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Abraham Lincoln

Veterans Affairs Acquisition News (VA)

## DAVID S. DERR ANSWERS QUESTIONS ABOUT THE DEPARTMENT OF VETERAN AFFAIRS



*David S. Derr was appointed Associate Deputy Assistant Secretary (ADAS) for Acquisitions within the Department of Veterans Affairs (VA) Office of Acquisition and Materiel Management in June 1996.*

*Mr. Derr manages a multi-billion dollar procurement and contracting program — one of the largest in the Federal Government.*

*He directs three centralized acquisition operations: The Acquisition Operations and Analysis Service, and the Acquisition Resources Service in Washington, DC; and the VA National Acquisition Center located in Hines, Illinois.*

*The Office of the ADAS for Acquisitions supports the Procurement Executive and the Senior Procurement Executive for the Department, promulgates VA's acquisition policy, and has a leadership role in Government-wide acquisition policy and programs.*

*Mr. Derr represents VA on councils, committees, and teams responsible for acquisition programs that impact the entire Executive Branch of the Federal Government.*

*In addition, he provides policy guidance and technical direction to decentralized procurement activities in over 170 locations.*

**Q:** *I've heard it said that VA is the Nation's largest provider of health care. Since many of our readers may be unfamiliar with VA, could you explain a bit more about VA functions from a broad perspective?*

**A:** I'd be glad to. The Department of Veterans Affairs (VA) was established in March 1989, with Cabinet rank, succeeding the Veterans Administration. VA is responsible for providing Federal benefits to veterans and their dependents. Headed by the Secretary of Veterans Affairs, it's the second largest of the 14 Cabinet departments and operates nationwide programs of health care, assistance services, and national cemeteries.

As of mid-July 1998, the veteran population was estimated at 25.6 million. Nearly 80 of every 100 living veterans served during periods of armed conflict. Altogether, almost a third of the Nation's population — about 70 million persons who are veterans, dependents, and survivors of deceased veterans — are potentially eligible for VA benefits and services.

VA's fiscal year 1999 appropriation was \$43.7 billion — \$23.5 billion for benefit programs and \$18.3 billion for medical programs. The Administration's fiscal year 1997 appropriation was \$40.3 billion. Fifty-four percent of the 1999 outlays was for direct payments such as compensation, pension and education benefits; 42.6 percent was targeted for medical care; less than one percent for hospital, national cemetery and other construction programs; and 2.4 percent for general operating expenses. VA provides the world's most comprehensive and diverse programs of benefits for veterans and dependents.

**Q:** *Working with VA's Office of Acquisition and Materiel Management (O&MM) recently, I've seen you describe yourselves as The Federal Health Care Buying Organization. I know that VA has a major role in Federal health care procurement. Please tell us about that.*

**A:** With annual expenditures of more than \$5.1 billion for supplies and services, including construction, VA's Office of Acquisitions is one of the largest procurement and supply agencies of the Federal Government. We procure pharmaceuticals, medical supplies, high-tech medical equipment, ADP equipment and services, and other critical patient care items and services that are distributed to VA's 170 plus health care facilities, which comprise the largest health care delivery system in the country. We also provide acquisition support to Veterans Benefits Administration's regional offices, the National Cemeteries Administration's cemeteries, automation centers, and various other VA activities.

In addition to our primary role of supporting VA's programs, the Office of Acquisitions has a Government-wide role in the supply management of medical supplies and non-perishable subsistence. VA establishes, solicits, awards, and administers the Federal Supply Schedule (FSS) Program for medical care related needs, which currently consists of 11 schedules.

Annual sales against these contracts exceeded \$2 billion in FY 1999, with over 1,200 contracts in place for the various commodity groups consisting of over 200,000 different product items. All FSS contracts are multiple award schedules (MAS), indefinite delivery-indefinite quantity type, and are national in scope. These contracts are available for use by all Government agencies including, but not limited to: VA medical centers (VAMCs), Department of Defense (DoD), Federal Bureau of Prisons (BOP), Indian Health Services (IHS), Public Health Services (PHS), some State Veterans Homes, etc.

Q:

*How do VA Acquisition Programs support those functions? By that I mean, what are the structures, functions, and extent of VA Acquisition Programs?*

A:

Because of its Departmentwide and Governmentwide mission, as well as its role in protecting the integrity of the procurement and supply system, the Office of Acquisition and Materiel Management (OA&MM) is organizationally independent of the activities it serves. As a principal VA staff office, the OA&MM is responsible to the Secretary, through the Assistant Secretary for Financial Management, and the Deputy Assistant Secretary for Acquisition and Materiel Management, for providing goods and services needed by our client activities.

All OA&MM operations are funded through the self-sustaining VA Supply Fund which is managed by Deputy Assistant Secretary for OA&MM. We recover operating costs through a variety of mechanisms designed to pass the costs of services provided along to the beneficiaries of those services.

Q:

*Is VA now establishing regional or even centralized distribution strategies and why or why not?*

A:

In the mid-1990s, OA&MM and its Veterans Health Administration (VHA) clinical partners began massive re-engineering of pharmacy benefits management and launched VA's revolutionary Pharmaceutical Prime Vendor (PPV) national distribution program and regional Consolidated Mail Outpatient Pharmacies, eliminating an outmoded, inefficient and costly national depot system. With depot phase-out, OA&MM and VHA restructured resources, reduced and realigned staffing, dollars, and space, while improving efficiencies by introducing new information technologies in support of these change practices.

Our ongoing standardization efforts moved us further ahead in FY 1999. OA&MM's sustained focus resulted in the creation of a Medical/Surgical Prime Vendor Program

with 61 VA medical facilities participating to date. These continued successes mean we have to take patient/customer and clinical stakeholder insights, listen to industry partners, and creatively transition processes to the best commercial acquisition practices. Collaboration is the prominent theme throughout VA and its supply chains today. Combined with VA's centralized and decentralized purchasing activities, VHA facilities have outstanding product and delivery choices at lower costs than previously possible.

OA&MM works with its Federal customers, within and outside VA, from the beginning stages of identifying requirements throughout the contract administration of any award. During the early procurement stage, OA&MM assists the customer in identifying the best contract vehicle(s) which meet or exceed their needs. In some cases, a national contract may not be the best answer. Occasionally, regional or local procurements may provide the best fit for our customers.

We listen to our customers. Whatever the contract vehicle, we establish it through this effective partnership – customer satisfaction is the key.

Q:

*Switching back to VA for a moment, with such a reduced veteran population why is VA's budget and spending larger than ever? What are VA acquisition leaders doing to reduce waste and overhead in VA?*

A:

Well, first I'd like to correct a misperception about the veteran population. From FY 1995 to FY 1999, the annual number of patients treated by VA increased over 24 percent (from 2.9 to 3.6 million veterans served). Second, price increases for medical care have outpaced the overall rate of inflation. For example, between 1986 and 1996, the medical care component of the Consumer Price Index (CPI) rose 6.5 percent per year, exceeding the annual increase in the overall CPI during the same period by about 75 percent.

In terms of Acquisition's role in reducing waste and overhead, I'd like to brag about our many talented and dedicated employees who daily come up with vehicles to provide our customers with high quality, cost-effective goods and services. VA has created comprehensive contracting vehicles and distribution mechanisms that are augmenting the dramatic changes taking place in U.S. medicine. Let me share a couple of examples.

Earlier, I mentioned our Federal Supply Schedules. In addition to our FSS program, we also have National Contracts. Unlike the FSS multiple awards program where several contractors have the opportunity to sell the same or similar product to the Government, a national contractor may be the sole provider of a drug. National Contracts are placed on VA's National Formulary and are a mandatory source for all VA health care facilities.

FSS is an optional use program and prices are based on the commercial discount policy of the company. Through the national contract process, VA negotiates contract prices for drugs that are substantially lower than FSS prices for the same or similar products available. We do this by leveraging our national buying power, consolidating all of our health care facilities' requirements, and committing to one source. On average, National Contract prices are 30 percent less than the lowest FSS prices.

During FY 1999, VA's Office of Acquisitions awarded 13 national contracts and one committed-use blanket purchase agreement with an estimated cost saving of \$29 million. Cumulatively, OA&MM saved about \$651 million under its pharmaceutical and medical/surgical standardization program from FY 1996 through 1999. Cost avoidance based on Medical/Surgical Standardization through FY 1999 saved almost 9 percent in comparison with FSS prices and is over \$13,500,000. More importantly, today, the technical quality of clinical programs, not price, drives decision-making.

VA's National Contract Program has been so successful that other Government agencies have requested to use our contracts and partner with us on procurements that meet their needs. VA has a long-standing relationship with the Bureau of Prisons (BOP) and the Indian Health Service (IHS) for this purpose. VA's success in this program has helped spur the creation of a Memorandum of Agreement (MOA) with the Department of Defense (DOD). During FY 1999, under the auspices of the VA/DOD Federal Pharmacy Executive Steering Committee (FPESC), and pursuant to the terms outlined in the MOA, VA and DOD began to actively collaborate on National Contracts for drug items that would benefit each agency's respective constituents. This partnership with DOD, in addition to our existing alliance with IHS and BOP, allows us to expand our buying power and offer a contractor the full market share of four major Federal health care organizations. The future of this program is very bright.

**Q:** *Small businesses across the country provide quality, competitive priced health care products. How does VA work with small business? How do they compete in a Prime Vendor dominated VA supply market?*

**A:** That's a great question. We're very proud of our accomplishments in meeting socio-economic goals. Small businesses are included in subcontracting plans for prime vendors. Medical/surgical standardization groups work with the National Industries for the Blind (NIB) and NISH agencies in an effort to maximize use of their products. Whenever possible, we attempt to create small business set-asides in National Contracts for

pharmaceuticals. More recently, the medical/surgical prime vendor solicitation utilized a "cascading" concept in an attempt to set aside certain regions of the country to small business concerns. At the National Acquisition Center, over 60 percent of its 1,200 contracts are to small businesses, including those owned by veterans, women, and minorities.

At the local level, we are very proud of VA's work with small businesses. The Veterans Health Administration operates 172 medical centers, 40 domiciliaries, 622 clinics, 131 nursing homes, and 206 counseling centers. That provides tremendous opportunity for us to engage small businesses.

**Q:** *How does VA Acquisitions plan to incorporate electronic commerce (i.e., Internet, Electronic Data Interchange (EDI)) capabilities for the average private sector vendor under contract, so that we may interact more efficiently with VA acquisition agents and users? What is the future of electronic payment?*

**A:** OA&MM is moving quickly and collaboratively with both industry and other Government agencies to fully harness the power and savings of electronic commerce. We are proceeding in implementing customized commercial off-the-shelf (COTS) software that will allow us to manage contracts from cradle to grave, i.e., from the development and publication of solicitations through contract administration.

Ancillary, but crucial to our efforts, is an electronic cataloging initiative. Electronic catalogs are now being imported by either direct EDI transmission from a VA contractor to the OA&MM Information Technology office in Austin, TX, or through an EDI transmission from a third party vendor.

Tying it all together, we are developing an Executive Information System that will help us to quickly extract key data about our critical business processes.

We are also working diligently at establishing an electronic order fulfillment mechanism using Internet based requisitioning strategies in addition to the proprietary ordering systems that link our ordering activities to our Prime Vendors. In fact, we are really excited about General Services Administration's (GSA) offer to bring all VA administered FSS and national contract items onto your automated ordering system, *GSA Advantage!* And we are continuing to explore other internet based acquisition and selling tools like electronic auctioning.

Finally, VA is also undertaking development of a major integrated financial and logistics management system that will replace two existing systems.

Q:

*What do you see as the most significant recent changes impacting VA Acquisition activities? How do you think these changes will influence VA procurement?*

A:

I foresee a major expansion in professional services contracting. This will be related to continued pressures to outsource non-inherently governmental functions and moving professional services closer to users of those services without incurring upfront fixed costs. Also, I think that contracting that combines commodities and services, for example, GSA's IT Schedules (FSC 70) will find a number of applications in VA acquisition, such as contracting for medical and surgical services. I also think we'll see an intensification of partnering with diverse industries; Federal employees working alongside contract employees. And, I would hope, as much as forecast, even more reduction in the duplication of acquisition efforts within and across Federal agencies.

Q:

*What are VA Acquisition forces' greatest assets and, conversely, risks as you enter the 21st century?*

A:

On the up side, we have several factors in our favor. First, our customers. They are our greatest assets. They are sophisticated and usually quite loyal and reasonable when we treat them as we'd like to be treated, partnering with them to work out complex buying strategies. Second, our people. Our acquisition staff possesses a business acumen that the private sector and other Government agencies envy. Third, the health care industry itself with which we interact: it repeatedly and expertly adapts to or creates new business models that we require to stay ahead of the curve. The Prime Vendor Programs and just-in-time delivery are two examples. Fourth, I'd have to say technology. I see technology as central to our ability to rapidly identify needs, quickly develop budgets, and find sources through which our client activities can purchase health care related products and services. In addition, I see the internet as a

potentially, incredibly strong mechanism to increase competition among vendors.

On the downside, I'd have to say that we, as leaders in Federal acquisition, have a long way to go in working through interagency turf issues. Fortunately, there are also many opportunities looming that will give us a chance to test our mettle.

Q:

*Is there anything else you'd like our readers to know about VA Acquisitions?*

A:

Yes. I think it's fair to say that OA&MM's early successes have catalyzed Government-wide rethinking about procurement policy and processes. DOD's regionally adopted Pharmacy Prime Vendor contracts emulate VA's early program developments. GSA is considering closing depots. OA&MM, in partnership with VHA, has led to an industry and customer focus that results in obtaining Value, high quality at low cost.

I'd like your readers to know that the VA vision and its resultant innovations reflect VA's leadership in transforming not only Government health care business practices, but that of private industry as well.

*Mr. Derr welcomes your comments on (202) 273-6047, via e-mail to [David.Derr@mail.va.gov](mailto:David.Derr@mail.va.gov), or by regular mail:*

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