STATEMENT OF ROGER D. WALDRON

PRESIDENT OF THE COALITON FOR GOVERNMENT PROCUREMENT

BEFORE THE

SENATE COMMITTEE ON VETERANS AFFAIRS

UNITED STATES SENATE

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Good afternoon Chairman Moran, Ranking Member Tester, and Members of the Senate Committee on Veterans' Affairs. Thank you for the opportunity to appear before you to the address the procurement challenges the Department of Veterans Affairs (VA) faces as it builds a resilient supply chain to support the healthcare of our nation's veterans.

The Coalition for Government Procurement (Coalition) is a non-profit association of firms selling commercial services and products to the Federal Government. Our members collectively account for more than $145 billion dollars of the sales generated annually through government contracts including the GSA Multiple Award Schedules (MAS) program, VA Federal Supply Schedule (FSS), the Government-wide Acquisition Contracts (GWACs), and agency-specific multiple award contracts (MACs). Coalition members include small, medium, and large business concerns. Coalition Healthcare members annually supply the Government with more than $12 billion in medical/surgical products and pharmaceuticals to support the healthcare needs of veterans and active duty service members. The Coalition is proud to have worked with the VA, the Department of Defense (DoD), and other Government officials for more than 40 years towards the mutual goals of common-sense acquisition and best value healthcare for our veterans.

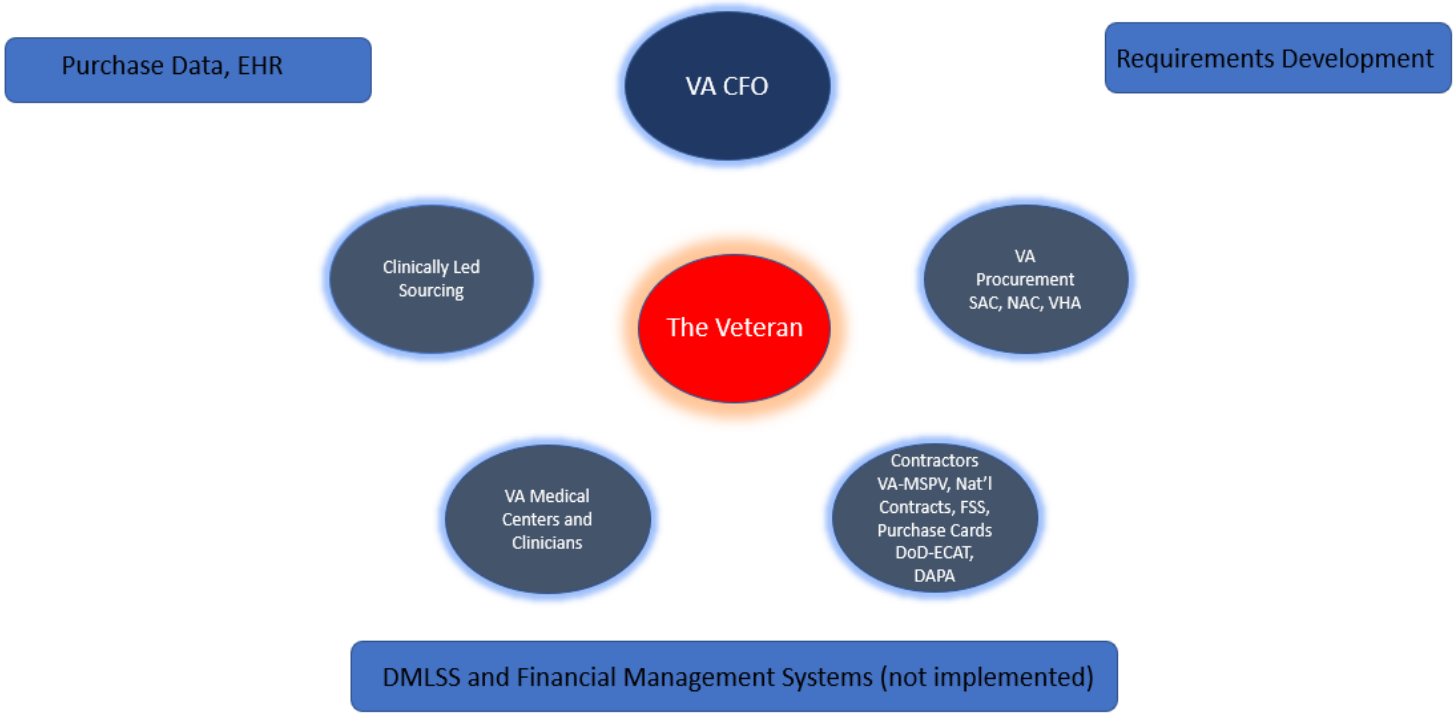
The VA uses several contracting methods to meet its needs for medical/surgical equipment and supplies. These methods include the Medical/Surgical Prime Vendor (MSPV) Program, national contracts, the Federal Supply Schedules (FSS), open market purchases, the Government Purchase Card (GPC), and programs managed by DoD, such as DLA's Medical Surgical Prime Vendor program, which is priced using Distribution and Pricing Agreements (DAPAs), and the Electronic Catalog (ECAT). In March 2019, the Government Accountability Office (GAO) added VA procurement operations to its High-Risk List. GAO indicated that the VA's programs remain fragmented, utilize outdated systems, and rely on emergency acquisitions to purchase common goods and services. A clear indication of the challenges facing the VA is the current high level of Government Purchase Card (GPC) use. The VA uses GPCs to make almost $4.8 billion of *ad hoc* purchases without using an established contracting program. For comparison, DoD, which has more than three times the budget of the VA, makes $4.7 billion of *ad hoc* GPC purchases.[1]

To ensure best value healthcare for veterans, the VA's acquisition policies, programs, and systems need to be modernized to effectively support veterans' healthcare. To this end, the VA has begun addressing its supply chain management programs and e-systems to support its healthcare infrastructure, and, ultimately, the delivery of care to veterans. These management efforts include addressing clinical program leadership for the MSPV, launching the MSPV 2.0 program, engaging with DoD to share resources, such as the Defense Medical Logics Standard Support (DMLSS) system, and modernizing its financial systems and the Electronic Health Record system.

Set forth below is a conceptual representation of the VA's acquisition process and supply chain infrastructure. The diagram shows the inter-relationship and co-dependency of each part of the chain in delivering medical/surgical products, devices, and technologies to support the VA's mission.

[1] See GSA SmartPay Purchase Card Statistics Report for FPDS 2018, available at https://smartpay.gsa.gov/content/gsa-smartpay-purchase-card-statistics-reports-fpds

VA Acquisition Process



Conceptually, **Clinically-Led Sourcing** is executed by a clinically led and managed program office. Such an office is governed by healthcare professionals with both clinical and medical supply chain expertise, and it is responsible for establishing purchase requirements, including the organization, management, and maintenance of the MSPV formulary. Ideally, MSPV formulary decision-making is based on clinical input made through a transparent process with input from industry and other data from across the VA, including purchase data reported from healthcare treatment centers and the Prime Vendors.

The **VA Procurement** function is responsible for awarding contracts across the VA. With regard to the MSPV program, the VA's Strategic Acquisition Center (SAC) conducts the procurement for the MSPV 2.0 Prime Vendor contracts. At the same time, the Veterans Health Administration (VHA) conducts the open market Blanket Purchase Agreement (BPA) procurements for the products to be distributed by the MSPV 2.0 Prime Vendors. Both the SAC's Prime Vendor procurements and the VHA's supplier BPAs procurements are ongoing, with no awards made to date. The VA's National Acquisition Center (NAC) manages various national contracts and the Federal Supply Schedules.

The **Contractors** support the **VA Medical Centers and Clinicians** delivering medical/surgical products based on clinical needs/requirements. The acquisition of medical/surgical products is accomplished through a myriad of contracts, including the MSPV-NG, national contracts, the Federal Supply Schedules and ECAT. In all of this effort, the **VA CFO** accounts for and allocates funding for operations and payments to contractors.

These links in the acquisition process/supply chain are connected by procurement, logistics, and financial systems. The data regarding purchases, usage, outcomes, and clinical assessment of products travels across the VA's systems. Indeed, the systems themselves generate the data used in developing requirements, managing inventory, issuing delivery orders, and executing contracts. The VA's ongoing implementation of the Financial Management Business Transformation (FMBT) and the Defense Medical Logistics Standard Support (DMLSS) systems is recognition of the vital importance that data plays in delivering best value healthcare for veterans. It often is said that you cannot manage what you cannot measure. Data allows the VA to measure and thus offers a tool to help improve management and process efficiency.

Coalition members very much have appreciated the VA's engagement with industry around these efforts, and we look forward to continuing to work together to deliver best value healthcare for our veterans. Our members recognize the significant complexities in the VA supply chain that I have outlined here, and they appreciate the work of the department as it undertakes the effort to address the enormous challenges of modernizing its systems. To assist this effort, the Coalition offers the following observations.

Clinically-Led Sourcing

Sound requirements development is foundational to efficient, effective procurements that deliver best value healthcare to veterans. A robust, empowered, clinically led program office supporting the VA's requirements development via a comprehensive formulary is vital to the success of the MSPV program in the support of veterans' healthcare. Coalition members strongly support the VA's efforts to implement/effectuate a clinically-led sourcing program that is executed by healthcare professionals with both clinical and medical supply chain expertise. It is fundamental, however, that the formulary reflect clinical needs, not contracting needs. In the interests of transparency, and to promote engagement with the VA's industry partners, the VA should provide an update on its efforts to stand up a clinically-led program office.

In addition, the Coalition recommends the creation of a new leadership role, the Medical Supply Chain Leader, responsible for formulary management and engagement with industry. Engagement with industry at a strategic level is vital to ensuring access to information regarding new healthcare technologies in the commercial market, technologies that can be brought to bear in treating our veterans. A single point of contact where industry can engage and share the latest development of capabilities is critical to ensuring the information exchange necessary for VA to take advantage of leading healthcare technologies. Medical/surgical technologies develop rapidly, and thus, the VA needs an open, nimble channel for research and engagement with industry on the latest developments and a transparent process by which the VA engages with industry on its product reviews and decision-making. Such an approach that maximizes access to the latest healthcare technologies available in the commercial market is a win-win-win for veterans, the VA, and the VA's industry partners.

Enhance and Expand the MSPV Formulary

The MSPV formulary should reflect clinical needs. As currently structured, the MSPV program does not include the depth and breadth of products necessary to meet operational needs. The billions of dollars annually spent on medical/surgical devices and products procured through the GPC reflect a program

that is out of balance. The following timeline highlights the current state of the MSPV program and the evolving state of the MSPV formulary.

- April 2015 Initial Bridge Contracts for Legacy MSPV with hundreds of thousands of items available via the legacy contracts
- February 2016 VA awards MSPV-NG contracts
- April 2016 Second Bridge Contract for Legacy MSPV
- October-December 2016 MSPV-NG launched with 1600 items
- April 2017 Legacy bridge contracts expire
- April 2018 VA expands formulary to ***7800 items*** under MSPV-NG and continues working to expand it
- June 2020 currently ***21,000 items*** on the formulary

Currently, the VA is in the midst of the MSPV 2.0 procurement, with the SAC conducting the procurement of the Prime Vendor (distribution) contracts and the VHA seeking to establish open market BPAs with suppliers. The purpose of the BPAs is to compete and award specific products and product categories at fair and reasonable prices. Here again, however, the approach under MSPV 2.0 will establish only a limited formulary.

The current MSPV 2.0 formulary approach relies on limited and incomplete data because it does not capture the GPC purchases and other sources. The VA should develop a strategy to expand the formulary to allow industry partners to provide full portfolios of products. Expansion of the formulary will increase usage and provide the VHA with more holistic data upon which to make clinically-led sourcing decisions around standardization and product mix. An expanded formulary would allow for an incremental approach based on spend data and clinical needs in managing the appropriate product mix on the formulary. The data input, along with clinical input, should provide opportunities to standardize appropriate product categories while maintaining greater flexibility and choice in other product categories based on clinical needs. Further, an expanded formulary will enhance ongoing market competition across suppliers.

In addition, the VA should look to enhance and enable VA use of DoD's Electronic Catalog (ECAT) for purchases below micro-purchase ($10,000) involving products that are typically sold direct in the commercial market and not through a prime vendor. The current ECAT system provides access to products via contracts negotiated by the Defense Logistics Agency (DLA). The VA, through its ongoing collaboration with DoD, has access to ECAT as a source of supply. ECAT orders are made through a VA contracting activity in Cleveland. According to feedback from our members, there is a concern that current paperwork processing requirements limit VA Medical Center (VAMC) use below the micro-purchase threshold, as compared to the GPC. Streamlining the order requirements for purchases below the micro-purchase threshold will promote use of ECAT for products not on the formulary. The additional benefit from this action will be the availability of ECAT purchase data to the VA, as compared to the lack of data under GPC purchasing.

Implementation of DMLSS

Coalition members are supportive of efforts to improve logistics systems across the VA and are interested in hearing more about the VA's progress to date regarding DMLSS. Under this effort, the VA should continue to build on its engagement with its industry partners and provide additional detail

regarding the DMLSS timeline and implications for VHA operations. Transparency and engagement with industry ensure that the VA's industry partners can prepare for, and respond to, changes in the VA operations and the federal healthcare market, at large. For example, VA industry partners are interested in gaining a clear picture of how the DMLSS implementation impacts ongoing management of current MSPV program. DMLSS implementation and rollout will overlap with the current MSPV program, as such, providing key information regarding the timelines and impacts will ensure the VA's industry partners are better positioned to respond to the VA's needs. Further, as the DMLSS system utilizes the DLA Prime Vendor Program, it is important to understand how VA utilization of the DLA contracts will impact contractors across the federal healthcare market.

Finally, none of us should lose sight of the important role that small businesses play here. Pandemic or not, the Veterans First program and small businesses make up a major part of the vital economic engine that serves our nation and our veteran's healthcare system. They are a prime source of market innovation, and thus, they should not be overlooked as VA seeks to innovate its purchasing systems.

In closing, Mr. Chairman and Members of the committee, again, please accept my appreciation and the appreciation of Coalition members for the opportunity to appear before you today. I hope you found this testimony useful, and I would be happy to address any questions you might have.