risks and issues had been resolved or a response strategy put in place.

Instead of using a business requirements document for Lovell, the program manager responsible for the activation of the DMLSS system at Lovell skipped the first three phases, stating the March 2019 decision memo superseded some of the acquisition phases and their respective requirements. The decision memo, however, required VA to follow the framework for the DMLSS system and to ensure all requirements were addressed or to identify alternative solutions.¹³ VALOR also created a change control board to evaluate and approve users' requests for modifications to address their concerns about operations—a process that resulted in delayed remediation. This process did not replace or satisfy the framework's standards to develop, use, and update a business requirements document to foresee and ensure users' needs are met. Finally, VA raised alternative arguments for not following the acquisition framework in its written comments solicited for the OIG draft report. These included assertions that the framework was optional because VA had followed Joint Incentive Fund legal requirements and the VA Performance and Accountability Reporting System in its implementation of DMLSS. However, no language in the acquisition framework's policies and procedures removes the mandatory requirement to comply with the framework, even if other standards may have been applied. Despite their assertions, VA has concurred with all OIG recommendations for corrective action. Adherence to the framework helps VHA make certain that personnel using the DMLSS and other new systems will be able to efficiently and effectively perform their jobs in facilitating prompt and high-quality patient care.

After Delayed Establishment, VALOR Lacked Supportive Structure and Coordination with Stakeholders

Finally, the VALOR program office tasked with managing the deployment of the DMLSS system also had a slow and unsteady start. The office was created in early 2019 but did not receive funding until January 2020 and had staffing deficiencies. Additionally, VALOR did not effectively coordinate with key stakeholders, such as local staff and key national program offices, early enough in the assessment and development of functional requirements in order to minimize operational issues when deploying the

¹¹ VA memo, March 2019 Decision Document; VA Handbook 7402, *VA Acquisition Program Management Framework (APMF) Procedures*, June 2, 2017.

¹² VA Handbook 7402.

¹³ VA memo, March 2019 Decision Document.

DMLSS system at Lovell. There has also been lack of consistency and stability at the top. VALOR has had six program managers since VA made the decision just over two years ago to adopt the DMLSS system. In March 2021, VHA officially appointed an executive director as the program manager.

Staffing and funding for the VALOR program office were not secured until after the initial planned Lovell deployment. Before this, VA entrusted DMLSS system implementation to a limited number of temporary staff borrowed from other offices, some of whom had a limited understanding of their roles and responsibilities, did not believe they had oversight responsibilities, and did not always guide Lovell staff. VA also initially created an organizational structure involving multiple offices with no decision-making authority, a move that delayed early efforts. The program office was eventually realigned from VHA's Procurement and Logistics Office to the VA Office of Acquisition, Logistics, and Construction (OALC) in December 2019. VALOR requested to officially become a directorate within the Assistant Under Secretary for Health for Support Services Division in May 2021.

From the outset, VALOR did not coordinate with other key national program offices and local staff early enough in the development of functional requirements to help identify needed capabilities and prevent operational problems. VALOR primarily focused on getting the DMLSS system's procurement and logistics functions ready for deployment. The VALOR executive director hired in March 2021 (the sixth program manager) stated that VALOR needed staff with the appropriate subject matter expertise to work with facility staff to determine and confirm operational requirement needs. Additionally, the executive director's assessment confirmed the review team's observations that VALOR did not have the staffing levels necessary to provide the required oversight of implementation.

OIG Recommendations

The OIG made three recommendations to improve DMLSS system implementation across VHA. Specifically, the OIG recommended that the program office

- revisit its oversight and deployment processes to bring the DMLSS system deployment in line with VA's acquisition framework policy,
- develop processes to better identify unmet high-priority business requirements and postemployment challenges at Lovell and future sites so that solutions are implemented, and
- obtain adequate staffing and maintain stable leadership for the VALOR program office as implementation continues.

The principal executive director of OALC and the chief acquisition officer, in collaboration with VHA, concurred with all of the report's findings and recommendations and submitted action plans for each.¹⁴

The OIG will assess the satisfactory completion of proposed corrective actions in conjunction with its routine recommendation follow-up. Overall, the proposed measures in VA's action plans appear to be responsive to the recommendations and the OIG will monitor the implementation of the recommendations until all stated actions are documented as completed.

CONCLUSION

As of June 2021, VALOR had not ensured the implementation of any of the 40 unmet high-priority business needs, and staff had to use 34 work-arounds to fill functional gaps. In its September 2021 response to the OIG's report, OALC reported that corrective actions for some of the unmet capabilities were under development or were developed and would be implemented during the next DMLSS system update. VALOR leaders also expect future DMLSS system upgrades or the upgrade to LogiCole, a cloud-based upgrade of the local server-based DMLSS, to address operational gaps discussed in the OIG report. The stakes are high. Inefficient work-arounds, including the continued use of VHA legacy systems, do not meet VA's intent to modernize its supply chain system. Without prompt and decisive action, the unresolved deficiencies identified at Lovell will likely occur at subsequent sites, setting off a cascade of problems that could push back the recently accelerated rollout schedule developed after Congress inquired about a faster deployment.¹⁵ Future sites would need to continue employing work-arounds for unaddressed DMLSS system issues, increasing costs, workload, and reliance on aging legacy systems. VHA program offices would also lack timely access to data needed for system-wide decision-making. More importantly, supply chain management breakdowns can impede the delivery of prompt, quality patient care and services and disrupt medical facility operations.

The OIG applauds the work of these Subcommittees and VA in continuing to raise as a priority the need to improve VA's supply and logistics systems. The work related to DMLSS discussed in this statement reveals there are still considerable challenges for VA to modernize its systems. The OIG is committed to providing practical recommendations that flow from its inspections, audits, reviews, and investigations to help VA provide quality health care to veterans and safe working conditions for all VA personnel.

¹⁴ They also provided 12 technical comments, which can be found in Appendix C of OIG report, *DMLSS Supply Chain Management System Deployed with Operational Gaps That Risk National Delays*. Where appropriate (and as indicated in the report) the OIG included footnotes in response. A detailed OIG response to VA comments is provided on pages 29 and 30 of the report as well.

¹⁵ VALOR had initially planned for the deployment of the system at all VA medical centers by late 2028, but in October 2020, it developed a proposed accelerated schedule for the end of 2025. As of July 2021, however, future deployments could be delayed by litigation. The executive director of VALOR informed the OIG on June 29, 2021, that the DMLSS system implementation had been paused until further notice due to litigation regarding VA's engagement of the Defense Logistics Agency. The DMLSS system is dependent on the Defense Logistics Agency to purchase medical and surgical supplies, so an alternative is needed if VA is not given that support at future deployment sites.

Chairmen Pappas and Mrvan, this concludes my statement. I would be happy to answer any questions you or other members of the Subcommittees may have.

APPENDIX A: VA OIG REPORTS

Listed below are examples of prior audits relevant to either VA's supply chain inefficiencies or previous implementation challenges with other system modernization efforts.

Supply Chain Inefficiencies

- *Equipment and Supply Mismanagement at the Hampton VA Medical Center, Virginia, 19-00260-215 (September 26, 2019)*, found that inappropriate inventory management practices resulted in equipment having incorrect location information in the Automated Engineering Management/Medical Equipment Reporting System, missing from the inventory system, or being improperly disposed. The report also found that facility staff were not fully using the Generic Inventory Package to manage or order expendable operating room supplies, resulting in an overstock and supplies expiring. The report did not identify patient risk but conveyed that inventory management concerns are potentially systemic at other VA facilities because of similar findings in a previous report.
- *Expendable Inventory Management System: Oversight of Migration from Catamaran to the Generic Inventory Package, 17-05246-98 (May 01, 2019)*, found that most of the 11 facilities examined had not conducted a physical inventory to verify information after migrating from Catamaran back to the Generic Inventory Package, and data were incorrect for all facilities one year after the migration. VA planned for Catamaran to replace the Generic Inventory Package; however, VA allowed the contract to expire in 2017 because the contractor failed to meet VHA's medical supply needs, and facilities had to migrate back to the Generic Inventory Package. The facilities reviewed failed to properly distribute, document, secure, and label expendable supplies. While the audit team did not identify direct risks to patients, the team noted the issues found created risks with understocking, which could lead to supply shortages, or overstocking, which could lead to supplies expiring before use. This audit was initiated in part because of the report findings described directly below.
- *Critical Deficiencies at the Washington DC VA Medical Center, 17-02644-130 (March 7, 2018)*, found that patients were placed at risk because important supplies and instruments were not consistently available. The inventory inefficiencies affected patients when their medical procedures were canceled because items could not be located in time for scheduled surgeries. It also impeded healthcare providers' ability to deliver quality care because of inaccurate inventory and difficulty locating supplies and equipment. Additionally, the audit team also found an increased risk of fraud, waste, and abuse due to ineffective controls over inventory systems, which resulted in mismanagement of over 500,000 items that were stored in an unsecured off-site location, and that nonexpendable items valued at over \$150 million were unaccounted for during the previous 12 months. The medical center implemented the Catamaran inventory

system in 2015; however, the facility migrated back to the Generic Inventory Package. The facility was not adequately supported in the transition back to the Generic Inventory Package and was not fully using the inventory system at the time of the OIG's review, even though migration had started four months earlier.

VA Information Technology Acquisition Challenges

- *Deficiencies in Infrastructure Readiness for Deploying VA's New Electronic Health Record System*, 19-08980-95 (April 27, 2020), found that critical physical and IT infrastructure upgrades had not been completed at the Mann–Grandstaff VA Medical Center two months before the scheduled go-live date of March 2020, and some of the required modifications would not be completed until four months after that date. The audit team found that the infrastructure upgrades had not been completed on time because VA lacked initial comprehensive site assessments to determine a realistic go-live date, appropriate monitoring mechanisms, and adequate staffing. After the audit team conducted its work, VA postponed the deployment for Mann–Grandstaff and the first three waves of subsequent site deployments until 2021.
- *VA's Implementation of the Veterans Information Systems and Technology Architecture Scheduling Enhancement Project Near Completion*, 16-03597-171 (August 20, 2019), found that the VistA Scheduling Enhancement project, which included Office of Information and Technology program and project managers and VHA project managers, did not effectively manage the project to ensure scheduling enhancements were adequately developed and met users' needs. Specifically, the audit team determined that VHA requirements for the scheduling enhancement project were inadequate and that the approved requirements specification documents were insufficient to help ensure the scheduling enhancements would meet VHA's needs. While the scheduling enhancement project was to serve as an interim solution, delays in deployment persisted until the final contract modification ended in September 2017.
- *Review of Alleged Mismanagement of the Real Time Location System Project*, 15-05447-383 (December 19, 2017), substantiated an allegation that VA managers failed to comply with VA policy and guidance when they deployed assets of the Real Time Location System without appropriate project oversight. Specifically, the project management office did not follow guidance from VA's Technology Acquisition Center to use an incremental project management approach to compensate for numerous known project management risks during the acquisition and deployment of system assets. In addition, the project management office did not comply with VA policy requiring the use of Project Management Accountability System incremental oversight processes for all acquisitions and delivery of the system's assets. Despite the guidance, management failed to provide effective oversight of the project from acquisition through development and implementation. Moreover, the program office did not ensure that the vendor could meet contracted functionality requirements on the initial task order before committing a total of \$431 million to the same vendor for further deployments. Specifically, VA's Office of

Planning and Policy Enterprise Program Management provided minimal oversight of the Real Time Location System's project management activities, including never successfully establishing an advisory council to provide overall governance for the project. Furthermore, the project management office lacked the oversight authority and training to ensure success of an IT-based VA-level deployment.

- *Review of Alleged Mismanagement of the Service-Oriented Architecture Research and Development (SOARD) Pilot Project*, 14-00545-343 (August 5, 2015), found that the Service-Oriented Architecture Research and Development pilot project was initiated as a result of the cancellation of the strategic asset management project. The OIG team substantiated an allegation that VHA misused Medical Support and Compliance appropriations to pay for this pilot project instead of congressionally mandated IT systems appropriations. The review found that there were insufficient controls to detect and prevent VHA's improper use of Medical Support and Compliance appropriations to fund the project. The pilot project was terminated in August 2013 due to lack of funding.
- *Audit of the FLITE Strategic Asset Management Pilot Project*, 09-03861-238 (September 14, 2010), found that Financial and Logistics Integrated Enterprise program managers did not effectively control project cost, schedule, and performance and ensure timely deliverables due to shortfalls in program management. As a result, VA considered extending the strategic asset management pilot project by 17 months, potentially more than doubling the original contract. Some of the cost, schedule, and performance issues could have been avoided if program managers had ensured adequate contractor involvement and effective processes to identify and manage risks associated with the pilot project. The project was ultimately canceled in October 2011 after missing three deliverables.
- *Review of Alleged Improper Management within the FLITE Strategic Asset Management Pilot Project*, 10-01374-237 (September 7, 2010), substantiated that Financial and Logistics Integrated Enterprise program managers needed to improve their overall management of the strategic asset management pilot project and that program managers did not adequately monitor the contractor's performance and ensure the Office of Information and Technology assigned legacy system programmers to the project in a timely manner. The review also noted that VA decided to terminate the Financial and Logistics Integrated Enterprise program except for the strategic asset management pilot and national deployment project.