

VHA INVENTORY MANAGEMENT

1. REASON FOR ISSUE. This Veterans Health Administration (VHA) Handbook provides reporting and other requirements for VHA inventory management.

2. SUMMARY OF CONTENTS/MAJOR CHANGES. The changes in this revised Handbook include:

a. Requirements for: primary inventory models, performance monitors for the Generic Inventory Package (GIP) categories, and conducting an inventory.

b. Streamlining of the reporting requirements.

c. Administrative and process changes.

d. An increase in focus from establishment of automated inventory management points, to maintenance and management of the automated systems.

e. New criteria for stipulating the types of acceptable Primary Inventory Models to be managed.

f. A change in the Performance Measures required for Inventory Management; the concept that all inventories are the same and can be held to the same standards is eliminated.

g. New performance criteria for each general category of inventory accounts.

3. RELATED DIRECTIVE. VHA Directive 1761 (to be published).

4. RESPONSIBLE OFFICE. The VHA Procurement & Logistics Office (10F) is responsible for the contents of this Handbook. Questions are to be addressed to 202-461-1771.

5. RESCISSION. VHA Handbook 1761.2, dated March 19, 2003, is rescinded.

6. RECERTIFICATION. This VHA Handbook is scheduled for recertification on or before the last working day of October 2014.

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VHA INVENTORY MANAGEMENT

1. PURPOSE

Veterans Health Administration (VHA) Handbook provides procedures for eliminating excess and unofficial supply inventories in Department of Veterans Affairs (VA) medical facilities.

2. BACKGROUND

a. Generic Inventory Package (GIP) is the current software being utilized for inventory management of stock. **NOTE:** *Details provided in this Handbook, and in related Inventory Management Standard operating procedures (SOPs), found at: <http://vawww.teamshare.va.gov/PCLO/SOP%20%20Standard%20Operating%20Procedures/Forms/AllItems.aspx>, are at times specific to GIP, so subsequent amendments to these documents will be issued to address any GIP replacement software. This is an internal web site and is not available to the public.* In accordance with the memorandum issued by the Deputy Under Secretary for Health for Operations and Management (10N), GIP in VHA Facilities on May 13, 2004, new requirements were established to ensure that GIP was fully implemented at every facility in VHA. According to these requirements, all GIP inventory points were to be fully implemented no later than August 31, 2004, with subsequent individual waivers approved for implementation no later than December 31, 2004. Several documents and templates, provided to facilitate this process, are included as Appendices to this Handbook.

b. The Office of Inspector General (OIG) performs ongoing Combined Assessment Program (CAP) reviews of VHA Medical Center Inventory Management programs. The most recent audits of Medical and Surgical, Pharmacy, Prosthetics, and Engineering supplies have consistently resulted in the same basic recommendations, which are to:

- (1) Issue guidance requiring VA medical facilities to eliminate excess supply inventories.
- (2) Use GIP, or its successor system, to manage all inventories. Patient care staff has an obligation to inform inventory managers of program changes, seasonal adjustments, and information concerning a new, or discontinued, use of, an item.
- (3) Establish goals and procedures to monitor progress in reducing inventories.
- (4) Provide VA medical facility staff training in inventory management principles and techniques and in the use of automation for inventory management.

c. Experience at VA facilities shows the following benefits of managing unofficial inventories using GIP:

- (1) There are fewer stock outages due to automating the replenishment process and it enables facilities to meet the requirements of Public Law 107-188, Public Health Security and Bioterrorism Preparedness and Response Act of 2002.

(2) Technical and patient care staff do not have to be involved in inventory control or budget maintenance.

(3) Specific cost information is available to the product line manager for each functional area.

(4) Specific usage information is available to facilitate national, Veterans Integrated Service Network (VISN), and local standardization efforts, and to easily verify standardization compliance as the National Item File is exported into GIP.

(5) Inventories are reduced and holding costs are lowered.

(6) There are fewer emergency procurements.

(7) There are fewer outdated items.

d. Additionally, there are several potential VISN benefits from consistent use of GIP; GIP:

(1) Has the ability to track costs for product lines.

(2) Makes it easier to identify training needs and target audiences.

(3) Allows for common data reporting elements.

(4) Allows for uniform policies to be developed for all facilities.

(5) Provides a platform for enhanced communication and shared goals.

e. VA is considering replacement of its core automated financial and logistics management systems. The new system will draw historical and operating data from existing VA automated systems. Therefore, a national inventory management program ensuring consistent, accurate data in a populated database is necessary for a smooth conversion. *NOTE: This Handbook responds to these needs and establishes a common standard for all VHA inventory management programs.*

3. SCOPE

a. VHA is establishing goals for reducing inventory levels, with mandatory use of GIP, or its successor system, to manage all inventories. All recurring or repetitive stock items, defined as all items held for future use regardless of turn rate, and funded as operating supplies, must be in the Item Master File (IMF) and GIP. In addition, all purchase transactions must reflect the IMF, and National Item File number. This allows for a consistent inventory system and common source for data to support the VHA Standardization Program and the National Procurement History File, and to fully automate the management of all unofficial inventories. Annual wall-to-wall inventory audits are required to maintain accuracy.

b. This Handbook addresses “best practices” for the primary functional areas of inventory management, including: Acquisition, Funds Control, Performance Measures, Training and Customer Service expectations. As new programs are implemented or new inventory requirements are needed by the medical facilities, this Handbook and SOPs are used to manage inventory.

c. This Handbook mandates the use of the Integrated Funds Distribution, Control Point Activity, Accounting and Procurement (IFCAP), and requirements in GIP, or its successor system, to manage all inventories. It establishes procedures to monitor progress in reducing inventories and ensuring inventory reduction goals are met; and it provides a structure for inventory staff training. *NOTE: Exceptions to this requirement include Prosthetics Service supplies for direct issue to beneficiaries, subsistence items in Nutrition and Food Service, and pharmaceuticals in Pharmacy Service (see par. 9).*

d. There are six General Categories of inventory areas that are mandated for full implementation of GIP:

- (1) Medical and Surgical,
- (2) Dental,
- (3) Imaging,
- (4) Laboratory,
- (5) Environmental Management Service (EMS), and
- (6) Engineering.

NOTE: These six general inventory categories are comprised of numerous functional areas and may not be all-inclusive.

4. RESPONSIBILITIES OF THE VHA PROCUREMENT AND LOGISTICS OFFICE

The VHA Procurement and Logistics Office (P&LO) (10F) provides ongoing logistics liaison support among the VISNs, VHA Central Office, and Office of Acquisition and Logistics (OAL). It is responsible for providing guidance to all VHA facilities in all areas of logistics, including: issuing implementation regulations; monitoring compliance with directives; collecting and reporting usage and cost data; and forming strategies to improve logistics operations.

5. RESPONSIBILITIES OF THE VISN CHIEF LOGISTICS OFFICER

The VISN Chief Logistics Officer (CLO) is responsible for:

- a. Representing the VISN Director on all matters related to Logistics;

- b. Facilitating communications between field organizations, VISNs, and VHA Central Office
- c. Developing and implementing VISN strategies to improve logistics programs;
- d. Facilitating sound business practices;
- e. Assisting with formulation of VHA logistics policies and procedures;
- f. Managing logistics data;
- g. Assessing inventory management programs at each facility;
- h. Providing guidance to local logistics managers;
- i. Working with clinical groups to improve their understanding of logistics goals;
- j. Working with the VISN Chief Financial Officer (CFO) to improve cost control and reporting efforts; and
- k. Ensuring compliance with established VA Directives, policies, and Handbooks.

6. RESPONSIBILITIES OF THE FACILITY LOGISTICS MANAGER

The Facility Logistics Manager is responsible for:

- a. Developing and maintaining a logistics program that:
 - (1) Helps improve utilization of supplies and commodities,
 - (2) Reduces inventory investment,
 - (3) Ensures compliance with standardization, and
 - (4) Improves understanding of inventory management objectives and techniques.
- b. Collecting information, responding to surveys, submitting nominations for training, serving as point-of-contact for Office of Inspector General (OIG) inquiries, coordinating visits by the CLO, and other related activities.
- c. Working with the facility CFO to:
 - (1) Establish fund control parameters, and
 - (2) Provide education and training opportunities to logistics staff.

7. RESPONSIBILITIES OF THE FACILITY LOGISTICS STAFF

The facility logistics staff is responsible for:

- a. Establishing and maintaining automated inventories;
- b. Working with consumers to gain understanding of their needs;
- c. Setting up automated inventories through use of GIP, or its successor program;
- d. Monitoring supply and commodity consumption;
- e. Monitoring stock replacement;
- f. Providing usage and cost reports to the consumer, the Logistics Manager, and the CLO, etc.; and
- g. Continually assessing the needs of the consumer.

8. INVENTORY PROGRAM MANAGEMENT

To ensure full implementation and oversee ongoing inventory program management, the VISN Director must ensure the following steps are taken to implement new inventories and maintain existing inventories:

a. Establishment of a VISN Supply Chain Management Program

(1) Under the supervision of the CLO, a VISN Lead Logistics Manager must be designated with responsibility for being the VHA P&LO's point-of-contact for inventory management and standardization issues for the network; and to provide VHA P&LO with point of contact information.

(2) The VISN Lead Logistics Manager is responsible for:

- (a) Identifying the Logistics Manager at each Field Facility within the VISN;
- (b) Identifying all employees at each facility involved in the inventory management process, regardless of where they are organizationally aligned;
- (c) Creating VISN-wide Outlook e-mail groups that include all of the employees identified above, entitled "VISN _ Inventory Management" or a similar title; and
- (d) Scheduling monthly network face-to-face, video, or audio conferences.

(3) The VISN Chief Logistics Officer and the Field Facility Logistics Managers are responsible for: establishing Commodity Standards Committees at the VISN and facility level;

and the distribution of standardization user group plans, minutes, notices of standardization, changes in policy and guidelines, etc., to the Commodity Standards Committee members.

b. **Maintenance of GIP.** An effective supply chain management program must include:

(1) **Evaluating Staffing Levels.** Staffing levels need to be evaluated to determine adequate requirements for compliance with this Handbook. Levels are primarily driven by the budget expended for supplies and the degree of inventory management. The staffing mix may vary from facility-to-facility, but needs to be consistent with the VISN logistics plan. The CLO needs to be involved with planning staffing needs.

(2) **Physical Space Planning.** The plans for establishing individual inventory sites must include careful consideration of space, climate controls, availability of shelving, and frequency of users accessing inventory.

(a) The inventory manager must consider the products being stored, the grouping of products used for a particular procedure or process, security requirements, criticality of the product, infection control requirements, environment of care requirements in accordance with VHA Directive 7176, and product availability from vendors and manufacturers. Successful implementation is dependent-upon this analysis.

(b) Failure to plan the layout of the storage site results in wasted effort and increases the potential for product loss, along with increasing the frustration level of the customer. **NOTE:** *The inventory manager needs to spend time at the customer work-site before attempting to establish the inventory.*

(3) **Monitoring and Evaluating GIP Accounts**

(a) Monitoring GIP accounts includes identifying baseline achievement levels at each facility within the VISN, and target potential new accounts to include, at a minimum, the following general categories, as well as the additional functional areas specified in Appendix B.

1. Medical and Surgical, which includes the Operating Room (OR), clinics, wards, the Cardiac Catherization Laboratory, Anesthesia, etc.

2. Dental.

3. Laboratory.

4. Imaging.

5. Environmental Management Service.

6. Engineering.

(b) Evaluating the GIP program includes the CLO conducting an assessment of logistics functions at each VISN facility to include a Training Assessment based on:

1. Developing the facility training plan based on the facility's baseline analysis and assessment of need.

2. Setting dates, training location(s), and an agenda for a VISN face-to-face GIP training schedule based on the facilities' needs. **NOTE:** *All training must be documented in the employee's personnel file.*

3. Phasing and time frames by site and activity.

4. Including the resources required for implementation; i.e., Information Technology (IT) equipment, scanners, etc.

(4) **Customer Service Expectations.** The following Customer Service Expectations must be addressed:

- (a) Timeliness;
- (b) Quality (acceptable features for intended purpose);
- (c) Cost (product and time requirements);
- (d) Education;
- (e) Availability (the right place, right time, right condition);
- (f) Responsiveness;
- (g) Industry relationships;
- (h) Ongoing communications and customer involvement; and
- (i) Trust.

(5) **Action Plan.** If a Management Quality Assurance Service (MQAS) audit is performed, and it is determined that an inventory point is not fully implemented in accordance with this Handbook, an action plan must be prepared and submitted through the VISN Director to the VHA P&LO (10F). The VHA P&LO has 30 days to approve and return the plan to the VISN Director. Upon receipt of the approved plan, the VISN Director proceeds with implementation, to be completed within the timeframe stipulated by 10F. If a response is not received within the 30 days from VHA P&LO, the plan is considered approved.

(6) **Reporting Channels.** Each facility must have a hierarchy through which GIP plans are formed and implemented, and the results reported through the chain of command.

c. **Inventory Management and Standardization.** GIP is the management system that: identifies candidate items for standardization; tracks and promotes compliance; generates usage-cost reports; and provides a mechanism to evaluate vendor delivery performance.

(1) There are standard reports available in GIP that are used at the VISN and National level; although, local unique reports may be developed through use of Fileman routines for internal use. *NOTE: Contact facility Information Technology (IT) staff for Fileman assistance.*

(2) Users can identify inventory items that must be used or exchanged to facilitate introduction of standardized items.

(3) GIP includes locations where items are stocked, which is helpful when planning new product in-service training. When new products are introduced, the logistics manager must ensure all users are trained on the new product.

d. **Inventory Management and Purchase Card.** Purchase cards are a payment tool that can lead to efficiencies in managing inventory programs.

(1) In accordance with VHA Directive 1730.01, all VHA employees must utilize the Government Purchase Card for acquisition of supplies or services using Federal Acquisition Regulation (FAR) simplified acquisition procedures (SAP), the aggregate amount of which does not exceed the micro-purchase threshold of \$3,000, with the following exceptions:

(a) For acquisitions of construction subject to the Davis-Bacon Act, \$2,000; and

(b) For acquisition of services subject to the Service Contract Act, \$2,500.

(2) If the purchase exceeds the micro purchase threshold limit of \$3,000, the individual must comply with FAR requirements and competitively source the requirement.

(3) Purchase Cards are not authorized for purchasing equipment.

(4) Purchase card users must use “detailed” IFCAP transactions when purchasing all recurring or repetitive inventory items; the selection of the IFCAP item file, bar coding, auto-generate option, and detailed orders enhances the efficiency of the GIP system through use of the purchase card. *NOTE: The Purchase Card Coordinator at each facility is responsible for training purchase card users.*

e. **Information Resource Management (IRM) and Finance Involvement.** The assistance of the Information Resource Manager and the CFO at each facility is necessary to implement and maintain the automated inventory system.

(1) The IT equipment and software requirements must be planned in coordination with the overall facility IT plan. The IRM needs to:

(a) Understand the inventory management plan and implementation schedule; and

(b) Be informed of changing requirements, technology advancements, software releases, and replacement needs.

(2) The VISN CLO has the responsibility to work with the Facility Logistics Manager, or designee, to ensure the proper assignment of menu options to inventory staff to enable them to efficiently and effectively perform inventory management duties.

(a) The inventory manager, inventory technician, purchasing agent, control point clerk, etc., may all have access to different menus.

(b) The facility logistics manager determines which menus are needed and works with IRM to ensure that menus are assigned to appropriate staff. *NOTE: Refer to the official IFCAP GIP manual for specific details.*

(3) The proper management of inventories saves resources; therefore it is imperative that the CFO be involved during development of inventory managements plans. *NOTE: Charged with overall management of financial resources, the CFO is interested in the data that becomes available through effective use of GIP and can provide valuable support in efforts to improve fund control management.* The inventory manager works with the accounting staff to provide monthly and quarterly cost reports and budget projections to the local CFO and customers. *NOTE: This exchange of information improves the value of the inventory management program and assists the CFO with budget decisions.*

9. REQUIREMENTS FOR IFCAP

The inventory management program utilized by VA consists of IFCAP and GIP. The IFCAP inventory system is used to manage the receipt, distribution, and stock maintenance of items received from the supply warehouse and outside vendors. IFCAP provides information on supplies, equipment, vendors, procurement history, and control point activity. It is essential that this information be entered into the IFCAP system completely and correctly.

10. REQUIREMENTS FOR GIP

GIP is a portion of IFCAP used to manage the receipt, distribution, and maintenance of supplies utilized throughout the facility.

a. There are three levels to the GIP inventory system: warehouse, primary, and secondary inventories.

(1) The warehouse maintains a supply of items that are repetitively used by multiple services (posted stock) and is funded by the Supply Fund.

(2) The primary inventory is the main inventory for a using department.

(3) The secondary inventories are the points of distribution. *NOTE: Supply Processing and Distribution (SPD) is typically the main inventory for medical and surgical supplies.*

b. Other types of primary inventories within the medical facility include Imaging, Dental, Laboratory, EMS, and Engineering.

c. Within GIP, the primary inventory consists of all items stocked or procured for that inventory account. If multiple inventory points are combined into a larger primary inventory point, and multiple fund control points are required, the GIP system does support the use of multiple control points within one primary inventory. *NOTE: This strategy could aid in the reduction of the inventory management workload.*

11. REQUIREMENTS FOR PRIMARY INVENTORY MODELS

Primary inventory accounts must be established in accordance with VHA in one of the following models:

a. **Posted Stock.** The posted stock inventory model must be used for Warehouse inventories that are funded by the Supply Fund.

b. **Inventory with Distribution Points.** A Primary Inventory with distribution points is the most efficient method of tracking supply usage from receipt to consumption. This model maximizes all aspects of the GIP automated inventory management software program, and at a minimum, must be used for SPD clean and sterile supply inventories. *NOTE: It is highly recommended that when space and staffing permit, this model be used for all types of inventory supplies.* There are specific situations where use of a Primary Inventory with distribution points is not feasible. In these cases, Stand-Alone Primary Inventories need to be established.

c. **Stand-Alone Inventory.** If the inventory point is also the point of consumption, a Stand-Alone Primary Inventory point must be established.

12. REQUIREMENTS FOR ITEM DEFINITION

Recurring or Repetitive Items are defined as any item that is stocked for future use in a medical facility, regardless of turnover rate. These items are further broken down into two categories; Standard Items and On-Demand items.

a. Standard items are items that are frequently utilized and that have an established turn-over rate.

b. On-Demand (Just In Case) items are those items that must be available at all times and that cannot be ordered on a just-in-time basis without risking a negative impact on patient care. On-Demand Items must be maintained to ensure medical supplies, facility equipment, and facility structures are available to provide quality patient care.

13. REQUIREMENTS FOR STOCK LEVELS

a. Stock levels are established to maintain constant availability of items. An average of no more than 30 to 90 days stock on hand is required for the combined total of all Standard Items, depending on the inventory category specified in Appendix C. This does not mean each

individual item, but an average of all Standard Items. Levels for On-Demand ("Just In Case") items must be kept at a minimum to avoid overstocking, and separate requirements are established for managing and monitoring these items. It is important to avoid overstocking and under stocking in both the primary and secondary inventories.

(1) Overstocking increases the risk of damage, outdating, contamination, or obsolescence of inventory items. It also is an inefficient use of financial resources by purchasing and storing more inventory than required.

(2) Understocking creates the risk of unavailability of supplies, which affects the quality of patient care, and creates additional purchase costs (overnight shipping), and adversely affects the trust users have in Logistics Staff. **NOTE:** *It is critical that inventory managers work with their customers to maintain the correct items and levels for products at the secondary level.*

b. Types of stock levels are the:

(1) **Normal Stock Level.** The normal stock level represents the largest amount of an item to be maintained in the inventory point.

(2) **Emergency Stock Level.** The emergency stock level represents the smallest amount of an item to be maintained in the inventory point. The Emergency Stock Report can be used to alert staff that an emergency purchase may be required. Appropriate Emergency Stock Levels must be established for all Standard items.

(3) **Temporary Stock Level.** If there is a big increase or decrease in demand for an item, such as a seasonal item, a temporary stock level can be entered for that amount of time, and it will override set stock levels. This allows the inventory manager to manage fluctuations in demand without permanently changing stock levels. Inventory managers are required to enter a delete date when establishing a temporary stock level, so the system automatically deletes that level after the specified date.

(4) **Standard Reorder Point Level.** The standard reorder point level represents the level at which the item is to be reordered.

(5) **Optional Reorder Point Level.** The optional reorder point level is used in the Auto-Generation process to identify items that have fallen below the normal stock level, but have not yet reached the standard reorder point level. This allows for inclusion of items very near their reorder point in upcoming purchases with the same vendor, thereby reducing separate purchases to the same vendor within short periods of time. **NOTE:** *Using this option for Standard Items is strongly recommended.*

14. REQUIREMENTS FOR STOCK LEVELS AUTOMATION

GIP, using all available automation options, is the primary tool utilized in working towards the goal of tracking supplies to the correct cost accounts and functional areas at the lowest level possible. In order for an inventory point to be considered fully implemented, all recurring and repetitive items are loaded in the IMF and populated in the primary inventory points. All

primary inventory points, and when appropriate, secondary inventory points, must be established and populated. The items must be bar-coded and neatly arranged on appropriate shelving. Inventory is replenished through scanning or auto-generation.

a. **Primary Inventories with Secondarys**

(1) Primary Inventories with Secondarys include: scanning secondary inventories for replenishment based on the stock levels indicated through the bar code scanning process; using auto-generated picking lists; and not making manual entries of normal distribution orders.

(2) Inventory Managers must use the auto-generation option in GIP for generating orders to replenish primary inventories. These levels automatically calculate the required quantities necessary to bring stock up to the established normal stock level; the computer program automatically reviews preset inventory levels against amounts on hand; and identifies those items below the preset levels, so they may be requisitioned.

b. **Stand-Alone Primary Inventories.** Stand-Alone Primary Inventories serve as the point of storage and usage.

15. REQUIREMENTS FOR BAR CODE LABELS

Computerized bar code labels identify each item within the inventory.

a. The supply technician uses a bar code reader to scan the label to identify the item and then enters the actual amount present.

b. After scanning a secondary inventory, the information is uploaded into GIP, and a picking ticket is generated.

c. The picking ticket identifies the items and amounts required to be restocked in that secondary to return to preset levels.

16. REQUIREMENTS FOR SECONDARY INVENTORIES

Secondary inventory points are maintained at the end user area.

a. Within GIP, secondary inventories are maintained with stock levels and reorder points. Secondary inventories may be maintained by Logistics or the user. **NOTE:** *It is recommended that the normal stock level and the standard reorder point level are the same in the secondary inventories. This ensures supplies are maintained at the established user requirement level.*

b. Because of the nature of how secondary inventories function, physical stock on hand rarely matches the GIP on-hand quantity at a given point in time, but seldom needs to exceed the normal or temporary stock level. Consequently, audits by external audit agencies, such as Office of Inspector General (OIG) and MQAS, do not audit accuracy rates of stock on hand for secondary inventories. **NOTE:** *If an item is set as On-Demand in the Primary inventory point, it must be set as On-Demand in the secondary inventory point.*

17. REQUIREMENTS FOR INVENTORY COMPLIANCE

Once a Primary GIP inventory point has been established, it is critical to monitor GIP reports to ensure continued accuracy of the data and proper management of stock on hand and to conduct annual wall-to-wall inventory audits.

a. Audit Guidelines need to be used to conduct regular audits of existing inventory points. GIP reports need to be utilized to audit and measure VHA requirements against field activity inventory points. The frequency that these audits are conducted may be dependent on the findings, i.e., if all reports indicate the expected level of activity for that size and type of inventory point, all items stocked are included in GIP and bar-coded, and the accuracy rate of the sampled items is at least 90 percent (except for Posted Stock), then the audit may only need to be conducted annually. However, if discrepancies are discovered or accuracy rate is less than 90 percent, these audits need to be conducted monthly until above the 90-percent level or discrepancies are cleared. Appendix A provides a sample action plan and template that must be submitted for each GIP inventory point that has not been fully implemented; Appendix B provides an action plan template to be used to establish a new GIP inventory point; Appendix C provides a listing of the six GIP primary inventory categories; and Appendix D provides the target performance measures for GIP primary inventories.

b. Posted Stock audits must be conducted in accordance with VA Handbook 7002, Materiel Management Procedures, and accuracy rates must be at least 95 percent.

c. Annual wall-to-wall inventory audits are required to ensure ongoing accuracy and appropriateness of stocked items.

(1) The accuracy rate requirement for the annual inventory is at least 90 percent.

(2) Officials responsible for management of inventories are required to ensure on-going accuracy and appropriateness of stocked items (for further guidance see VA Handbook 7002 Appendix G).

(a) To facilitate this, those officials are responsible for coordination and completion of a physical inventory of every item contained within an inventory point on an annual basis, at the least.

(b) A team of two individuals must conduct physical inventories, each responsible for counting and recording, separately, inventory counts for every item in the primary inventory point.

(c) Upon completion of the inventory counts, the two individuals must compare the inventory quantities recorded and annotate item count discrepancies. All items, annotated as discrepant, will be required to be physically counted again by the inventory team until both individuals are in agreement as to the actual quantity on hand. **NOTE:** *It is recommended that a third disinterested party conduct the count of discrepant items with the two individuals. These counts can be accomplished by scanning the inventory and uploading the data, but not posting it.*

(3) The bar-code upload can then be reviewed and printed through the Data Manager function of the bar-code menu. Once the review is completed and any changes made to the bar-code data, the uploaded data is posted immediately.

(4) If any additional manual adjustments are required, they must be accomplished before close of business after the physical inventory has been completed.

(5) Upon completion of an inventory, a memorandum identifying the discrepancies and summarizing what steps are being taken to minimize them must be submitted to the Facility Logistics Manager, or designee.

(6) Physical inventory documentation to include the bar-code upload data printouts, any physical inventory worksheets with discrepancy annotations, as well as annotations resulting from any item recounts, along with subsequent adjustment documentation, must be maintained and kept on file. These documents are to be available to the Facility Logistics Manager, or designee, upon request for a minimum of 2 years.

d. The Facility Logistics Manager, or designee, needs to run an Abbreviated Item Report, which reflects the quantity on hand for each line item, after all stock received in GIP has been put on the shelf, and all stock issued out of GIP has been pulled from the shelf for the day. If this is not accomplished, the inventory is automatically out of balance. *NOTE: To facilitate this, it is recommended that wall-to-wall audits are conducted after normal working hours or on weekends or holidays.*

e. Inventory accounts (or inventory accounts stored in multiple locations) can have all inventory line items counted at one time, comparing the quantity on hand in GIP to the actual quantity on hand counted or can be divided into twelve or less manageable sections, and one section audited each month. Regardless of which method is used, all line items must be counted and verified against GIP records once each year.

18. REQUIREMENTS FOR INVENTORY MAINTENANCE

Primary and secondary inventories are reviewed on a regular basis utilizing GIP-generated reports, including but not limited to the following most commonly used reports.

a. **History of Distribution Report.** The History of Distribution Report shows the total dollar amount of supplies distributed to each secondary. This information is useful in computing quarterly and annual budget reports and compiling a Cost Distribution Report (CDR).

b. **Inactive Item Report.** The Inactive Item Report gives a list of items for a specific period of time that have been inactive, allowing a determination to be made as to whether or not an item should continue to be stocked.

c. **Packaging or Procurement Source Discrepancy Report.** This report displays discrepancies found with items stored in the inventory point that need to be corrected. These

discrepancies include packaging, unit, and discrepancies from a vendor. The national stock number (NSN), Description, Item Master Number, and Unit per Issue must be displayed.

d. **Stock Status Report.** The Stock Status Report provides a summary of all issues, receipts, and adjustments (quantity and dollar values) with the opening and closing balances by account codes. It provides current data, calculates the turnover rate, inactive item percent, long supply percent, and non-issuable percent.

e. **Due-In Item Report.** The Due-In Item Report displays inventory point items that have outstanding due-in transactions. The report displays the outstanding transaction, associated purchase order number, vendor, estimated delivery date, partial numbers not received, and the due-in quantity. This Report needs to be reviewed regularly to determine whether follow-up is needed with the supplier.

f. **Days of Stock On Hand Report.** The Days of Stock On Hand Report states how many days the stock has, before it must be replenished.

g. **Limited Access.** Access to inventory needs to be limited. At times when medical staff requires additional inventory, the nurse on duty (NOD) must accompany the staff member to the primary storage location and items removed from stock must be properly annotated.

19. REQUIREMENTS FOR CLEAN ROOMS

All clean and sterile storage areas are designed to promote cleanliness, visibility, safety, and efficiency of distribution. The inventory of these areas needs to be verified on a regular basis for accuracy of inventory balances, outdated items, damaged, or obsolete items. The rotation of stock is vital to prevent unnecessary outdates and additional costs. **NOTE:** *Clean Rooms are subject to all of the requirements of VA Directive and Handbook 7176.*

20. REQUIREMENTS FOR POINT-OF-USE (POU) EQUIPMENT

POU equipment is an automatic dispensing system that provides secured storage of supplies close to where the supplies are used. Access to supplies is limited to employees who are provided passwords. POU equipment is to be considered for use in areas with high cost and high volume in order to track actual costs to patient or procedure. It can be used for remote clinics and areas where inventory managers are not assigned, such as Community-based Outpatient Clinics (CBOC) and in areas where supplies are prone to pilferage or sensitive in nature. However, POU equipment must be interfaced with IFCAP or GIP through the VA-approved interface program that allows all required data to be captured. Locally-developed or Class III interface programs or changes to the VA-approved interface program are not allowed.

21. REQUIREMENTS FOR PERFORMANCE MEASURES

a. All Standard Recurring or Repetitive Items in GIP need to maintain an average stock on hand in accordance with Appendix C. While individual line items may need to have more than the established days supply on hand due to procurement requirements, the average of all line items should not exceed the percentage specified in Appendix C by inventory category.

b. The percentage of Long Supply items (defined as items with more than 90 days of stock of hand) based on the inventory value, must not exceed the percentage specified in Appendix C by inventory category. The percentage of inactive items (defined as items that have no receipts or issues in 90 days of stock on hand) based on the inventory value must not exceed the percentage specified in Appendix C by inventory category.

c. The On-Demand (Just-In-Case) Patch to IFCAP GIP enables reports to differentiate between standardized items and On-Demand items. By their very nature, it is not feasible to establish a specific target number of turns or days stock on hand for On-Demand Items, nor a percentage of Long Supply or Inactive items that would be considered acceptable. However, On-Demand (Just-In-Case) items must still be managed diligently. The number of On-Demand items must be limited. Inventory managers need to review usage history to determine minimum stocking levels for On-Demand items. On-Demand items need to be reviewed on a periodic basis to determine if items are to be maintained, converted to a standard item, or removed from inventory.

22. REQUIREMENTS FOR EMERGENCY AND DISASTER SITUATIONS

a. In the event of a natural disaster or emergency, a waiver may be obtained by a VISN or facility to suspend performance monitors for a given period of time. A waiver must be sent to the P&LO within 14 business days of the given event. In cooperation with the VISN and the facility, P&LO determines the amount of time monitors are to be suspended.

b. The VA Pandemic Influenza Plan allows VHA medical facilities to have medical supplies stored available for future use if a pandemic flu outbreak occurs.

(1) These supplies must be maintained in a primary inventory point designated by the naming standard ## PAN INFLUENZA. There will be no performance monitors associated with this primary; however medical supplies must be maintained in accordance with proper inventory procedures, including such things as humidity and sterile conditions.

(2) Items requiring rotation due to expiration dates or other problems will be loaded into a medical facility's working inventory at the average cost of the item on the day loaded.

(3) New items must be obtained and stored back in the ## PAN INFLUENZA inventory, as required.

c. An annual review must be completed to ensure that all supplies are available and ready for use.

23. TRAINING PROGRAM

a. **VHA Materiel Management Training.** The VHA P&LO (10F) periodically conducts Materiel Management Training sessions. These sessions provide training on new initiatives, how to use reports to maintain GIP accounts, trouble-shooting, lessons learned, and other related

issues. This training is planned and coordinated through the Employee Education System (EES) and documented in the Learning Management System (LMS).

b. **Instructors.** Sessions are coordinated by the VHA P&LO (10F) to train staff from multiple VISNs as Qualified Instructors in the use of GIP, basic inventory management practices, and the principles of inventory management, so that they can return to their assigned VISN and train others on the information provided. Instructors are provided with all training materials and course content necessary to conduct VISN-level training for all employees involved in the Inventory Management process. Each VISN must make an effort to identify Qualified Instructors. This training is repeated as necessary to address new inventory tools, regulations, practices, and processes (i.e., IFCAP Version 5.1 and Patches, IFCAP GIP Replacement System).

c. **VISN-Level Training.** The Qualified Instructors are responsible for conducting VISN-level training based on the criteria provided to them. Records must be maintained of training completed and must be reported through the VISN CLO to the VHA P&LO (10F).

d. **Facility-Level Training.** Inventory Management staff at the facility are responsible for attending training provided by a Qualified Instructor, and educating users at their facility regarding the inventory management process as it relates to them. The users need to understand GIP, how it works, why it will make them more efficient, and their responsibilities.

e. **Point of Use Equipment.** Training for point of use equipment is a requirement for all sections having point of use equipment. Furthermore, utilization of existing point of use equipment must be promulgated and re-emphasized throughout VHA enterprise.

f. **Review of VHA Handbook 1761.02.** An annual review of this Handbook (1761.02) is required and must be annotated in the personnel training folder.

24. REPORTING REQUIREMENTS

a. **VHA Procurement and Logistics Office (10F).** The VHA P&LO (10F), being charged with performance measurement of inventory management in VHA:

(1) Determines benchmarking criteria and compliance reporting measures to be used by VHA facilities.

(2) Provides a completed monthly report on compliance with this Handbook to the Deputy Under Secretary for Operations and Management. *NOTE: This report is shared with the VISN Directors and VISN Chief Logistics Officers.*

b. **Facility Level Performance Management and Benchmarking Reports.** Inventory Management Benchmark Data measures the impact of mandatory GIP use on: day's stock-on-hand, turnover rate, inventory balance, cost of sales, and line items managed. It monitors compliance with VHA Handbook 1761.02 and inventory maintenance.

(1) **Source of Data.** National inventory data is obtained on the first day of the month on all active primary and secondary inventory points for the previous month. The information is collected from the GIP Stock Status Report and Days of Stock on Hand Report. This information is held at the station level until the 15th of each month when it is sent to the P&LO Report Server. The reports are held at the medical center, VISN, and nationally for at least 2 years for review by interested parties.

(2) **Inventories**

(a) The Reporting System collects all primary and secondary inventory points. The data is sorted into the six general types that include:

1. Medical-Surgical,
2. Dental,
3. Imaging,
4. Laboratory,
5. Engineering, and
6. Environmental Management.

(b) It is understood that stations may combine inventories to create one or two large primaries. The report server classifies these types of primaries as either medical or non-medical and applies the performance monitors. As an example, a station may combine imaging, dental, and SPD products as one medical primary. This primary is monitored in accordance with the medical surgical standards. Posted stock and process stores information are not a part of the performance monitors.

(3) **Data Fields.** The following data fields are extracted for use by the report server.

(a) TOTAL SALES - Cost of sales. This is defined as the dollar value of sales or issues for the specific reporting month from the Stock Status Report.

(b) CLOSING BALANCE - Inventory balance. This is defined as the closing inventory balance from the specific reporting month from the Stock Status Report.

(c) TURNOVER RATE - Turnover rate. This is defined as the value of sales for the current reporting month multiplied by 365 days divided by the number of days in the current reporting month divided by value of the closing inventory balance for the current reporting month. This is the formula currently used by the GIP system.

(d) DAYS OF STOCK-ON-HAND - Number of days stock-on-hand. This is defined as 365 days divided by the turnover rate for the current reporting month.

(e) NUMBER OF LINE ITEMS MANAGED. This is defined as the number of inventory items managed within the inventory at the end of the reporting period.

(f) PERCENT OF INACTIVE SUPPLY. This is defined as the percentage of inventory dollars related to items with no activity over a specified time period. VHA P&LO determined the time period on inactivity to be 90 days. The formula for inactive supply is the current dollar value for inactive items for the reporting month divided by the current inventory balance for the reporting month.

(g) PERCENT OF LONG SUPPLY. This is defined as the percentage of inventory dollars related to items with greater than a specific number of days of stock on hand. VHA P&LO defines long supply to be items with more than 90 days of stock on hand. The formula for calculating the percent of long supply is the current dollar value of long supply items for the reporting month divided by the current inventory balance for the reporting month.

(h) INVENTORY NAMING STANDARDS. Stations are required to adopt certain naming standards for all primary inventory points. All primaries must be in all capital letters and describe the type of inventory they represent (i.e., if laboratory products are in the laboratory inventory, "laboratory" must be part of the name). All primary inventory points that are not currently being utilized must be inactivated. Stations still using a posted stock warehouse that needs to have primary inventory points established in order to distribute stock, must proceed the name with ##. This allows the report server to determine those inventories that are not to be considered part of the performance monitors.

25. PROSTHETIC EXCEPTIONS

One of the exceptions to the use of GIP is Prosthetics Service. Prosthetics items for direct issue to beneficiaries are subject to specified variances from mandatory source requirements. Prosthetics field facilities have been mandated to use the prosthetic inventory package (PIP) in the Veterans Health Information System and Technology Architecture (VistA) software for management of inventory control.

26. NUTRITION AND FOOD SERVICE EXCEPTION

Inventory requirements for Nutrition and Food Service subsistence items are determined and fulfilled through the proprietary software provided by the Subsistence Prime Vendor Contractor used by all VA medical facilities. Because of the unique storage requirements and shelf life of subsistence items, an excess of inventory levels is not as much of a problem as it is in most of the other areas of a medical center. Therefore, the use of GIP for subsistence items is not mandated.

27. PHARMACY EXCEPTION

Pharmacy Service at all VA medical facilities must adopt the following Inventory Management Practices.

a. Background. Pharmaceuticals are purchased through a Pharmaceutical Prime Vendor utilizing a proprietary ordering system. The current Pharmaceutical Prime Vendor's proprietary

ordering system contains an inventory management software program. The program provides a wealth of information to assist facilities in minimizing the total replenishment cost of inventory. The goal of effective inventory management is to minimize the total replenishment cost, which includes both carrying cost and order line cost. The Reorder Quantity (ROQ) is the quantity of stock to order that minimizes all costs. The prime vendor inventory management software calculates the ROQ for each item ordered. Other available inventory management tools that are utilized with the prime vendor's inventory management program for VHA pharmaceutical inventories include:

(1) **Demand Forecasting.** This means weighting factors are applied to past purchases to help factor trends into the calculations of Reorder Point (ROP) and ROQ for more accurate inventory management.

(2) **Calculations of ROP (minimum safety stock level) and ROQ.** Generation of bar coded shelf labels containing this information can be used to trigger the order process.

(3) **Ability to Override Normal.** Ability to override normal demand forecasting when necessary for an item that does not fit the mold of the velocity grouping (essentially increasing safety stock or "lead" levels or desired ordering levels while still letting the system continue to trend with purchase history on those items).

(4) **Ability to Designate Lead-time.** Ability to designate lead-time, which affects required inventory stock levels.

(5) **Calculation of Inventory Turns.** Calculation of inventory turns. *NOTE: This refers to the number of times an item turns over within an inventory in a designated period of time from replenishment to consumption.*

(6) **Support of the ABC Inventory Analysis Method**

(a) Approximately 70 percent of inventory dollars are spent on 10 percent of the products.

(b) These are "A" items and need to be monitored closely to reduce total inventory carrying cost. Approximately 20 percent of the inventory dollars are spent on 20 percent of the products. These are "B" items and can be managed less aggressively.

(c) The "C" items are 10 percent of the inventory dollars and 70 percent of the products. These items can be managed least aggressively and the ordering process for these items can be streamlined to reduce daily workload requirements for these items.

(7) **Report Capabilities.** Report capabilities need to be available to support the available tools.

b. **Program Implementation**

(1) The Prime Vendor Inventory module must be used to manage all VA medical facility Pharmacy inventories.

(2) The ROQ is calculated for each line item using the inventory management software. In order to determine the proper ROQ, the prime vendor asset management system must be enabled and parameters set accordingly. The supply months are to be set at 4-months usage based on dollars. The optional "include current month" setting is encouraged for use to help keep the values reflective of moving purchasing trends; and 7 days is considered an appropriate number of days to include in that setting.

(3) Bar Code shelf labels containing the product name, item number, ROP, and ROQ must be affixed to all stock locations.

(4) Bar Code shelf labels must be updated quarterly for "A" items and annually for "B" and "C" items, or as dictated by changing product movement. This is best done by printing only items where the ROP has changed.

(5) The hand held barcode reader provided by the Prime Vendor is used for scanning the shelf label for items whose schedule dictates reorder, entering the quantity of product desired (or a zero quantity to let the system introduce the quantity automatically), and uploading the order into the Prime Vendor computer system for transmission. If quantities are manually entered at time of scan, the Purchase Order (PO) process within the Prime Vendor System can still be used to compare those quantities against those suggested by the system. The orders can then be transmitted to the Prime Vendor.

(6) The ABC method of inventory management is used to determine inventory reordering frequency, as follows:

(a) "A" items must be inventoried and ordered a minimum of two times weekly. With velocity days supply (ROQ) set at 7 days and shelf-label day's supply ROP set at 3 days.

(b) "B" items are to be inventoried and ordered a minimum of weekly. With velocity days supply set at 10 days and shelf-label day's supply set at 5 days.

(c) "C" items are to be inventoried and ordered once every 14 days. With velocity days supply set at 14 days and shelf-label day's supply set at 7 days.

NOTE: *Procurement staff must balance the utilization pattern of the facility with the knowledge of certain aspects of medical care to determine the appropriate quantity level to order. This judgment must factor into ordering the knowledge of recent pharmaceutical and supply recalls, manufacturer back orders, Consolidated Mail Outpatient Pharmacy (CMOP) prescription returns to the facility, seasonal variation in demand, targeted drug conversion initiatives, limited quantity ordering restrictions, changing formulary and contract status, unusual patient cases or clinic demand that require a higher than average product requirement, and the space availability to store the product for a 2 week period. These factors may override the frequency or quantity requirements, to minimize unnecessary purchasing or risk inadequate storage space.*

(7) Validation of the order quantity can be systematically activated. This is done by activating the PO Prepare preferences.

(a) Under Administration...User...PO Prepare on the menu, the user should check the “Validate Over/Under Quantity” field. The quantity is suggested to be set at 25 percent, though that can be adjusted to suit customer needs.

(b) The user needs to select Contract Item and Best Price to optimize order review opportunities. This over and under validation checks the quantity in orders against the system suggestion during the PO Prepare process and tag those items whose order quantity is out of line with expectations.

(8) End of year purchases make pharmaceutical inventories increasingly difficult to manage and are to be avoided.

c. **Monitoring.** Inventory turnover or inventory turns is the primary measure of the effectiveness of inventory management. *NOTE: In a recent McKesson Hospital Pharmacy Survey, the average inventory turns for all hospitals was 10.7 annually.* Increasing inventory turns decrease inventory carrying cost but increase order line cost. *NOTE: The appropriate balance must be struck to keep total replenishment cost low.*

(1) The theoretical turns report is run monthly for each inventory category A, B, and C, as well as the report for all classes combined.

(2) The forecast exceptions report is used monthly to adjust minimum and maximum inventory levels and order points to recommended levels.

d. **Reporting**

(1) Pharmacy Benefits Management (PBM) obtains from the prime vendor a copy of the 12-Month Turns Forecast Report Summary. PBM aggregates and returns this report to the VISN Formulary Leaders on a quarterly basis, and forwards a copy to the VHA P&LO.

(2) An annual wall-to-wall inventory of all items must be sent by individual facilities to the PBM by February 28th of each calendar year. The reporting of the annual inventory must be submitted electronically and include a description of each drug product, the measured on-hand quantity, and the estimated value. Once reported to the PBM, the data is aggregated by the VISN and returned to the VISN Formulary Leaders. The PBM also aggregates the data nationally and returns a report to the VISN Formulary Leaders, and forwards a copy to the VHA P&LO (10F) for monitoring purposes. *NOTE: Minimum standards for conducting the annual inventory are determined by PBM.*

e. **Consolidated Mail Outpatient Pharmacy (CMOP)**

(1) CMOPs, like Pharmacy, use a prime vendor to supply the vast majority of products that are carried in inventory. CMOPs are large automated-dispensing locations that utilize third-party inventory management software to predict product demand, and to provide information for electronic prime vendor ordering and inventory management information.

(2) Inventory turnover rate for CMOP locations must exceed 15 turns annually.

(3) CMOPs must conduct quarterly wall to wall inventories and report the inventory results to PBM.

SAMPLE ACTION PLAN			
VISN #:			
FACILITY #:			
FACILITY NAME:	Anywhere VAMC		
FULL IMPLEMENTATION DUE DATE:			
GENERAL INVENTORY CATEGORY		FACILITY PRIMARY INVENTORY POINT NAME	
One of the Six Inventory Categories		The Name of Inventory in GIP	
Description of Specific Steps to be Taken			
	Start Date	Planned Completion Date	Actual Completion Date
1. Identification of all items to be included in Primary, and documentation of cost data			
a. Paint Shop			
b. Air Cond/Refrigeration			
c. Electrical			
d. Bldg. Maintenance			
e. Grounds			
f. Biomed			
2. Input items into Item Master File			
3. Population of items in GIP Primary, establish levels, reorder points, etc.			
4. Stock shelves in Primary Inventory Point Location(s)			
5. Bar-Code Shelves			
6. Population of items in GIP Secondary's, establish levels, reorder points, etc.			
a. Paint Shop			
b. Air Cond/Refrigeration			
c. Electrical			
d. Bldg. Maintenance			
e. Grounds			
f. Biomed			
7. Stock Shelves in Secondary Inventory Point Locations			
8. Bar-Code Shelves			
9. Scanning and uploading amount of stock on hand for Primary and Secondary's			
10. Begin initiating replenishments by scanning and auto generating purchase requests			

Submitted by: _____
Chief Logistics Officer

Approved by: _____
Network Director

Date: _____

Date: _____

PRIMARY INVENTORY CATEGORIES			
<p>In order to simplify the report process, refer to the following codes when you respond. The report must address all of the General Inventory Categories that you are mandated to implement per VHA Handbook 1761.02.</p>			
<p>Please provide the name of your Primary (as it is reported in the on-line Stock Status Report system) in Column D.</p>			
<p>Specify each of the General Inventory Categories that have been fully implemented in each of the facilities in your network in Column E (codes listed below).</p>			
<p>Indicate in Column F all of the functional areas (codes listed below) that are included in that Primary. If a Functional Area listed below does not exist at the facility in question, please note this in Column F on the report.</p>			
COLUMN D		COLUMN F	
Code	General Inventory Categories	Code	Functional Areas Requiring GIP
1	Medical/Surgical	A	SPD Clean Sterile Central Supply
		B	Anesthesia
		C	Audiology and Speech Pathology
		D	Blind Rehabilitation
		E	Cardiology
		F	Dermatology
		G	Spinal Cord Injury
		H	Geriatrics
		I	Hemodialysis/ Renal
		J	Infectious Diseases
		K	Interventional Cardiology
		L	Oncology
		M	Operating Room
		N	Ophthalmology
		O	Optometry
		P	Physical Medicine and Rehab.
		Q	Podiatry
		R	Prep/SPD
		S	Respiratory
		T	Urology
		U	Other (Specify area)
2	Dental	W	Dental Lab
		X	General Dental
		Y	Teeth

3	Imaging	Z	Radiology
		AA	Nuclear Medicine
		BB	Interventional Radiology
		CC	Diagnostic Radiology
4	Laboratory	DD	Chemistry
		EE	Hematology
		FF	Cystology
		GG	Microbiology
		HH	Cytology/Histology
		II	Blood Bank
5	Environmental Management Service	JJ	Janitorial
		KK	Environmental Care
		LL	Laundry
6	Engineering	MM	Biomedical
		NN	Air Cond/Refrigeration
		OO	Electrical
		PP	Boiler Plant
		QQ	Building Maintenance
		RR	Grounds
		SS	Tool Crib
<p>If you are submitting multiple Certifications for specific facilities or inventory points in your network, only include the categories and functional areas on this detailed report that are pertinent to that Certification form. If you have implemented GIP in functional areas other than what is listed below, use Code V and specify the name of your functional area.</p>			

PERFORMANCE MEASURES

Category	Percent Inactive more than 90 Days	Turnover Rate
Medical and Surgical	20 percent	10
Radiology	20 percent	8
Laboratory	25 percent	8
Dental	30 percent	8
Environmental Management Service (EMS)	15 percent	10
Engineering	Percentage Inactive more than 90 Days n/a	4