Department of Veterans Affairs
Office of Inspector General

Audit of
VA Consolidated Mail Outpatient
Pharmacy Inventory Management

> *Pharmacies could reduce pharmaceutical VA Consolidated Mail Outpatient inventories by effectively using automated inventory management system controls and developing better management reports.*

Contents

Executive Summary

Introduction

The purpose of the audit was to evaluate the management of pharmaceutical supply inventories at VA Consolidated Mail Outpatient Pharmacies (CMOPs). This was the sixth in a series of audits that the Office of Inspector General (OIG) has performed to assess inventory management for various categories of supplies. The Veterans Health Administration (VHA) operates seven regional CMOPs, which are highly automated prescription processing centers. The CMOPs electronically receive prescription refill orders from VA medical centers (VAMCs) and clinics, fill the prescriptions using high speed automated dispensing systems, and mail the completed prescriptions to veteran-patients.

In Fiscal Year (FY) 2001, CMOPs filled 65.3 million prescriptions, which accounted for 66.6 percent of VHA's total prescription workload. FY 2001 CMOP program operating costs totaled $1.55 billion, which included $1.44 billion for pharmaceutical supplies used in the prescription filling operations. FY 2001 CMOP staffing was 1,037 full-time equivalent employees. At any given time in FY 2001 the combined CMOP inventories held an estimated 19,276 supply items with a total value of $63.5 million.

Audit Results

CMOPs needed to significantly reduce their inventories of pharmaceutical supplies. All seven CMOPs had inventories for supporting retail operations, which were the dispensing activities involved in the filling and mailing of individual prescriptions. Retail inventories included 2 categories of items used in the prescription dispensing operations—items purchased in ready-to-dispense package quantities (18,542 items valued at $37.3 million) and items repackaged from large bulk quantities into prescription sizes before being dispensed (641 items valued at $10.5 million). In addition to its retail inventory, CMOP Dallas, TX had an inventory to support a large-scale wholesale activity that repackaged bulk items into dispensing-sized containers and sold them to several CMOPs and VAMCs (93 bulk items valued at $15.8 million). Because the three types of items had different inventory replenishment cycle requirements, we applied three different benchmarks in evaluating CMOP inventory levels—a 10-day supply level for ready-to-dispense items, a 30-day level for repackaged items, and a 14-day level for wholesale bulk items. These benchmarks were based on inventory level goals individually established by the CMOPs.

We estimated that of the $63.5 million in total inventory at the seven CMOPs, $28.8 million (45.4 percent) exceeded current operating needs. The supply on hand exceeded the applicable benchmarks for 11,553 (59.9 percent) of the 19,276 items in the CMOP inventories. The 11,553 items included 11,229 (60.6 percent) of 18,542 ready-to-dispense items exceeding the 10-day benchmark, 235 (36.7 percent) of 641 repackaged items exceeding the 30-day benchmark, and 89 (95.7 percent) of 93 wholesale bulk items exceeding the 14-day benchmark.

The excess inventory occurred because CMOP staff did not closely monitor stock levels, made unnecessarily large purchases, and did not effectively manage item demand. Ineffective monitoring of stock levels included such practices as setting normal stock levels and reorder

points too high, not using available inventory and dispensing information when placing replenishment orders, making other ordering mistakes, and maintaining "cushions" of excess inventory. CMOPs sometimes made unnecessarily large quantity purchases that overrode established stock levels and increased the risk that some stock would never be used. In addition, CMOP inventories included items with little or no demand because minimum demand requirements for new items had not been developed and because reductions in demand had not been monitored.

These problems could have been avoided or minimized if CMOPs had more effectively used the features and data available in their automated systems to manage their inventories. In addition, the CMOPs needed to develop automated inventory management and control reports that would help CMOP staff to more effectively evaluate item supply levels and identify out-of-line situations such as excess inventory. In addition, one CMOP had not effectively implemented internal controls to ensure the security and accountability of its controlled substances inventory.

By achieving the reasonable inventory levels of 10 days for ready-to-dispense items, 30 days for repackaged items, and 14 days for wholesale bulk items, CMOP inventories could be reduced by $28.8 million ($14.8 million for ready-to-dispense items, $2.6 million for repackaged items, and $11.4 million for wholesale bulk items). The $28.8 million saved by eliminating excess inventory should result in corresponding reductions in CMOP supply expenditures, which could then be passed through to the VAMCs that reimburse the CMOPs for the costs of filling prescriptions and then used for other purposes.

Recommendation

To more effectively manage inventories, we recommended that VHA:

a. Require CMOPs to eliminate excess inventories and to effectively use automated information to manage inventories.

b. Improve CMOP automated inventory management and control reports.

c. Develop minimum demand requirements for adding new items to CMOP product lines.

d. Train CMOP staff on inventory management techniques and the use of automation.

e. Ensure that CMOPs establish and effectively implement internal controls and security requirements for controlled substances.

f. Monitor CMOP progress in reducing inventories and improving inventory controls.

Under Secretary for Health Comments

The Under Secretary agreed with the findings and recommendations and provided acceptable implementation plans. We will follow up on the planned actions until they are completed.

(Original signed by:)
MICHAEL SLACHTA, JR.
Assistant Inspector General for Auditing

Results and Recommendations

CMOPs Could Further Reduce Inventories

Introduction

VHA operates CMOPS in Dallas, TX; Charleston, SC; Bedford, MA; Hines, IL; Murfreesboro, TN; Leavenworth, KS; and Los Angeles, CA. To determine if CMOPs were maintaining pharmaceutical inventories in excess of current operating needs, we analyzed inventory, purchasing, and dispensing data for all seven CMOPs, performed in-depth onsite evaluations at CMOPs Dallas and Charleston and conducted a survey of inventory management controls at the other five CMOPs. This was the sixth in a series of audits that the OIG has performed to evaluate VHA medical facility inventory management for various categories of supplies. (See pages 15–16 for a summary of these audits.)

Generally accepted inventory management principles emphasize that inventory levels should be consistent with current operating needs, which means that inventories should be large enough to meet user needs and that unnecessary purchases should be avoided so that funds are not tied up in excess inventory. Inventory managers should determine normal stock levels for each item by analyzing demand, safety stock requirements, and replenishment cycles. The normal stock level represents the maximum quantity of an item that should be maintained to meet expected demand and to provide adequate safety stock for unanticipated demand or replenishment delays. VHA inventory management guidance states that VA medical facilities should establish supply item stock levels that are consistent with usage, with initial goals of 10 days for pharmaceuticals and 30 days for other supplies (VHA Handbook 1761.2, October 2000).

Based on the inventory data provided by each CMOP at various times during our review, we estimated that at any given time in FY 2001 CMOPs maintained inventories totaling 19,276 items with a combined value of $63.5 million. CMOPs had inventories for two types of operations—retail and wholesale. Retail inventories included two basic types of items used in the prescription dispensing operations—items that were purchased in ready-to-dispense package quantities and items that were repackaged from large bulk quantities into prescription sizes before being dispensed. CMOP Dallas also operated a large-scale wholesale activity that repackaged bulk items into dispensing-sized quantities for several CMOPs and VAMCs. Because ready-to-dispense, repackaged, and wholesale bulk items had different inventory replenishment cycle requirements, we applied three different benchmarks in evaluating CMOP inventory levels:

- **Ready-to-Dispense Items.** These items were purchased in quantity packages that could be dispensed as is without being repackaged. Ready-to-dispense items made up the largest part of CMOP inventories, accounting for 18,542 items (96.2 percent of CMOP inventory items) with a value of $37.3 million (58.7 percent of total CMOP inventory value). CMOPs purchased these items from the VA pharmaceutical prime vendor that provided next-day delivery or from other suppliers that provided 1–3 day delivery. We applied a 10-day stock

level goal to this category of CMOP inventory. Each CMOP set its own goal for normal stock levels. Six of the seven CMOPs used normal stock level goals of 10 days or less and the other CMOP used a 14-day goal for these items.

- **Repackaged Items.** CMOPs purchased these items in bulk quantities from the prime vendor and repackaged them into smaller, prescription quantity-sized containers before placing them into inventory for dispensing. (For example, a bulk item purchased in 3,000-tablet bottles might be repackaged into prescription-sized bottles of 120 tablets.) Five of the seven CMOPs utilized repackaged items. CMOPs typically used repackaging for high-volume items when a particular quantity size was not available from the vendor or when repackaging the item was considered to be less expensive than purchasing the prescription-sized item from the vendor. CMOP inventories included 641 repackaged items (3.3 percent of inventory items) with a value of $10.5 million (16.5 percent of total inventory value). To account for the longer replenishment cycle time required for the additional ordering, scheduling, processing, shipping, and distributing associated with repackaging, we used a 30-day stock level goal for these items. Individual CMOPs had established stock level goals ranging from 14 days to 30 days for repackaged items.

- **Wholesale Bulk Quantity Items.** The CMOP Dallas wholesale repackaging activity processed bulk quantity drugs into prescription-sized containers for several CMOPs and VAMCs. The wholesale inventory included 93 bulk items (0.5 percent of inventory items) with a value of $15.8 million (24.9 percent of total inventory value). The repackaging activity operated on a scheduled 2-week production cycle during which repackaging orders would be processed. This cycle included the time needed for receiving the bulk items from the prime vendor, completing the production runs to fill the orders, and shipping the repackaged items to the ordering CMOP or VAMC. VA's prime vendor provided next-day delivery for the bulk quantity items used in the repackaging operation. Based on the orders received from CMOP or VAMC customers, the wholesale activity ordered the bulk items in the quantities needed for the upcoming production cycle. The inventory needed to meet the 2-week production cycle has the equivalent of about a 14-day stock level.

CMOP Inventories Exceeded Current Needs

The $63.5 million in CMOP inventories included $47.7 million (75.1 percent) in retail inventories and $15.8 million (24.9 percent) in bulk inventory at the CMOP Dallas repackaging activity. We estimated that of the $63.5 million in inventory, $28.8 million (45.4 percent) exceeded current operating needs. For the 19,276 items in inventory at the 7 CMOPs, the stock on hand exceeded the applicable 10, 14, or 30-day benchmarks for 11,553 items (59.9 percent) and met the benchmarks for 7,723 items (40.1 percent).

Retail Inventories. For the $47.7 million in retail inventories, stock on hand exceeded current needs by $17.4 million (36.5 percent). The $47.7 million in retail inventories included 19,183 items. Stock on hand exceeded the applicable 10-day or 30-day benchmark for 11,464 (59.8 percent) of the 19,183 items. Figure 1 on the next page shows the number of retail inventory items at the seven CMOPs stratified by days of stock on hand.

Figure 1. CMOP Retail Inventories Stratified by Days of Stock
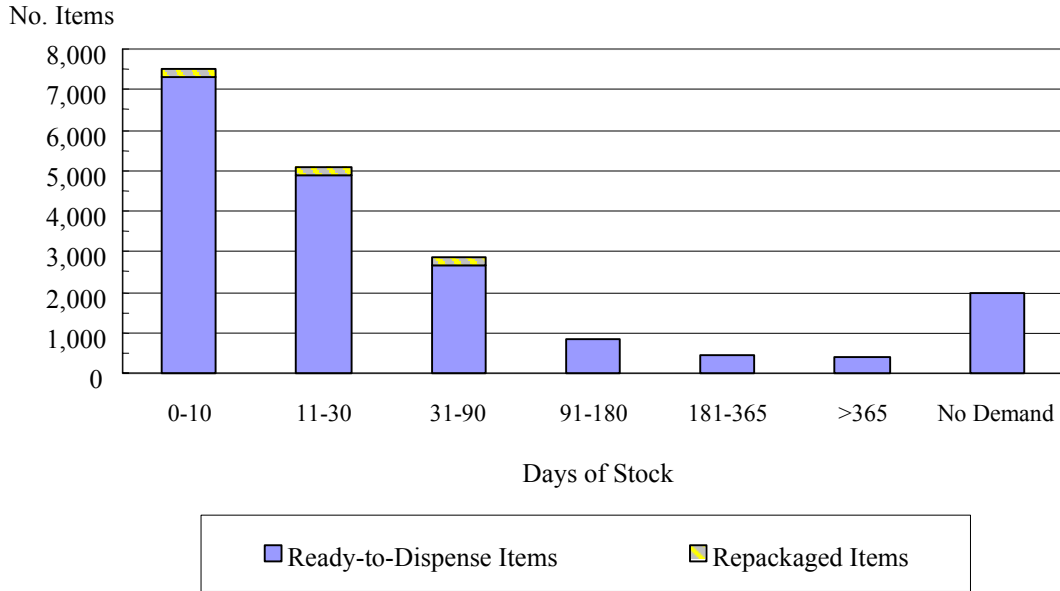
- The overall average (item dollar value-weighted mean) days of stock on hand, (excluding items with no demand) was 85 days. The average days of stock for individual CMOPs ranged from 32 days at CMOP Bedford to 161 days at CMOP Los Angeles.

- For ready-to-dispense items, stock on hand exceeded a 10-day supply for 11,229 of 18,542 items (60.6 percent). For repackaged items, stock on hand exceeded a 30-day supply level for 235 of 641 items (36.7 percent).

- For individual CMOPs, the proportion of retail items exceeding the applicable 10-day or 30-day supply level ranged from 12.0 percent at CMOP Bedford to 74.7 percent at CMOP Dallas.

- For a significant number of retail items, the days of supply were inordinately high. Of the 19,183 items, 3,687 (19.2 percent of total items; value = $4.7 million) had inventory exceeding a 90-day supply. Of those items, 2,365 (12.3 percent of total items; value = $1.5 million) exceeded a 1-year supply, and 1,964 of the 2,365 items (10.2 percent of total items; value = $724,014) had no demand, which meant that these items would probably never be used.

Wholesale Bulk Inventory. Of the $15.8 million in the CMOP Dallas wholesale activity's bulk stock inventory, $11.4 million (72.3 percent) exceeded the 14-day processing cycle benchmark. The supply on hand exceeded the benchmark for 89 (95.7 percent) of the 93 items in inventory. Figure 2 on the next page shows the wholesale items stratified by days of stock on hand.

Figure 2. Bulk Inventory Stratified by Days of Stock
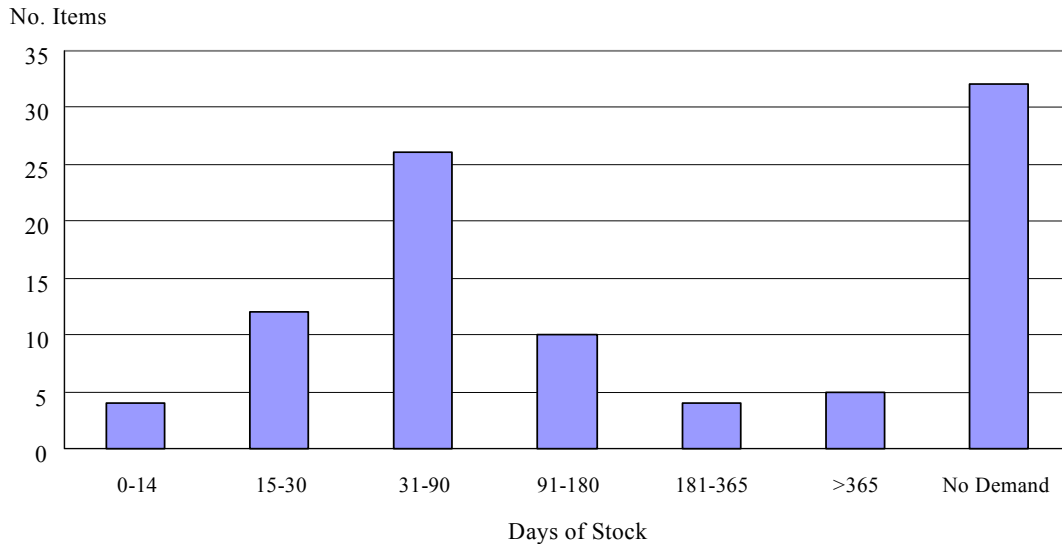
- For wholesale bulk items, the overall average (item dollar value-weighted mean) days of stock on hand was 60 days.

- For a significant percentage of the items, the inventory far exceeded the requirements for current repackaging cycles. Of the 93 items, 51 (54.8 percent of total items; value = $1.2 million) had inventory exceeding a 90-day supply, 41 (44.1 percent of total items; value = $745,852) exceeded a 180-day supply, and 32 of the 51 items (34.4 percent of total items; value = $357,919) had no demand and probably would never be used.

Causes of Excess Inventory

To identify the practices causing excess inventory we reviewed the inventory management and purchasing practices for a judgement sample of 200 inventory items with high stock levels (100 items each at CMOPs Charleston and Dallas). The sample included 104 ready-to-dispense items, 52 repackaged items, and 44 bulk items. The major causes of excess CMOP inventory were inadequate monitoring of stock levels, unnecessarily large purchases, and ineffective management of item demand. These causes were similar to those identified by previous OIG audits of VAMC pharmaceutical and supply inventory management. These problems occurred in both CMOP retail and wholesale inventories.

Inadequate Monitoring. Inadequate monitoring of stock levels was the cause of excess inventory for 158 (79.0 percent) of the 200 items. Inadequate monitoring included such practices as setting normal stock levels or reorder points too high, not using available inventory and dispensing information when placing orders, and maintaining large "cushions" of excess inventory.

For 79 retail ready-to-dispense items, excess inventory resulted from setting normal stock levels and reorder points too high, ordering larger replenishment quantities than needed to bring inventories up to established normal stock levels, or making other ordering mistakes that resulted in purchasing additional quantities when sufficient stock was already on hand. The following examples illustrate these problems:

Nelfinair Mesulfate 250 mg. In February 2001, CMOP Dallas had 117 300-tablet bottles of this item on hand, which equated to a 137-day supply (value = $47,957). The normal stock level was set at 72 bottles, an 85-day supply, and the reorder point was set at 45 bottles, a 53-day level. Both levels were well above the CMOP's 10-day supply goal. For the most recent replenishment order placed in January 2001, the inventory manager had ordered 72 bottles, which exceeded the quantity needed to bring inventory to the established stock level. The value of inventory exceeding a 10-day supply was $44,453.

Epoetin Alfa. In August 2000, CMOP Charleston had 84 vials of this item on hand, which equated to a 44-day supply (value = $11,442). For the most recent purchase, the inventory technician had ordered 72 vials, a 38-day supply, even though there were 66 vials on hand, a 35-day supply. The inventory technician had consistently ordered quantities that were larger than necessary to meet current needs because she did not refer to the automated data on recent dispensing history and current inventory balances. The value of inventory in excess of the 10-day requirement was $8,854.

For 52 repackaged items, CMOP staff often ordered "standard" quantities for scheduled repackaging processing cycles without adequately reviewing current usage and actual quantities on hand when determining their replenishment needs. As a result, some repackaging orders were placed unnecessarily or excess quantities were ordered, which over time built up repackaged item inventories to excessive levels. The following examples illustrate these problems:

Simvastatin 10 mg. In February 2001, CMOP Dallas had 2,965 repackaged 90-tablet bottles of this item on hand (value = $160,643), which equated to a 101-day supply. Over the previous 3 months, replenishment quantities exceeded dispensed quantities by 19 percent. Excess inventory had built up because inventory technicians had routinely placed standard repackaging orders for 500 bottles every 2 weeks without adequately considering current usage and on-hand inventory balances. The value of inventory in excess of a 30-day supply was $113,181.

Fluoxetine HCL Besulfate 20 mg. In August 2000, CMOP Charleston had 1,983 90-capsule bottles of this item on hand (value = $204,090), which equated to a 64-day supply. The CMOP obtained this item from the CMOP Dallas wholesale repackaging activity. For the most recent repackaging cycle, CMOP Charleston staff had ordered 700 bottles, about a 23-day supply when they had 1,400 bottles on hand, a 45-day supply. This meant that the CMOP did not need to order the item for that particular repackaging cycle or possibly for the following cycle. The value of inventory in excess of a 30-day supply was $108,374.

For 27 items, the CMOP Dallas wholesale activity apparently did not always check inventory balances and sometimes ordered bulk quantities substantially larger than were needed to fulfill upcoming repackaging orders. In addition, the wholesale activity had begun maintaining extra "cushions" of bulk stock inventory to accommodate unanticipated changes in customer CMOP order quantities. According to inventory managers, some customer CMOPs often underestimated the quantity needed for the scheduled repackaging run and requested that additional quantities be repackaged after the scheduled repackaging runs had begun. The inventory cushions were intended to minimize disruptions during the repackaging cycle and to avoid the additional work of ordering more supplies and setting up and processing additional production runs to accommodate unanticipated order changes. The following example illustrates the effect of building up cushions of excess inventory:

> Busporine HCL 10 mg. For the first December 2000 repackaging cycle, the wholesale activity ordered 1,056 500-tablet bottles of this item as part of its build-up of an inventory cushion when only 522 bottles were needed to fill actual repackaging orders. This practice of ordering extra quantities continued over the next four processing cycles. As of February 2001, the wholesale activity had 1,926 bottles on hand (value = $629,063), of which only 432 bottles were needed to fill customer orders for the current production cycle. The remaining 1,494 bottles would have met the requirements for 3 additional production cycles, or the equivalent of 42 excess days of supply. The value of this excess inventory was $487,965.

Large Quantities Purchased Unnecessarily. Unnecessarily large purchases contributed to excess inventory for 15 sample items (7.5 percent). Large quantity purchases are, in effect, irregular replenishments that override established stock levels and reorder points and increase inventory to excessive levels. Unnecessarily large purchases tie up funds in inventory that could be used to meet other, more urgent VHA needs. In addition, because pharmaceutical items have shelf-life expiration dates beyond which they should not be dispensed, large purchases increase the risk that excess inventory will never be used. The following examples illustrate the problem of unnecessarily large purchases:

> Ethambutol HCL 400 mg. During the period October 1999–February 2000, CMOP Dallas made an unusually large number of purchases that were about 5 to 6 times greater than the one or two 1,000-tablet bottles per month that were usually ordered. The item was not ordered again during the next 12 months. As of February 2001, the CMOP had nineteen 1,000-tablet bottles on hand (value = $14,894), which equated to a 458-day supply. In addition, we found that 9 (47.4 percent) of the 19 bottles in stock had reached their shelf-life expiration dates. The prime vendor generally will not accept for return credit items that have reached the end of their shelf life. The value of inventory in excess of a 10-day supply was $14,569, and the value of the expired stock that could no longer be used or returned for credit was $6,971.

> Nevirapine 200 mg. In February 2001, CMOP Dallas had 108 100-tablet bottles on hand (value = $25,672), which equated to a 261-day supply. The most recent purchase was made in December 2000 when an unusually large order was placed for a case of 144 bottles, a quantity that equated to 346 days of supply. Before the December order,

CMOP orders had averaged about 19 bottles per month. According to CMOP managers, the inventory manager had been instructed to round replenishment order quantities up to case lots when feasible, even if these quantities would somewhat exceed the amounts needed to bring the inventory up to normal stock levels. CMOP staff indicated that the receiving and restocking processes could be done more quickly and efficiently when items were shipped in case-lot packages. However, the inventory manager apparently misunderstood the instructions and for some time routinely ordered case-lot quantities even when these quantities were many times greater than actual needs. The value of the inventory in excess of a 10-day supply was $24,687.

Ineffective Management of Demand. Ineffective management of item demand was the cause of excess inventory for 27 (13.5 percent) of the 200 items with excess stock. Ineffective management of demand included inadequate determinations of initial inventory requirements for new items and inadequate monitoring of reductions in demand for established items.

Determining Initial Demand. Problems in determining initial demand requirements caused excess inventory for 15 sample items. As VAMCs have turned over more of their prescription workload to the CMOPs, they have requested that CMOPs add more items to their product lines, including some items that had very limited potential demand. The highly automated CMOPs are most efficient and cost-effective when processing high-volume prescriptions. When deciding whether to add a new item to their product lines, CMOPs should ensure that there is enough demand to justify the expense of carrying the item. Staff at CMOPs Charleston and Dallas said that they usually added any new item that a VAMC requested. Of the other CMOPs, only CMOP Bedford reported establishing minimum volume requirements as a condition of adding new items. The CMOP required that a new item have a dispensing volume of at least 10 prescriptions per day. The following example illustrates the problem of carrying new items with no demand:

> Interferon Beta-1A 30 mcg. In October 2000, CMOP Dallas added this item at the request of a VAMC and purchased an initial supply of 12 cartons (value = $6,189). However, as of March 2001, 6 months later, the requesting VAMC had not sent any prescriptions to the CMOP, and the CMOP had not dispensed any of the item. CMOP staff had not followed up with the VAMC to determine why the prescription workload had not materialized.

For nine bulk quantity items in the CMOP Dallas wholesale inventory, we also identified problems in determining customer demand for items proposed for repackaging, as illustrated by the following example:

> Zolpidem Tartrate 5 mg. In November–December 2000, the CMOP purchased 1,920 100-capsule bottles of this controlled substance (value = $158,208). As of March 2001, 4–5 months later, the CMOP had not repackaged or dispensed any of the item. According to CMOP managers, the initial purchases were made in anticipation of adding controlled substances to the repackaging activity's product line. However, the repackaging activity had not obtained any firm orders or commitments from other

CMOPs to carry repackaged quantities of this item that would have justified the large initial purchase.

<u>Monitoring Reductions in Demand</u>. Ineffective monitoring of reductions in demand was the cause for excessive inventory for 12 sample items. Reductions in demand can affect an item's inventory requirements. Demand may be reduced or eliminated for reasons such as changes in clinician preferences, reduction in prescription volumes, or introduction of new drug items. When this occurs, inventory managers should take steps to manage the change in inventory requirements caused by the change in demand. Such steps could include phasing out the old item and phasing in the new one, arranging returns for credits or exchanges with the vendor, or offering the inventory to other potential users, such as other CMOPs or VAMCs. The following examples illustrate how a change in demand can result in excess inventory:

> <u>Glucose Test Strips</u>. In August 2000, CMOP Charleston had 284 50-strip boxes of this item on hand (value = $6,095). In November 1999, 9 months earlier, this item had been replaced by a different product and had had only minimal demand since then. The item was still stocked in the CMOP's fastest automated dispensing system, which was normally used for items with the greatest dispensing demand. The inventory manager indicated that she was not aware that such a large quantity was still in inventory and agreed that the item should have been returned to the vendor for credit.

> <u>Lovastatin 40 mg</u>. In March 2001, CMOP Dallas had twenty-four 1,000-tablet bottles on hand (value = $6,991). This stock was part of residual inventory for 22 items that the CMOP had occasionally repackaged for 1 VAMC. The item had not been repackaged for at least 5 months. CMOP staff had not contacted the VAMC to determine if there would be any future demand for this item.

CMOPs Should Better Utilize Automated Inventory Information

Some of the problems discussed above could have been avoided or minimized if CMOPs had more effectively used the inventory management features and data available in their automated systems. For CMOPs, which carry thousands of different items and fill thousands of prescriptions each day, automation is essential for effectively managing large inventories. CMOPs maintained more comprehensive automated inventory data than we had observed in our five previous audits of supply inventory management practices at VAMCs. For example, CMOP automated systems recorded and tracked quantities received and dispensed and maintained perpetual inventory balances for almost all of the items carried in their inventories. However, a significant limitation of the CMOP automated systems was the absence of standard control and summary reports that would provide the type of information needed to effectively manage inventory levels.

Although the CMOPs typically had reporting mechanisms to identify out of stock conditions, their systems did not provide standardized management inventory reports that would easily identify excess inventory situations. For example, none of the CMOP systems had standard reports showing the days of stock equivalents for each item's quantity on hand. The days of stock measure shows how long the supply on hand for each item will last based on its average

usage. Although the CMOPs defined their inventory goals in terms of a desired number of days of stock on hand, inventory managers and technicians could not compare the days of stock equivalent for the quantities on hand for individual items without performing manual calculations for each item, which would be a cumbersome and time-consuming process for inventories with thousands of items.

The CMOP automated systems have the capability to produce days of stock reports and other useful reports that could be used to better manage individual items, classes of items, inventory zones, and overall inventories. Days of stock can be calculated from CMOP automated system inventory balance information and dispensing histories. For example, we calculated the days of stock statistics used in our audit analyses of CMOP inventory levels from inventory and dispensing data that was extracted from each CMOP's automated system. Automated days of stock reports could be used to evaluate and adjust normal stock levels and reorder points up or down as needed and to identify potentially serious out of line stock levels, such as those caused by ordering errors or unnecessarily large purchases. These reports could also be used to identify items with low or no demand. Similarly, other management reports could be developed to identify seasonal variations or other peaks and valleys in demand or to identify items that had not been dispensed in a given period of time.

CMOP Security and Accountability for Controlled Substances Needed Improvement

During FY 2001, all CMOPs began dispensing controlled substances. At the time of our March 2001 onsite review, CMOP Dallas had been dispensing and repackaging controlled substances since November 2000. The CMOP controlled substances inventory included 24 items with a total value of $566,262 ($564,471 in bulk quantity stock and $1,791 in retail stock). Most of this inventory was intended for repackaging and shipping to other CMOPs.

Because of the high value of the controlled substances inventory and our initial observations of several potential control weaknesses, we conducted a limited review of CMOP Dallas controls for controlled substances. We concluded that significant improvement was needed to ensure that effective accountability and security were maintained for controlled substances. Although CMOP Dallas had developed a local policy that outlined responsibilities, handling and storage procedures, and record keeping requirements, the policy had not been effectively implemented. We identified the following control weaknesses:

- Bulk quantity controlled substances were not secured in locked, limited access areas. Instead, these items were stored in the general storage and loading dock areas that could be accessed by all CMOP employees.

- The storage cabinet for the controlled substances retail stock was located in an open-access dispensing area. Our inspection found that the cabinet was unattended and not properly locked. In addition, the controlled substances dispensing station and cabinet were located in an area that was not covered by CMOP security cameras.

- For nine bulk quantity items, inventory records did not accurately reflect the actual quantities on hand. The inaccurate record balances resulted from cycle count errors that staff made when they were trying to reconcile inventory records with actual quantities on hand. After we brought this issue to their attention, CMOP staff were able to reconcile the differences.

- CMOP staff were not performing 72-hour inventory verifications and had not established a process for conducting monthly unannounced controlled substances inspections as required by VHA controlled substances security guidelines.

We brought these problems to the attention of CMOP management, who immediately began corrective actions. CMOP management subsequently reported that they temporarily suspended the repackaging of controlled substances, returned controlled substances stock valued at $164,167 (29.0 percent of the controlled substances inventory on hand at the time of our review) to manufacturers for full or partial credit, and implemented security and accountability controls.

Conclusion – Better Management Could Further Reduce Inventories

Overall, the CMOPs had established reasonable stock level goals for their inventories. However, inventory levels exceeded current needs for many items because CMOP inventory staff did not always use the features of their automated systems to effectively control inventory levels. As discussed in the previous sections, inventory staff did not always refer to their available inventory or dispensing data and set normal stock levels and reorder points too high, ordered replenishment stock that was not needed, and did not identify out-of-line situations. In addition, CMOP automated system-generated management reports were of only limited usefulness in identifying excess inventory and other out-of line situations.

Our prior five audits of VAMC supply categories found similar conditions and recommended that VHA issue guidance aimed at helping VAMCs reduce excess inventories and increase the use of modern methods and automated controls. A similar approach could be used to address the CMOP inventory management issues discussed in this report. VHA should issue guidance requiring that CMOPs set goals for reducing CMOP inventories. In our opinion, the goals could be based on the benchmark inventory levels used in this report–10 days for ready-to-dispense items, 30 days for repackaged items, and 14 days for bulk items. These achievable goals are generally consistent with the existing inventory goals of the individual CMOPs.

VHA should also require that CMOPs develop more extensive days of stock and other automated management reports. These reports should be regularly used by inventory managers to evaluate safety stock requirements, reorder points, and normal stock levels. These reports would allow CMOP staff to compare actual stock levels with inventory level goals and to identify potentially out-of-line situations, such as unnecessarily large purchases or significant reductions in demand. The reports would also provide greater visibility to inventory management operations and facilitate closer oversight by CMOP management.

VHA should also require CMOPs to develop minimum demand requirements for adding items to their product lines. Before agreeing to add a new product, CMOPs should require customer VAMCs to provide reasonable estimates of item quantities that the CMOPs could expect to

dispense. If the expected demand does not materialize within a reasonable time, then the CMOP should determine the reasons why and, as appropriate, reduce the stock level or eliminate the item from inventory. Because of the sizable investment required, special emphasis should be placed on determining that reasonable demand exists for repackaged items before purchasing large quantities of bulk stock.

In addition, VHA guidance should reinforce that all CMOPs stocking and dispensing controlled substances should develop and effectively implement internal control policies and security measures.

VHA should ensure that CMOP inventory management staff have received training in the principles and techniques of modern inventory management and in the effective use of automated tools. The audit results and our discussions with CMOP staff indicate that additional training is needed to better orient inventory staff in the use of the automated system features and data in controlling their inventories.

By achieving inventory reductions to the reasonable levels of 10 days for ready-to-dispense items, 30 days for repackaged items, and 14 days for wholesale bulk items, CMOP inventories could be reduced by $28.8 million ($14.8 million for ready-to-dispense items, $2.6 million for repackaged items, and $11.4 million for bulk items). The $28.8 million saved by eliminating excess inventory should result in corresponding reductions in CMOP supply expenditures, which could then be passed through to the VAMCs that reimburse the CMOPs for the costs of their prescription filling operations and then used for other purposes.

For More Information

A description of the CMOP program, workload trends, and other background information are provided in Appendix A, pages 14–16.

Audit objectives, methodology, and scope are discussed in Appendix B, pages 17–18.

Recommendation 1

We recommended that the Under Secretary for Health:

a. Issue guidance requiring CMOPs to eliminate excess inventories and bring inventory levels into line with established goals and to more effectively use automated information to manage inventories.

b. Modify CMOP automated systems to provide the management and control reports needed to effectively manage inventories.

c. Develop guidelines specifying minimum demand requirements or other reasonable criteria for adding new items to CMOP product lines, including requirements for repackaging operations.

d. Provide CMOP inventory staff training on inventory management techniques and on the use of automation for inventory management.

e. Ensure that CMOPs have established and are complying with internal controls and security requirements for controlled substances.

f. Monitor CMOP progress in reducing inventories and improving inventory management controls.

The associated monetary benefits for the recommendation are shown in Appendix C, page 19.

Under Secretary for Health Comments

The Under Secretary agreed with the findings and recommendations. He noted that the CMOP program is a dynamic and growing program and that the increases in prescription workloads have challenged the CMOPs, the prime vendor, and manufacturers in assuring a continuous product supply. CMOPs and the prime vendor are developing new automated procurement and inventory management tools that will take into account usage history and future demand. Inventory levels will be closely monitored, cost-effective inventory management techniques and enhancements will be implemented, and projected program growth will be taken into account when target inventory levels are set. (See Appendix D, pages 20–25 for the complete text of the Under Secretary's comments and implementation plans.)

Implementation Plan

Recommendation 1a. Since the audit, CMOPs have reduced inventories and implemented more effective inventory management tools in conjunction with the prime vendor to better manage inventories. Higher than normal CMOP inventories associated with repackaging initiatives have been reduced or eliminated.

Recommendation 1b. CMOPs, in conjunction with the prime vendor, will continue to develop inventory management and procurement tools or methodologies that maximize cost-effective inventory management, improve accountability, validate accuracy, reduce out-of-stock situations, and reduce waste. An inventory management report indicating the estimated days of stock on hand based on product usage will be implemented as soon as such a software upgrade can be developed for use at all CMOPs. An electronic receiving package has been developed with the prime vendor and implemented at CMOPs Charleston and Leavenworth. This package improves the methods used to receive products and accurately accounts for items received. The package should be implemented at all seven CMOPs by January 2003.

Recommendation 1c. CMOP Directors, in conjunction with Veterans Integrated Service Network (VISN) Formulary Leaders, will reevaluate current practices and establish appropriate minimum demand criteria that must be met before a product will be included as a CMOP inventory item. The recommendations of the CMOP Directors will be forwarded to the National CMOP Director and the National CMOP Board of Directors for concurrence. Further, the CMOP program plans to establish a consolidated mail prescription database within 2 years,

which will allow for specialization of CMOPs and possible consolidation of lesser used items into a single CMOP operation to maximize the efficiency of processing such orders.

Recommendation 1d. As needs are identified, training will be provided in cooperation with the prime vendor. As inventory management computer software enhancements are developed and implemented, training is being provided as appropriate. The virtual Defense Acquisition University, which has been identified as a cost-effective provider of computer-based acquisition training, will be used to provide ongoing staff training. Inventory staff competency checklists have been designed and will be refined as part of the employee appraisal process to assist with identifying training needs.

Recommendation 1e. The identified security weaknesses for controlled substances at CMOP Dallas have been addressed. All CMOPs filling controlled substances prescriptions are in compliance with VA security criteria. Controlled substance prescriptions are being forwarded electronically from CMOPs Dallas and Los Angeles for dispensing by CMOP Murfreesboro.

Recommendation 1f. VHA will monitor inventory management activity. Ongoing software enhancements outlined above for Recommendation 1b will be developed, implemented, and monitored to support improved inventory management controls.

Office of Inspector General Comments

The Under Secretary provided acceptable implementation plans. We will follow up on the planned actions until they are completed.

Our audit estimated values of $63.5 million for total CMOP inventories and $28.8 million for excess inventories. The VHA comments provided lower estimates of $47.3 million and $12.6 million respectively. The reason for these differences is that the VHA estimates are based on inventory data developed in August 2001, after we had completed our onsite audit at CMOP Dallas. Most of the difference between our estimates and VHA's can be attributed to the reduction of CMOP Dallas inventory that was accomplished as a result of our onsite audit. As stated in VHA's response, their inventory estimates reflected this significant reduction of the CMOP Dallas bulk inventory and the efforts to more effectively manage inventory levels at all CMOPs. VHA further indicated that the remaining $12.6 million in estimated savings would be incrementally realized as the total CMOP inventory is more effectively managed.

Background

VA CMOP Program Description

Program History. CMOPs are highly automated regional prescription processing centers that process most drug prescription refills for veteran patients. Following World War II, VA hospitals began distributing prescription medications to patients by mail. In the 1970s and 1980s, VA began consolidations of mail prescription workloads from multiple VAMCs into centralized operations at two locations, Los Angeles and Leavenworth. Because these operations still relied heavily on manual methods of filling prescriptions, the economic benefits of the first CMOPs were limited.

In 1994, CMOP Leavenworth began processing high volume mail prescriptions using a new integrated, automated dispensing system. Since then, the CMOP program has expanded to a total of seven locations. The prescription-filling capacities at individual CMOPs range from about 4 million to 12 million prescriptions a year. In FY 2000, all seven CMOPs were accredited by the Joint Commission on Accreditation of Healthcare Organizations.

CMOP Workload and Supply Costs. In FY 2001, CMOPs filled 65.3 million prescriptions, which accounted for about 66.6 percent of VHA's total prescription workload. This CMOP workload represents an increase of 398.5 percent from the 13.1 million prescriptions processed in FY 1996. This increase in CMOP production was substantially greater than the overall increase in VA prescription workload of 50 percent for the same period because more VAMCs began utilizing CMOP services and transferred more and more of their refill prescription workload to the CMOPs.

CMOP pharmaceutical supply expenditures grew from $161 million in FY 1996 (13.9 percent of VA's pharmaceutical supply cost) to $1.44 billion in FY 2001 (56.9 percent of the VA's pharmaceutical supply cost). In FY 2001, CMOPs purchased pharmaceuticals totaling $1.34 billion from VA's pharmaceutical prime vendor. These prime vendor purchases represented about 93.1 percent of the $1.44 billion in total CMOP pharmaceutical expenditures. VA's pharmaceutical prime vendor provides reliable next-day delivery for most items carried in CMOP product lines and inventories, which gives CMOPs the capability of maintaining inventories at reasonably low levels.

CMOP Program Initiatives. To accommodate predicted continuing increases in prescription workloads, VHA is considering various options to expand and modernize the CMOP program, including the establishment of one or more new CMOPs, the replacement or expansion of several existing CMOP facilities, and other upgrades to equipment and automated systems. In addition, VHA and the Department of Defense (DoD) are developing a pilot program to determine the feasibility of using CMOPs to process DoD refill prescriptions.

Organization and Responsibilities. Each CMOP is managed by a Director, who is responsible for all aspects of local operations, including inventory management. The CMOP Directors report

to the National CMOP Director. In addition, each CMOP has a Regional CMOP Board, which is made up of representatives of the VAMCs served by the CMOP. The National CMOP Director is responsible for the overall operation of the seven CMOPs and reports to the National Board of Directors. The National Board is made up of VISN Directors, VAMC Directors, a representative of VHA's Pharmacy Benefits Management Group, and a VAMC pharmacy service chief.

VHA's Logistics Office is responsible for developing guidance and for providing oversight on logistics issues, including inventory management. VA's Office of Acquisition and Materiel Management's National Acquisition Center awards and administers the pharmaceutical prime vendor distributor contract and other national contracts with pharmaceutical manufacturers.

Previous OIG Audits of VA Inventory Management Practices

In 1998, the OIG began a series of six audits to review VAMC management of different categories of supplies. As of March 2002, five reports have been issued:

- Audit of VA Medical Center Management of Medical Supply Inventories. This audit found that VAMCs maintained large medical supply inventories that far exceeded requirements for current operating needs. For five VAMCs with combined medical supply inventories of $7.0 million, $4.3 million (61.8 percent) exceeded their current needs. We estimated that stronger inventory management could reduce VAMC medical supply inventories by $75.6 million. (Report No. 9R8-E04-052, March 1999)

- Audit of Management of Prosthetic Supply Inventories at VA Medical Centers and the Denver Distribution Center. VAMC prosthetic supply inventories substantially exceeded current needs. At five VAMCs with combined prosthetics inventories valued at $2.7 million, $1.3 million (48.2 percent) was excess. At the Denver Distribution Center (DDC), $528,000 (48.0 percent) of inventory valued at $1.1 million was excess. We estimated that better management could reduce VAMC and DDC prosthetic inventories by $31.4 million. (Report No. 99-00188-13, November 1999)

- Audit of VA Medical Center Management of Pharmaceutical Inventories. VAMC pharmaceutical inventories exceeded current needs. At four VAMCs with combined pharmaceutical inventories of $1.7 million, about $820,000 (48.2 percent) was excess. We estimated that stronger management controls could reduce pharmaceutical inventories by $24.5 million. (Report No. 99-00186-86, June 2000)

- Audit of VA Medical Center Management of Engineering Supply Inventories. VAMC engineering supply inventories substantially exceeded current operation needs. At five VAMCs with combined inventories valued at $5.4 million, about $3.6 million (66.7 percent) was excess. We estimated that stronger management controls could reduce engineering supply inventories by $168.4 million. (Report No. 99-00192-65, April 2001)

- Audit of VA Medical Center Management of Miscellaneous Supply Inventories. VAMC miscellaneous supply inventories (linens, operating supplies, office supplies, and employee

uniforms) substantially exceeded current operating needs. At four VAMCs with combined inventories valued at $3.5 million, about $2.7 million (77.1 percent) was excess. We estimated that stronger management controls could reduce miscellaneous supply inventories by $53.7 million. (Report No. 00–01089–91, May 2002)

These audits recommended that VHA issue policy guidance requiring VAMCs to reduce inventories of the categories of supplies covered by the audits, use automation to manage these inventories, and train staff on the use of automated controls. VHA management concurred with the findings, recommendations, and estimated monetary benefits. To implement the recommendations of the first four audits, VHA issued an inventory management handbook in October 2000 that established the following requirements for all VAMCs:

- Excess supply inventories must be eliminated. VAMCs should establish procedures for monitoring their progress in meeting the applicable initial inventory level goals of 10- or 30-day supplies.

- VAMCs should use the available VA automated systems to manage inventories of all categories of supplies.

- Inventory managers and other users should receive training that includes instruction on inventory management principles and techniques and on the effective use of automated inventory controls.

Objectives, Methodology, and Scope

Objectives

The purpose of the audit was to evaluate CMOP management of pharmaceutical inventories. The audit objectives were to determine if (a) inventories exceeded current operating needs and (b) CMOPs were effectively using automated controls to manage these inventories.

Methodology

To accomplish these objectives, we reviewed VHA and CMOP inventory management policies and previous OIG and General Accounting Office audit reports pertaining to inventory control and CMOP issues. We reviewed technical information for the CMOP automated inventory management and dispensing systems, and we discussed inventory management practices and recent and planned initiatives with VA Central Office and CMOP program officials. We extracted and analyzed automated CMOP inventory, dispensing, and cost data for all seven CMOPs.

To obtain an overview of CMOP operations we made preliminary visits to three CMOPs and conducted a survey of inventory management practices, systems, and controls for all seven CMOPs. Based on our survey work and discussions with CMOP officials, we performed detailed onsite audits at two CMOPs, Dallas and Charleston. Auditing these two CMOPs allowed us to evaluate inventory practices and controls in the context of a varied range of operational characteristics. These CMOPs had different dispensing workloads, physical plant sizes, layouts, and automated inventory management systems. CMOP Dallas had the largest of the CMOP repackaging operations.

During our two in-depth CMOP site reviews we held discussions with inventory management officials and staff, inspected supply storage and dispensing areas, observed inventory practices, and reviewed a sample of items to verify stock levels, demand, and costs, and to determine the causes of excess inventory. At CMOP Charleston we observed the annual wall-to-wall physical inventory. In our opinion, the work performed at these two CMOPs, our analysis of automated inventory data, and the survey information obtained from the other five CMOPs provided a reasonable basis for assessing inventory management for the entire CMOP program.

To determine the value of the inventories at the seven CMOPs, we obtained extracts of automated on-hand inventory data, dispensing histories, and cost information from each CMOP. The data was provided by the individual CMOPs at different times between August 2000 and June 2001. We reviewed the data for consistency and completeness and verified questionable data with CMOP staff. In our opinion, the compilation of this information provided reasonable estimates of CMOP inventories at any given time in FY 2001. We calculated the average unit cost for each item in the inventories by dividing the reported inventory value by the number of units on hand for each item. CMOP systems did not quantify the days of stock on hand values for inventory items. Because of this, we calculated the days of stock values as part of our

analyses. To determine the days of stock equivalent value for each item, we calculated the average daily usage rate based on the dispensing history and then divided the quantity on hand by the average daily usage. To determine the inventory quantities in excess of current needs requirements, for each item we subtracted the quantity value for the applicable 10, 14, or 30-day benchmark levels from the total quantity on hand for each item. To determine the value of the excess inventory, we multiplied the excess quantity on hand for each item by the unit cost for each item.

Scope

The audit covered CMOP inventory management operations for FYs 2000–2001 through August 2001. To meet the audit objectives, we used inventory, dispensing, and purchasing data extracted from the CMOP automated systems. We conducted tests to assess the reliability of this data and concluded that the data was sufficient to meet the audit objectives. We performed the audit work during the period May 2000–August 2001 in accordance with generally accepted government auditing standards.

Monetary Benefits in Accordance with IG Act Amendments

Report Title: Audit of VA Consolidated Mail Outpatient Pharmacy Inventory Management

Report Number: 00–01088–97

Recommendation	Explanation of Benefits	Better Use of Funds
1a–d, f	Better use of funds by reducing excess inventories, effectively using automated systems, developing more useful management and control reports, specifying minimum demand requirements for new items, providing training on inventory management and automation, and monitoring progress in reducing inventories.	$28.8 million

Under Secretary for Health Comments

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**Department of
Veterans Affairs**

Memorandum

Date: May 1, 2002

From: Under Secretary for Health (10/105E)

Subj: OIG Draft Summary Report, *Audit of VA Consolidated Mail Outpatient Pharmacy
Inventory Management,* Project No. 2000-01088-R8-0214 (EDMS# 175639)

To: Assistant Inspector General for Auditing (52)

1. We have reviewed the draft report and concur with the report findings
and recommendations except for the estimate of monetary benefit. The VA
Consolidated Mail Outpatient Pharmacy (CMOP) is a very dynamic and rapidly
growing program with annual prescription workloads increasing from 30 million
prescriptions in fiscal year 1998 to a projected workload for the current fiscal year of
83 million prescriptions. Experiencing such growth challenges both the CMOP
facilities and the supporting prime vendor, as well as manufacturers in assuring a
continuous product supply. As a result, traditional inventory techniques, which are
retrospective and base future demand on the history of use, are simply insufficient to
meet the demands of this fast growing program. On a continuous basis, CMOPs in
conjunction with the professional inventory managers at the prime vendor
(AmerisourceBergen), are in the process of developing new automated procurement
and inventory management tools which take into account both usage history and
future demand.

2.   The most recent inventory conducted by separate vendors in August, 2001,
validated a total inventory of $47.3 million compared to an inventory value of $63.5
million developed by the OIG during the period of their review. This reduction of the
inventory value is due to a significant reduction of the bulk inventory at CMOP Dallas
as well as ongoing efforts to more effectively manage inventory levels at all CMOP
facilities. Based on the benchmark inventory levels and assigned pharmaceutical
values used by the OIG, the potential operating savings would be $12.6 million as
opposed to the $28.8 million identified by the OIG. Admittedly, inventory levels do
fluctuate substantially with changes in demand and any potential operating savings is
more an indicator of the level of potential working capital, not real monetary savings.
The $12.6 million savings will be incrementally reduced over time as the total CMOP
inventory is more effectively managed. Inventory levels will be closely monitored, cost
effective inventory management techniques and enhancements will be implemented,
and projected program growth will be taken into account when target inventory levels
are set.

3.   Attached is a detailed action plan addressing each of the recommendations.
Thank you for the opportunity to review the draft summary report. If you have any

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OIG Draft Report: *Audit of VA Consolidated Mail Outpatient Pharmacy Inventory Management*

questions, please contact Margaret M. Seleski, Director, Management Review and Administration Service (105E), Office of Policy and Planning, at (202) 273-8360.

(Original signed by:)
Robert H. Roswell, M.D.

Attachment

Action Plan in Response to OIG/GAO/MI Audits/Program Evaluations/Reviews

Name of Report: *Audit of VA Consolidated Mail Outpatient Pharmacy Inventory Management*
Project No. 2000-01088-R8-0214 (EDMS# 175639)
Date of Report: Draft report undated

Recommendations/ Actions	Status	Completion Date

a. Issue guidance requiring CMOPs to eliminate excess inventories and bring inventory levels into line with established goals and to more effectively use automated information to manage inventories.

Concur with comment

Since the time of this audit, CMOPs have reduced inventories and implemented more effective inventory management tools in conjunction with the prime vendor to better manage inventories. At the time of the audit, some CMOPS did have higher than normal inventories, but not to the point of being excessive, primarily due to a unit-of-use repackaging pilot at the Dallas CMOP along with other repackaging initiatives which have since been either reduced or eliminated.

	In process	On-going

b. Modify CMOP automated systems to provide the management and control reports needed to effectively manage inventories.

Concur

CMOPs, in conjunction with the prime vendor (AmerisourceBergen), will continue to develop inventory management and procurement tools or methodologies which maximize cost effective inventory management, improve accountability, validate accuracy, reduce out-of-stock situations, and reduce waste. A prospective usage tool is under development that will use future use data with a 7-day, 14-day and 21-day window of review in a cooperative effort between VISN 15, CMOP Leavenworth and AmerisourceBergen to project product demand.

	In process	4/30/03

Action Plan in Response to OIG/GAO/MI Audits/Program Evaluations/Reviews

Name of Report: *Audit of VA Consolidated Mail Outpatient Pharmacy Inventory Management*
Project No. 2000-01088-R8-0214 (EDMS# 175639)
Date of Report: Draft Report undated

Recommendations/ Actions	Status	Completion Date
	In process	1/31/03

An inventory management report indicating the estimated days of stock on-hand, based on product dispensing usage levels will be developed and implemented as soon as such a software upgrade can be designed and appropriately developed for use at all CMOPs. An electronic receiving package has been developed in conjunction with the prime vendor and implemented at CMOP Charleston and CMOP Leavenworth which provides vastly improved methodologies of receiving products and accurately accounting for products received. Action is underway to fully implement this receiving package at all seven CMOPs.

	In process	1/31/03

c.   Develop guidelines specifying minimum demand requirements or other reasonable criteria for adding new items to CMOP product lines, including requirements for repackaging operations.

Concur with comment

CMOP Directors, in conjunction with the VISN Formulary Leaders, will reevaluate current practices and establish appropriate minimum demand criteria that must be met before a product will be included as a CMOP inventory item. Only then will the recommendations from the CMOP Directors be forwarded through the National CMOP Director to the National CMOP Board of Directors for concurrence prior to implementation.

	In process	1/31/03

While the emphasis of the OIG report is to improve CMOP operations, it must be placed in the context of the service that the CMOP program provides to the VA medical centers and Community Outpatient Clinics. Limiting the products carried by the CMOP solely for the sake of improving CMOP operations can be a disservice to veterans and the medical treatment facilities. The CMOP was established to be a full service operation and will continue to provide that essential support and service. The operational efficiency of the CMOPs is always an important

Action Plan in Response to OIG/GAO/MI Audits/Program Evaluations/Reviews

Name of Report: *Audit of VA Consolidated Mail Outpatient Pharmacy Inventory Management*
Control No. 2000-01088-R8-0214 (EDMS# 175639)
Date of Report: Draft Report undated

Recommendations/ Actions	Status	Completion Date

consideration, but the centralization of seldom used items at the CMOP has the potential of reducing overall VHA inventories and waste associated with products. Furthermore, it should be noted that the CMOP program has plans for the establishment of a consolidated mail prescription database within 2 years, which will allow for specialization of CMOPs and possible consolidation of lesser used items into a single CMOP operation to maximize the efficiency of processing such orders.

| | In process | 4/30/04 |

d.   Provide CMOP inventory staff training on inventory management techniques and on the use of automation for inventory management.

Concur

As needs are identified, training will continue to be provided in cooperation with the AmerisourceBergen Pharmaceutical prime vendor. On an ongoing basis, inventory management computer software enhancements have been introduced, as they are developed, and training is provided as appropriate. The virtual Defense Acquisition University Campus for federal acquisition training via computer (http://dau.fedworld.gov) has been identified as a cost effective acquisition training provider, which will be used to provide on-going staff training. Inventory management staff competency checklists have been designed and will be refined as part of the employee appraisal process to assist with identifying training/retraining needs.

| | In process | On-going |

Action Plan in Response to OIG/GAO/MI Audits/Program Evaluations/Reviews

Name of Report: *Audit of VA Consolidated Mail Outpatient Pharmacy Inventory Management*
Control No. 2000-01088-R8-0214 (EDMS# 175639)
Date of Report: Draft Report undated

Recommendations/ Actions	Status	Completion Date

e. Ensure that CMOPs have established and are complying with internal controls and security requirements for controlled substances.

Concur

The identified weaknesses in the security measures for controlled substance dispensing at the CMOP Dallas have been addressed. Electronic pathways have been constructed to support the controlled substance workloads from CMOP Dallas and CMOP Los Angeles facilities being completed at CMOP Murfreesboro. The CMOPs currently providing CIII-CV controlled substance prescriptions via the mail are now in compliance with accepted VA security criteria. In addition to resolving the identified security issues, this action also supports the ability to electronically forward select workload used for direct to patient delivery contracts both for dietary supplements and for medical/surgical items.

| | Completed | 1/31/02 |

f. Monitor CMOP progress in reducing inventories and improving inventory management controls.

Concur

VHA will continue to monitor inventory management activity. Ongoing computer software enhancements, such as those outlined in response to Recommendation b., will continue to be monitored, developed, and implemented to support improved inventory management controls.

| | In process | On-going |

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This report will be available in the near future on the VA Office of Audit Web site at http://www.va.gov/oig/52/reports/mainlist.htm, *List of Available Reports*. This report will remain on the OIG Web site for 2 fiscal years after it is issued.