May 23, 2002

Acquisition

Pricing of Pharmaceutical Items in the Medical Prime Vendor Program
(D-2002-094)

Department of Defense
Office of the Inspector General

Quality *Integrity* *Accountability*

Report Documentation Page

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Acronyms

CDMIA	Customer Demand Management Information Application
DAPA	Distribution and Pricing Agreement
DCIS	Defense Criminal Investigative Service
DSCP	Defense Supply Center Philadelphia
FSS	Federal Supply Schedule
PV	Prime Vendor

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202–4704

May 23, 2002

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Audit Report on the Pricing of Pharmaceutical Items in the Medical Prime Vendor Program (Report No. D-2002-094)

We are providing this report for your information and use. We conducted the audit in response to a Defense Criminal Investigative Service request. We considered management comments on a draft of this report when preparing the final report.

The Defense Logistics Agency comments conformed to the requirements of DoD Directive 7650.3; therefore, additional comments are not required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Tilghman A. Schraden at (703) 604-9186 (DSN 664-9186) (tschraden@dodig.osd.mil) or Mr. Terrance P. Wing at (215) 737-3883 (DSN 444-3883) (twing@dodig.osd.mil). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Acting Assistant Inspector General
for Auditing

Office of the Inspector General of the Department of Defense

Report No. D-2002-094 **May 23, 2002**
(Project No. D2001LD-0092)

Pricing of Pharmaceutical Items in the Medical Prime Vendor Program

Executive Summary

Who Should Read This Report and Why? DoD personnel who are involved in purchases of medical items should read this report. The report discusses how to better establish management controls to electronically validate prices charged the DoD for pharmaceutical items.

Background. The Defense Criminal Investigative Service requested that we evaluate management controls over the pricing of pharmaceutical items sold through the Defense Supply Center Philadelphia (DSCP) medical prime vendor program.

The Defense Logistics Agency initiated the medical prime vendor program in 1992. The Directorate of Medical Materiel, DSCP developed the program and is responsible for its management and operation. The program is designed to use industry's production capability and commercial distribution system to satisfy DoD requirements for medical items (pharmaceutical items and medical and surgical equipment) instead of buying stock and holding it in inventory. Pharmaceutical sales through the program during FY 2001 were approximately $1.3 billion.

Results. DSCP did not have adequate management controls to ensure that customers were properly charged for pharmaceutical items ordered through its medical prime vendor program. DSCP recognized the need for such controls in 1993 and reported a management control weakness in FY 1998, but a computer system upgrade to compare negotiated prices for individual pharmaceutical items with the prices that prime vendors charged customers for the items was not implemented until August 2001. However, the system upgrade was a work in progress that had not been completely tested and, as implemented, did not provide the required control. Approximately 91 percent of the items ordered (1,754,127 of 1,924,563) during the 6-month period ending November 2001 were excluded from the price comparison. As a result, DSCP had limited assurance that customers were properly charged for pharmaceutical items. For details of the audit results, see the Finding section of this report. See Appendix A for a discussion of our review of the management control program.*

* The management control program includes management self-assessment and reporting processes.

Summary of Recommendations. We recommend that the Commander, DSCP perform causative research of transactions that are excluded from the price comparison process; establish procedures to review price differences of transactions that are included in the price comparison process; and establish milestones for testing and implementing the price comparison process.

Management Comments. The Director, Logistics Operations, Defense Logistics Agency agreed that management controls related to prime vendor pricing could be improved and stated that contracting officers will ensure that customers are properly charged for pharmaceutical items ordered through the prime vendor program. Regarding the recommendations, the Director stated that procedures have been established to perform causative research of transactions that are excluded from the price comparison process and to review price differences of transactions that are included in the price comparison process. Additionally, the enhancements to the price verification process that are currently in progress are estimated to be completed in September 2002. See the Finding section for additional discussion of management comments and the Management Comments section of the report for the complete text of the comments.

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Background

The Defense Criminal Investigative Service requested that we evaluate management controls over the pricing of pharmaceutical items sold through the Defense Supply Center Philadelphia (DSCP) medical prime vendor program (PV).

DSCP Medical PV Program. The Defense Logistics Agency initiated the medical PV program in 1992. The Directorate of Medical Materiel, DSCP developed the program and is responsible for its management and operation. The program is designed to use industry's production capability and commercial distribution system to satisfy DoD requirements for medical items (pharmaceutical items and medical and surgical equipment) instead of buying stock and holding it in inventory. PV customers include DoD medical treatment facilities, the Department of Veterans Affairs, and the Public Health Service. Pharmaceutical sales through the program in FY 2001 were approximately $1.3 billion.

Prime Vendors. A PV is a distributor of brand-specific medical supplies. DSCP has contracts with 5 PVs that provide 275 organizations with access to approximately 22,500 pharmaceutical items. Prices for pharmaceutical items are based on distribution and pricing agreements (DAPAs) or Federal Supply Schedules (FSSs). As of May 2001, about 500 separate DAPAs and FSSs with 189 drug manufacturers and suppliers were in place.

DAPA. A DAPA is an agreement between DSCP and the DAPA holder, usually a manufacturer, that establishes the selling price of an item provided by a PV. The DAPA is also an authorization from the DAPA holder that permits PVs to distribute the DAPA holder's items.

FSS. The General Services Administration has overall responsibility for the FSS program. The FSS program provides Federal agencies with a simplified process for acquiring commonly used supplies and services in varying quantities while obtaining the price discounts associated with volume buys. An FSS is essentially a type of indefinite-quantity, indefinite-delivery contract. Indefinite-quantity, indefinite-delivery contracts are awarded to vendors to provide supplies and services at a stated price for a given time. The General Services Administration has delegated FSS responsibility for medical supplies to the Department of Veterans Affairs.

Ordering, Inspecting, and Accepting PV Items. When a customer identifies a requirement for a pharmaceutical item, it places an order with the PV through an electronic data interchange. The PV responds with an order confirmation and identifies items that are not available or not included in the program.

Customers are responsible for inspecting and accepting shipments from the PV. The PV must include a packing slip with each shipment that shows the delivery order number, date of order, itemized list of items shipped, quantity shipped, and delivery price. Customers notify the PV of any discrepancies between the items ordered and the items received. Subsequent to acceptance, customers

send a receipt acknowledgment transaction through an electronic data interchange to DSCP, showing the total dollar value of the items accepted (value received minus the value of discrepant items).

PV Billing and Payment. PVs submit invoices for items delivered to customers through an electronic data interchange to DSCP for payment. DSCP matches the total value of items accepted shown on the customer receipt acknowledgement with the invoice amount submitted by the PV. If the receipt acknowledgement and the invoice match, DSCP authorizes payment to the PV. If the amount shown on the customer receipt acknowledgement and the amount on the PV invoice do not match, the vendor is paid the lesser amount.

Objectives

Our objective was to evaluate management controls used to ensure that customers were properly charged for pharmaceutical items ordered through the DSCP medical PV program. Because of a current DCIS investigation involving the medical PV program, we did not test or evaluate the propriety of customer billings by PVs. We also reviewed the management control program* as it related to the audit objective. See Appendix A for a discussion of the audit scope and methodology, our review of the management control program, and prior audit coverage.

* The management control program includes management self-assessment and reporting processes.

Controls Over Prime Vendor Pricing of Pharmaceutical Items

DSCP did not have adequate management controls to ensure that customers were properly charged for pharmaceutical items ordered through its medical PV program. DSCP recognized the need for such controls in 1993, but a computer system upgrade to compare negotiated prices for individual pharmaceutical items with the prices that PVs charged customers for the items was not implemented until August 2001. However, the system upgrade was a work in progress that had not been completely tested and, because of data integrity problems and the lack of procedures to evaluate price discrepancies, did not provide the required control. Approximately 91 percent of the items ordered (1,754,127 of 1,924,563) during the 6-month period ending November 2001 were excluded from the price comparison. As a result, DSCP had limited assurance that customers were properly charged for pharmaceutical items.

Validation of PV Pricing

Recognition of the Need to Validate PV Pricing. In 1993, DSCP recognized the need to upgrade its Customer Demand Management Information Application (CDMIA) computer system to provide a control to compare negotiated prices for individual pharmaceutical items with the prices that PVs charged customers for the items. The CDMIA was originally developed in 1992 to be used as an inquiry tool to analyze sales data. However, because of funding, available technology, and other constraints, the system upgrade, version 2.1 of the CDMIA, was not implemented until August 2001. Before the system upgrade, the primary method used to validate PV pricing was to compare the total amount of an order on the customer receipt acknowledgement with the total amount on the PV invoice submitted for payment.

CDMIA Version 2.1. CDMIA version 2.1 includes a price comparison process that compares negotiated unit prices with the unit prices that PVs charged customers. To validate PV prices, the CDMIA runs a process each month to compare data in sales transactions provided by the PVs with DSCP catalog data. At the completion of the CDMIA price comparison process, a "Price Verification Report" is provided to show the results of the process. For DAPA items, the DAPA holder inputs the data into the DSCP catalog files. The DSCP "User's Guide for the Distribution and Pricing Agreement Database Management System," July 2000, provides guidance for DAPA holders to enter and modify catalog data related to DAPAs. For FSS items, the Department of Veterans Affairs provides the catalog data to DSCP. The "Interface Control Document Between the Defense Logistics Agency and the Department of Veterans Affairs Federal Supply Schedule Automated Tool," March 2001 (Draft), provides guidance for FSS data provided to DSCP.

DSCP personnel informed us that the price comparison process included in the CDMIA upgrade was a work in progress that was still being tested and that they were aware of problems with the integrity of some of the data elements used in the price comparison process.

Management Controls

DSCP did not have adequate management controls to ensure that customers were properly charged for pharmaceutical items ordered through its medical PV program because of data integrity problems and the lack of procedures to evaluate price discrepancies. As a result, DSCP had limited assurance that customers were properly charged for pharmaceutical items.

Data Integrity. Approximately 91 percent of the items ordered (1,754,127 of 1,924,563) during the 6-month period ending November 2001 were excluded from the price comparison because of invalid PV transactions and data integrity problems between PV transactions and DSCP catalog files. The following table provides an analysis of the 1,924,563 PV transactions.

Price Verification Report—June Through November 2001

	Transactions	Percent
Total transactions	1,924,563	100
Transactions excluded during initial edit	(314,530)	
Transactions excluded due to data integrity	(1,439,597)	
Total transactions excluded	1,754,127	91
Transactions subject to price comparison	170,436	9

Initial Validation Edit. Of the 1,754,127 transactions, 314,530 were excluded from the price comparison because the PV transactions contained invalid data that did not pass the CDMIA initial validation edit. Reasons why the transactions were not validated included that the unit price equaled zero; the DAPA number was blank or unknown; or the delivered quantity was null. The price verification report provided details of the 314,530 transactions for DSCP personnel to perform causative research. As of February 1, 2001, DSCP had not performed causative research of the transactions.

Price Comparison Process. Of the 1,754,127 transactions, 1,439,597 were excluded from the price comparison process because of data differences between PV transactions and DSCP catalog files. The price

comparison process compares data in each PV transaction with the unit of sale (description of the container that the manufacturer or dealer sells to the customer), national drug code (unique number assigned to pharmaceutical products by the Food and Drug Administration), and either the DAPA number (unique number generated by the DAPA Management System at the time a DAPA application is approved) or the FSS number in the DSCP catalog files. The 1,439,597 transactions were excluded from the price comparison process because of differences in any or all of the 3 data elements between the PV transaction and DSCP catalog files. The price verification report provided details of the 1,439,597 transactions for DSCP personnel to perform causative research. As of February 1, 2001, DSCP had not performed causative research of the transactions.

To identify specific data integrity problems with PV transactions that were excluded from the price comparison process, we selected a judgmental sample of 500 (100 transactions from each of the 5 PVs) of the 1,439,597 excluded transactions. For each of the 500 transactions, we compared data in PV transactions with DSCP catalog data. Of the transactions reviewed, the unit of sale in the PV transaction did not match the unit of sale in the DSCP catalog files for 412 transactions. For the remaining 88 transactions, 60 national drug codes in the PV transactions were not in the DSCP catalog files and, for 28, it appeared that the national drug code in the PV transaction did not match the associated DAPA number in the DSCP catalog files.

Regarding the high percentage of transactions that were excluded from the price comparison because of differences in the unit of sale, the primary problem was that the PV used unit of sale codes that were not in DSCP catalog files. For example, the DSCP catalog files had a unit of sale code of "BT" (bottle), while the PV used codes such as "EA" (each), "CS" (case), "CT" (carton), or "DZ" (dozen) for 256 transactions.

Price Discrepancies. DSCP did not have procedures to evaluate the propriety of price discrepancies and the tolerance used to flag an item as a potential price discrepancy was too lenient. Of the 170,436 transactions that were included in the price comparison, 22,432 exceeded the 10 percent tolerance established by DSCP and 148,004 were within the tolerance. The price verification report provided the details for the 22,432 transactions, but procedures were not in place for causative research to be performed and no formalized review of the transactions was performed.

Regarding the 148,004 transactions that were within the 10 percent tolerance, we believe that the tolerance was too lenient and presented a significant risk. Except for possible rounding differences, the PV price should be the same as the DSCP catalog price. With FY 2001 sales of $1.3 billion, the cost of accepting transactions with a price difference that did not exceed the 10 percent tolerance as valid could be as much as $130 million ($1.3 billion times 10 percent).

DSCP Reviews. DSCP should periodically review excluded transactions and price discrepancy transactions to validate PV prices. Until the CDMIA price comparison process is fully implemented, DSCP will require significant resources to correct the data integrity problems and to investigate price

discrepancies. The resources will be necessary because of the extremely large number of transactions that were excluded from the price comparison process and exceeded the 10 percent tolerance factor. However, DSCP had not identified the resources required to evaluate the price comparison process to ensure it worked as intended or established milestones for fully implementing the price comparison process.

Other Government and Commercial Practices. We contacted the Department of Veterans Affairs, the Jefferson Health Care System, and the University of Pennsylvania Health System to determine whether those organizations validated the prices that vendors charged for pharmaceutical items. Each of the organizations had controls to validate pharmaceutical prices. The controls included a process similar to the DSCP CDMIA price comparison process, as well as taking samples of transactions to verify vendors' prices and requiring individual hospitals within an organization to verify vendors' prices.

Management Comments on the Finding and Audit Response

Management Comments. DLA concurred with the finding. DLA agreed that management controls related to PV pricing could be improved and has established procedures for contracting officers to ensure that customers have been properly charged for pharmaceutical items ordered through the prime vendor program. DLA further stated that the audit noted that many transactions reported as not validated represented transactions that were not matched to unit of sale data in the Medical Electronic Customer Assistance program. However, those mismatches did not represent data integrity problems because approximately 70 percent of the transactions were subsequently matched to a broader combination of the DAPA number, the FSS number, and the national drug code.

Audit Response. We agree that excluding the unit of sale and matching on the broader combination of DAPA number, FSS number, and national drug code will increase the number of transactions that are validated. However, we were concerned that the exclusion of the unit of sale, an integral part of the pricing process, from the matching process in the Medical Electronic Customer Assistance program would result in the unit of sale not being validated, which could result in DLA not realizing when customers were overcharged. DLA officials assured us that there are procedures to validate the unit of sale during the pricing verification process.

Recommendations and Management Comments

We recommend that the Commander, Defense Supply Center Philadelphia:

1. Establish procedures to perform causative research of transactions that do not pass the initial validation edit and of transactions that are excluded from the price comparison process because of data integrity problems.

Management Comments. DLA concurred, stating that procedures have been established to improve the accuracy and integrity of PV transactions. The procedures will reduce the number of exclusions at the initial validation edit and price comparison stages.

2. Establish procedures to perform causative research of transactions included in the price comparison process that are found to have differences between the prime vendor price and the Defense Supply Center Philadelphia catalog price.

Management Comments. DLA concurred, stating that procedures for reviewing the results of the price verification process have been established. Each month, the contracting office reviews a sample of transactions that are out of tolerance to determine the causes of price discrepancies.

3. Reduce the 10 percent price variation tolerance after the data integrity problems are corrected to a factor that will identify all price variances, except negligible amounts due to rounding.

Management Comments. DLA concurred, stating that the DSCP will run a one-time price verification report at 0 percent to reflect the maximum amount of items with price differences to perform an assessment of the adequacy of price verification without unit of sale data. Based on the results of the run, a determination as to the need for additional price verification report improvements will be made. In the interim, the variation tolerance will be adjusted to not more than 5 percent.

4. Establish interim procedures to periodically review prime vendor transactions excluded from the price comparison process that have price discrepancies until the price comparison process is fully implemented.

Management Comments. DLA concurred, stating that procedures currently exist to periodically review all transactions. Routine reviews are conducted by the DSCP internal review office, and regular monthly reviews are conducted by contracting officers.

5. Identify the resources required to correct the problems with the price comparison process and establish milestones for testing and fully implementing the process.

Management Comments. DLA concurred, stating that the continuing effort to enhance the price verification report does not require the acquisition of additional equipment, software, or personnel. Additionally, procedures being implemented to improve the integrity of prime vendor data will significantly reduce the number of exclusions at all stages of the price verification report and result in an increase of the number of transactions that get validated. Estimated completion date is September 2002.

Appendix A. Audit Process

Scope and Methodology

We evaluated management controls used to ensure that customers were properly charged for pharmaceutical items ordered through the DSCP medical PV program. Because of a current DCIS investigation involving the medical PV program, we did not test or evaluate the propriety of customer billings by PVs. Our analysis focused on 1,924,563 PV transactions for the 6-month period ending November 2001. We interviewed Defense Contract Audit Agency, DCIS, DSCP, and Army personnel at Madigan Army Hospital, Seattle, Washington, involved in the PV program. We also contacted personnel from the Department of Veterans Affairs, the Jefferson Health Care System, and the University of Pennsylvania Health System to determine the process they used to validate vendor prices for pharmaceutical items. The documents we reviewed included PV guidance and briefings, PV price verification reports, PV transactions, and DSCP catalog files and were dated from September 1999 through January 2002.

High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the DoD Contract Management high-risk area.

Use of Computer-Processed Data. We relied on computer-processed data used by DSCP to manage the medical PV program. We did not perform a formal reliability assessment of the computer-processed data. We determined that the data in our judgmental sample of transactions from the CDMIA system generally agreed with the DAPA number and the national drug code recorded in the DSCP catalog files. We also determined that the problems identified with the unit of sale were not system errors. To the extent that we reviewed the data, we did not identify any errors that would preclude the use of the data to meet the audit objective or that would change the conclusions in this report.

Universe and Sample. The audit universe consisted of 1,924,563 PV sales transactions for the 6-month period ending November 2001. The transactions represent individual lines of medical pharmaceutical items that were delivered to customers. Out of the 1,924,563 transactions, 1,754,127 were excluded from the price comparison process. Of the 1,754,127 transactions, 252,246 were excluded in the month of June 2001. We selected a judgmental sample of 500 from those 252,246 transactions. The sample included 100 transactions from each of the 5 PVs. We used the judgmental sample to determine why transactions were excluded from the price comparison process.

Audit Dates and Standards. This audit was performed from March 2001 through January 2002 in accordance with generally accepted government auditing standards.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD, the Department of Veterans Affairs, the Jefferson Health Care System, and the University of Pennsylvania Health System. Further details are available on request.

Management Control Program Review

DoD Directive 5010.38, "Management Control Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of controls.

Scope of the Review of the Management Control Program. We reviewed the adequacy of DSCP management controls to ensure that customers were properly charged for items ordered through the medical PV program. We reviewed management's self-evaluation applicable to those controls.

Adequacy of Management Controls. As defined by DoD Instruction 5010.40, we identified a material management control weakness in the controls used to ensure that customers were properly charged for items ordered through the medical PV program. The recommendations in this report, if implemented, will correct the material weakness. A copy of the report will be provided to the senior official responsible for management controls in DSCP.

Adequacy of Management's Self-Evaluation. DSCP officials identified PV pricing as an assessable unit. DSCP officials reported in FY 1998 the material management control weakness identified in our audit. To monitor the weakness, DSCP has conducted audits at medical treatment facilities. The audits will continue until the CDMIA price comparison process has been completely tested and implemented.

Prior Coverage

During the past 5 years, the Inspector General of the Department of Defense (IG DoD) and the Inspector General, Department of Veterans Affairs have issued two reports discussing pharmaceutical items. Unrestricted IG DoD reports can be accessed over the Internet at http://www.dodig.osd.mil/audit/reports.

IG DoD

IG DoD Report No. 98-154, "Acquisition of Medical Items," June 15, 1998

Inspector General, Department of Veterans Affairs

Inspector General, VA, Report 8R4-E01-092, "Audit of VA's Pharmaceutical Prime Vendor Program," March 31, 1998

Appendix B. Report Distribution

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Defense Logistics Agency Comments

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MAY - 2 2002

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
DEPARTMENT OF DEFENSE

SUBJECT: DoD-IG Draft Audit Report "Pricing of Pharmaceutical Items on Medical Prime Vendor Program , " March 1, 2002, Project No. D2001LD-0092

The Defense Logistics Agency concurs with the finding and recommendations in the subject draft and has taken corrective measures as stated in the attachment.

We appreciate the opportunity to comment on the draft report. Questions may be referred to Lt Col Mike Markovich, USAF, Business Management Office (J-38), (703) 767-1674, or Ms. Annell Williams, Internal Review Office, (703) 767-6274.

HAWTHORNE L. PROCTOR
Major General, USA
Director
Logistics Operations

Attachment
DLA Comments

Subject: Pricing of Pharmaceutical Items in the Medical Prime Vendor Program, Project No. D2001LD-0092, March 1, 2002

Finding: DSCP did not have adequate management controls to ensure that customers were properly charged for pharmaceutical items ordered through its medial prime vendor program. DSCP recognized the need for such controls in 1993, but a computer system upgrade to compare negotiated prices for individual pharmaceutical items with the prices that prime vendors charged customers for the items was not implemented until August 2001. However, the system upgrade was a work in progress that had not been completely tested and, because of data integrity problems and the lack of procedures to evaluate price discrepancies, did not provide the required control. Approximately 91 percent of the items ordered during the 6-month period ending November 2001 were excluded from the price comparison. As a result, DSCP had limited assurance that customers were properly charged for pharmaceutical items. (See page 3)

DLA Comments:

Concur. Both DSCP and the DODIG agree that DSCP's management controls in this area could be improved. While we feel that DSCP may be able to audit and assure prices on many more items than the DODIG reported, we also completely agree that we cannot yet provide 100% assurance. We agree that our price verification system was a work in progress at the time of the DODIG review, but is much closer to finalization and full implementation at this time. Accordingly, procedures have been implemented for Contracting Officers to assure that our customers have been properly charged using the current Price Verification Report data.

The Price Verification Report is a fully automated process that runs the prime vendor data through three sets of checks which may be referred to as stages because they occur in sequence: The initial stage determines whether the line of data is excluded from price verification through the process because it is (a) not complete or has other data integrity problems or (b) represents an AWP (Average Wholesale Price), a regional DAPA, or a buy using credit. The second stage checks for the item in the Medical Electronic Customer Assistance program (MECA) using the Distribution and Pricing Agreement or Federal Supply Schedul (DAPA/FSS) Number, National Drug Code (NDC) and Unit of Sale (UOS). The third stage checks for the item in MECA using the DAPA/FSS Number and NDC only. For the price verification report to be effective, all three stages, especially the third stage, must be reviewed.

The main reason for item exclusion at the first stage of the price verification process was data integrity problems, especially those related to DAPA numbers. We feel confident that the number of exclusions will significantly decrease over the next few months due to several process improvements that will be implemented. These improvements include: fixes on the Prime Vendor (PV) end that will improve the way sales data is captured and reported; a DSCP internal process that identifies inaccurate and/or missing data upon receipt of the PV data; and a procedure whereby Contracting Officers take immediate action to correct invalid data by verifying the data with prime vendors and customers. If invalid prices are determined, then the Contracting Officers will negotiate refunds or credits with the vendor.

The DODIG noted that many lines were reported as not validated, but in fact, the "Not Validated" count represents the total number of lines for the report period that were not matched to a MECA item when the Unit of Sale was included in the item match (Second

Stage). This does not represent a data integrity problem, since the item match was then executed using a broader combination of the DAPA/FSS Number and the NDC (Third Stage) resulting in approximately 70 percent of line items validated. DSCP recognizes the large part our customers have played in bringing these pricing issues to light. A Tri-Service working group identified the issues relevant to the service activities and worked closely with DSCP to find resolution, not only to the prime vendor end, but on the customer Defense Medical Logistics Standard System (DMLSS) end as well. Additionally, we provide customers the electronic tools *via* the Universal Data Repository (UDR) to compare products and prices and make the best value decision for their particular circumstances. We encourage our customers to notify us immediately when prices in the UDR we provide differ from the prices charged by the prime vendor. Customer involvement aids DLA to accomplish its oversight responsibility in the pricing of prime vendor items. The DODIG review has improved our price assurance procedures as well.

Recommendations to the Commander, Defense Supply Center Philadelphia:

1. Establish procedures to perform causative research of transactions that do not pass the initial validation edit and of transactions that are excluded from the price comparison process because of data integrity problems.

DLA Comments:

Concur. Procedures have been established to improve the way PV sales transactions are captured and reported. These new procedures will improve the accuracy and integrity of PV transactions, thereby reducing the number of exclusions at the initial validation edit and price comparison stages. These improvements include: fixes on the PV end that will improve the way sales data is captured and reported; a DSCP internal process that identifies inaccurate and/or missing data upon receipt of the PV data; and a procedure whereby Contracting Officers take immediate action to correct invalid data by verifying the data with prime vendors and customers which should identify the causes of items that cannot be validated.

Disposition: Action is ongoing. ECD: June 2002

2. Establish procedures to perform causative research of transactions included in the price comparison process that are found to have differences between the prime vendor price and the Defense Supply Center Philadelphia catalog price.

DLA Comments:

Concur. Procedures for reviewing the results of the price verification report have been established. Each month the Contracting Office (CO) reviews a sample of transactions that are out of tolerance to determine the cause(s) of the price discrepancies. The COs take whatever action is necessary to resolve the price differences to include data verification with customers and vendors. If price over-charges are determined, the Contracting Officers will negotiate a refund or credit with the vendor.

Disposition: Action is ongoing. ECD: June 2002

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3. Reduce the 10 percent price variation tolerance after the data integrity problems are corrected to a factor that will identify all price variances, except negligible amounts due to rounding.

DLA Comments:

Concur. DSCP will conduct a one time run at 0% tolerance to reflect the maximum amount of items with prices that do not match to perform an assessment of the adequacy of price verification without UOS data. Based upon these results a determination will be made if additional price verification report improvements will be necessary. In the interim, variation tolerance will be adjusted to not more than 5%. Actual percentage for each PV will be determined based on PVs history of pricing discrepancies as well as volume of transactions.

Disposition: Action is ongoing. ECD: May 2002

4. Establish interim procedures to periodically review prime vendor transactions excluded from the price comparison process that have price discrepancies until the price comparison process is fully implemented.

DLA Comments:

Concur. Procedures for periodic reviews of ALL transactions currently exist. Routine reviews are conducted by the DSCP Internal Review Office as well as regular monthly reviews by Contracting Officers.

Disposition: Action is ongoing. ECD: Monthly reviews will be conducted

5. Identify the resources required to correct the problems with the price comparison process and establish milestones for testing and fully implementing the process.

DLA Comments:

Concur. The Price Verification Report was deployed to the DSCP users in August 2001 following formal testing and quality reviews. It has been generated every month since then for every prime vendor data submission. In February 2002 several enhancements to the report were delivered, and the CDMIA team continues to evaluate and schedule requested changes. This report is an evolving software product that is modified in response to the user's needs, internal technical reviews, and to accommodate changes in business practice or in the content of the data submission. The report currently validates over 70 % of all transactions. The procedures that are being implemented to improve the integrity of PV data will significantly reduce the number of exclusions at all stages of the price verification report, which will result in an increase in the number of transactions that get validated. The continuing effort to enhance the Price Verification Report does not require the acquisition of additional equipment, software or personnel, and funding is allocated to this effort through the end of FY02. With an ECD of September 2002, the CDMIA team will work with the pharmaceutical

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Commodity Business Unit (CBU) to identify the portion of the exclusions that is attributable to purchases that are not subject to price verification. This will eventually reduce the exclusion percentage (16% in the period under review) by pinpointing the data quality percentage and enabling the pharmaceutical CBU to address the causes with the prime vendors. Once the exclusions are delineated more clearly, they will not be misinterpreted as solely data quality issues. We will change the appearance of the report to remove sections that are not desired by the users and to make the headings clearer for both internal and external reviewers.

Timeline:
Requirements definition for enhancements is currently in progress, ECD April 2002.
3 development cycles with deployments in May 2002, July 2002 and September 2002
Each cycle includes requirements definition, design and coding, testing and quality reviews

Disposition: Action is ongoing. ECD: Sept 2002

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