

VHA INVENTORY MANAGEMENT

1. REASON FOR ISSUE: This Veterans Health Administration (VHA) Handbook changes the reporting requirements section of this Handbook by providing detailed instructions for reporting that is required by each VHA facility.

2. SUMMARY OF CONTENTS/MAJOR CHANGES

- a. Subparagraph 5b has been replaced.
- b. Subparagraph 8a has been revised.
- c. Subparagraph 9c has been revised.
- d. Where appropriate, title of Chief Logistics Officer has been used.

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

4. RESPONSIBLE OFFICE: The VHA Chief Logistics Office (10F) is responsible for the contents of this Handbook. Questions are to be addressed to 202-273-5680.

5. RESCISSION: VHA Handbook 1761.2, dated September 25, 2002, is rescinded.

6. RECERTIFICATION: This document is scheduled for recertification on or before the last working day of March 2008.

Robert H. Roswell, M.D.
Under Secretary for Health

DISTRIBUTION: CO: E-mailed 3/20/2003
FLD: VISN, MA, DO, OC, OCRO, and 200 – E-mailed 3/20/2003

CONTENTS

VHA INVENTORY MANAGEMENT

PARAGRAPH	PAGE
1. Purpose	1
2. Background	1
3. Scope	2
4. Responsibilities	3
a. VHA Office of Logistics (10F)	3
b. VISN Chief Logistics Officer	3
c. Field Facility Logistics Manager	3
d. Facility Logistics Staff	3
5. Requirements	3
a. IFCAP	3
b. GIP	4
c. Auto-Generation	4
d. Bar Code Labels	4
e. Secondary Inventories	4
f. Reports	4
g. Clean Rooms	5
h. Point-of-Use Equipment	5
i. DSS-Based Allocations	5
6. Program Implementation	6
a. Establish Network Communications	6
b. Implementation Plan	6
c. Inventory Management and Standardization	9
d. Inventory Management and Purchase Cards	9
e. IRM and Finance Involvement	9
7. Training Program	10
a. Train the Trainer	10
b. VISN-Level Training	10
c. Facility-Level Training	10
d. Remote Access	10

PARAGRAPH	PAGE
8. Reporting Requirements	11
a. Facility Level Performance Management/Benchmarking Reports	11
b. Network-Level Reports	13
c. VHA Central Office Responsibilities	13
9. Exceptions	13
a. Prosthetics	13
b. Nutrition and Food Service	13
c. Pharmacy	14
APPENDIXES	
A Instruction Sheet	A-1
Part I, Primary Inventories	A-2
Part II, Posted Stock Inventory	A-3
Spreadsheet, Primary Inventories Funded By Supply	A-4
Spreadsheet, Posted Stock	A-5
B Inventory Management Benchmark Data	B-1
C Sample	C-1

VHA INVENTORY MANAGEMENT

1. PURPOSE

This Veterans Health Administration (VHA) Handbook provides guidance to Department of Veterans Affairs (VA) medical centers to eliminate excess and unofficial supply inventories; it mandates the use of the Generic Inventory Package (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 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).*

2. BACKGROUND

a. The Office of Inspector General (OIG) has performed several audits of VHA Medical Center Inventory Management programs since 1995. One such audit projected as much as \$175 million excess medical supply inventory on hand. Another audit projected \$31.4 million in excess prosthetics inventories. 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 centers to eliminate excess supply inventories.
- (2) Use GIP or its successor system to manage all inventories.
- (3) Establish goals and procedures to monitor progress in reducing inventories.
- (4) Provide VA medical center staff training in inventory management principles and techniques and in the use of automation for inventory management.

b. During that same time period, VHA established a national Standardization Program to facilitate best value product pricing through volume purchasing to facilitate the delivery of high-quality health care. In June 1999, the Under Secretary for Health issued VHA Directive 99-024, Standardization of Supplies and Equipment, which mandated the use of nationally standardized items and charged the VHA Chief Logistics Officer (CLO) to establish appropriate User Groups for the purpose of identifying items for standardization. This process quickly highlighted the fact that the VHA database contains inaccuracies and does not effectively support the standardization program. An example of this problem is reflected by the comparison of data from the national Integrated Funds Distribution, Control Point Activity, Accounting, and Procurement (IFCAP) database to data from one vendor for three line items procured during the 1st quarter of Fiscal Year (FY) 2000. Data from IFCAP records indicated that VHA spent \$662,162 for disposable gloves. But a report from the vendor for actual filled orders during that same time period showed that VHA spent \$1,629,908 for those same three line items.

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

- (1) There are fewer stock outages due to automating the replenishment process.
- (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 the product line manager for each functional area.
- (5) Inventories are reduced and holding costs are lowered.
- (6) There are fewer costly emergency procurements.
- (7) There are fewer outdated items.

d. Additionally, there are several potential Veterans Integrated Service Network (VISN) benefits from consistent use of GIP; it:

- (1) Has the ability to track costs for product lines.
- (2) Is 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. Finally, VA is replacing its core automated financial and logistics management systems (Core FLS). The VA Assistant Secretary for Finance has developed an aggressive timetable for acquisition and implementation of this replacement system. The new system draws 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 a 30-day level and mandatory use of GIP, or its successor system, as the initial goal to manage all inventories. All recurring stock items funded as operating supplies must be in the Item Master File (IMF) and all purchase transactions will reflect the IMF number. This allows for a consistent inventory system and common source for data to support the VHA Standardization Program, the National Procurement History File, feed actual cost of supplies into the Decision Support System (DSS),

and fully automate the management of all unofficial inventories. Annual wall-to-wall inventories 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. *NOTE: Each VISN was required to prepare an implementation plan by December 31, 2000, to address the responsibilities and programs as delineated herein.*

4. RESPONSIBILITIES

All employees are responsible for optimizing use of VA resources. Specific responsibilities of Logistics professionals include the following:

a. **VHA Office of Logistics (10F).** The VHA Office of Logistics (10F) provides ongoing logistics liaison support between the Networks, VHA Central Office and Office of Acquisitions and Materiel Management (OA&MM). 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.

b. **VISN Chief Logistics Officer (CLO).** The CLO is responsible for: representing the VISN Director on all matters related to Logistics; facilitating communications between field organizations, VISNs, and VHA Central Office; developing and implementing network strategies to improve logistics programs; facilitating sound business practices; assisting with formulation of VHA logistics policies and procedures; managing logistics data; assessing inventory management programs at each facility; providing guidance to local logistics managers; working with clinical groups to improve their understanding of logistics goals; and working with the VISN CFO to improve cost control and/or reporting efforts.

c. **Field Facility Logistics Manager.** The Field Facility Logistics Manager develops and maintains a logistics program that: helps improve utilization of supplies and commodities; reduces inventory investment; ensures compliance with standardization; improves understanding of inventory management objectives and techniques. In addition, the Field Facility Logistics Manager works with the facility CFO to establish fund control parameters, and to provide education and training opportunities to inventory staff.

d. **Facility Logistics Staff.** The facility logistics staff establishes and maintains automated inventories; works with consumers to gain understanding of their needs; sets up automated inventories through use of GIP, or its successor program; monitors supply and commodity consumption and stock replacement; provides usage and/or cost reports to the consumer, the Logistics Manager, and the CLO, etc.; continually assesses needs of the consumer.

5. REQUIREMENTS

a. **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/or 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 system completely and correctly. All inventory items must be included in the IFCAP Item Master File.

***NOTE:** It is especially important to maintain proper naming standards and valid contract numbers and expiration dates in the Item Master File that apply to these recurring items managed in inventory. There are local contracts, VISN contracts, VA National Acquisition Center (NAC), Federal Supply Schedule (FSS) contracts, etc., each of which have unique contract numbers and expirations dates which must be entered (include dashes/hyphens as appropriate). Some examples of formats for contract numbers are VANAC-90NP1-03-123 (Blanket Purchase Agreements (BPA) against FSS contracts awarded by the NAC, V69DP-2508 (local contract awarded by VISN), and V797P-4325A (VA NAC FSS contract number). Your entry of correct contract numbers and expiration dates is especially important because this information is transmitted into the Procurement History File that is extensively reviewed by contracting and item standardization groups.*

b. **GIP.** GIP is a portion of IFCAP used to manage the receipt, distribution, and maintenance of supplies utilized throughout the facility. There are three levels to the GIP inventory system: warehouse, primary, and secondary inventories. The warehouse maintains a supply of items that are repetitively used by the services (posted stock). The primary inventory is the main inventory for a using department, and the secondary inventories are the points of distribution. Supply Processing and Distribution (SPD) is typically the main inventory for medical and surgical supplies. Other types of primary inventories within the medical center include Imaging, Dental, Laboratory, Engineering, etc. Within GIP, the primary inventory consists of all items stocked and/or procured for that inventory account. ***NOTE:** The practice of combining inventories, whenever possible, is highly recommended.* It may also be necessary to combine funding; however, the GIP system does support the use of multiple control points within one primary inventory. This strategy could aid in the reduction of the inventory management workload. ***NOTE:** Stock levels are established to maintain constant availability of items; however an average of not more than 30 days stock on hand is required. Levels for on-demand items must be kept at a minimum to avoid overstocking.* Types of stock levels are as follows:

(1) **Normal Stock Level.** Represents the largest amount of an item to be maintained in the inventory point.

(2) **Standard Reorder Point Level.** Represents the level at which the item is to be reordered.

(3) **Optional Reorder Point Level.** Alerts staff that the level of an item has fallen below the normal stock level but has 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.

(4) **Emergency Stock Level.** Represents the smallest amount of an item to be maintained in the inventory point. This level alerts staff that an emergency purchase is required.

c. **Auto-Generation.** GIP has the ability to "auto generate" a list of items that need to be ordered. The computer program automatically reviews preset inventory levels against current amounts on hand and identifies those items below the preset levels, so they may be requisitioned.

d. **Bar Code Labels.** Computerized bar code labels identify each item within the inventory. The supply technician uses a bar code reader to scan the label to identify the item and then enter the actual amount present. After scanning a secondary inventory, the information is uploaded into GIP, and a picking ticket is generated. The picking ticket identifies the items and amounts required to be restocked in that secondary to return to preset levels.

e. **Secondary Inventories.** All inventories maintained in user areas are called secondary inventories. Within GIP, secondary inventories are also maintained with stock levels and reorder points. Secondaries may be maintained by Logistics or the user. The normal stock level and the standard reorder point level need to be the same in the secondaries. This ensures supplies are maintained at the established user requirement level.

f. **Reports.** Primary and secondary inventories are reviewed on a regular basis utilizing GIP-generated reports, including but not limited to:

(1) **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).

(2) **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 item should continue to be stocked.

(3) **Usage Demand Analysis Report.** The Usage Demand Analysis Report is used to evaluate item usage and show an increase or decrease in usage, thus indicating a need to change stock levels.

(4) **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, and calculates the turnover rate, inactive item percent, long supply percent, and non-issuable percent.

NOTE: Overstocking and Understocking. It is important to avoid overstocking and understocking in both the primary and secondaries. Overstocking ties up a considerable amount of money in stock and increases the risk of damage, outdating, contamination, or obsolescence of the item. Understocking creates the risk of unavailability of supplies, which affects the quality of patient care. It also creates additional purchase costs (overnight shipping) and adversely affects the trust users have in Logistics Staff.

g. **Clean Rooms.** All clean and sterile storage areas are designed to promote cleanliness, visibility, safety, and efficiency of distribution. The inventory needs to be verified on a regular basis for accuracy of inventory balances, outdated items, and 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, Supply, Processing and Distribution (SPD) Operational Requirements.**

h. **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 use needs to be reviewed for use in areas with high cost and high volume to track actual costs to patient or procedure. **NOTE:** *These units may also have potential for remote clinics and areas where inventory managers are not assigned, such as Community-based Outpatient Clinics (CBOC). The POU equipment not only allows for tracking usage, but also reduces the consumption and loss of products.*

i. **DSS-Based Allocations.** Beginning in FY 2001, VHA funding allocations are based on DSS data from each facility. It is an important benefit to map supply costs in IFCAP to DSS by careful cost accounting practices to assure supplies are tracked to the correct clinical specialties by utilizing the proper Budget Object Code (BOC). It is critical for logisticians to maximize the use of data systems that provide detailed, accurate information on supply costs to the lowest level possible. GIP, using all available automation options within GIP, is the primary tool utilized in working towards this goal. These 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. 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.

6. PROGRAM IMPLEMENTATION

To implement this inventory management program, the following steps must be taken to:

a. **Establish Network Communications**

- (1) Designate a lead logistics manager with responsibility for being the CLO's point-of-contact for inventory management and standardization issues for the network.
- (2) Designate a Field Facility Logistics Manager at each network facility.
- (3) Identify all employees at each facility involved in the inventory management process, regardless where they are organizationally aligned.
- (4) Create network-wide Outlook email groups that include all of the identified employees, entitled "Inventory Management VISN _."
- (5) Schedule monthly network face-to-face, video, or audio conferences.

b. **Develop An Implementation Plan**

- (1) The CLO is responsible for coordinating the development of an Implementation Plan. Each Field Facility Logistics Manager is responsible for providing all of the information necessary for the CLO to develop a VISN-level plan.
- (2) The plan must be submitted through the Network Director to the VHA CLO Office (10F). The VHA Logistics Office (10F) has 30 days to approve and return the plan to the Network

Director. Upon receipt of the approved plan, each Network Director will proceed with implementation (to be completed within 12 months).

(3) When preparing the plan the CLO needs to conduct an assessment of logistics functions at each Network facility and, at a minimum, needs to include:

(a) Training Assessment

1. Develop individual station training plan based on each facility's baseline analysis and assessment of need.

2. Set dates, training location(s), and agenda for VISN face-to-face GIP training schedule based on individual stations needs.

(b) Phasing. Phasing and time frames by site and activity.

(c) Resources Needed. Include resources required for implementation, i.e., Information Technology (IT) equipment, scanners, etc.

(4) Existing GIP Inventory Accounts. Identify baseline achievement levels at each facility within the VISN, and target potential new accounts to include, at a minimum, the following areas:

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

(b) Dental.

(c) Laboratory.

(d) Imaging.

(e) Environmental Management Service.

(f) Engineering.

(5) **Data Collection**. Establish baseline achievement levels and target new accounts by collecting data as follows:

(a) Using the attached sample formats (see Att. A), survey each facility in the network to establish a baseline level that will be used to measure improvement toward GIP goals for both medical centers and VISN.

(b) Using the attached sample format (see Att. B), develop a plan to implement GIP to the maximum extent possible at each medical center.

(c) In coordination with the Facility Fiscal Officer, each Field Facility Logistics Manager will identify a list of Fund Control Points (FCP) that contain operating supply costs that represent

unofficial inventories to be automated using GIP. Using the IFCAP 830 Report, analyze each of the FCPs to determine the annual dollars expended to purchase recurring operating supplies for that department. Exclude Services, Fee Basis, and Leases that cannot be entered into the GIP primary. For each FCP, fill in the spreadsheet (see Att. B) identifying the name of department, potential sales, the GIP implementation date, barriers identified, and current status. **NOTE:** *The plan needs to include a phase-in approach to be completed within 12 months.*

NOTE: *In order to ensure existing GIP accounts are accurate, it is recommended that a 10 percent sampling of line items is verified by physical count and compared to existing data.*

(6) **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.

(7) **Reporting Channels.** Each facility must have a hierarchy through which GIP plans are formed, implemented and the results reported up through the chain of command. The Field Facility Logistics Manager is responsible for collecting information, responding to surveys, submitting nominations for training, serving as point-of-contact for IG inquiries, visits by the CLO, etc.

(8) **Commodity Standards Committee.** Communication and coordination are key elements for effective implementation of the VHA standardization program. Each network must include these elements in their Inventory Management Implementation Plan. The Commodity Standards Committee is an appropriate group through which communications can be affected. There must be a facility Commodity Standards Committee and may also be a VISN-level committee. It is critical that the Commodity Standards Committee includes clinical representatives. Use suggested membership from VA Handbook 7176. The Field Facility Logistics Manager is responsible for distribution of standardization user group plans, minutes, notices of standardization, changes in policy and guidelines, etc., to Commodity Standards Committee members.

(9) **Physical Space Planning.** The plans for establishing individual inventory sites must include careful consideration of space, climate controls, availability of shelving, frequency of users accessing inventory, etc. The inventory manager must consider the products being stored, grouping of products used for a particular procedure and/or process, security requirements, criticality of the product, product availability from vendors and manufacturers, etc. Successful implementation is dependent upon this analysis. Failure to plan layout of the storage site will result in wasted effort and increases the potential for product loss and increases the frustration level of the customer. Spend time at the customer work-site before attempting to establish the inventory.

(10) **Customer Service Expectations.** Ensure that the following Customer Service Expectations are 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).
- (f) Responsiveness.
- (g) Industry relationships.
- (h) Ongoing communications and customer involvement.
- (i) Trust.

(11) **Miscellaneous Items.** Miscellaneous items to be considered when writing the implementation plan include:

(a) Technical Issues. Purchasing practices, Prosthetics Inventory Package, Basic Inventory Management Concepts, distribution of products.

(b) Management and Administrative Issues. Union Contracts, Human Resource Functions, Performance Standards, Customer Relations and new initiatives.

c. **Inventory Management and Standardization.** GIP is the management system that: identifies candidates for standardization; tracks and promotes compliance; generates usage-cost reports; and provides a mechanism to evaluate vendor delivery performance. There are standard reports available in GIP that are used at the VISN and National level. Local unique reports may be developed through use of Fileman routines for internal use. ***NOTE:** Contact facility Information Technology (IT) staff for Fileman assistance.* Users can identify inventory items that must be used and/or exchanged to facilitate introduction of standardized items. GIP includes delivery locations that will be helpful when planning new product in-service training.

d. **Inventory Management and Purchase Cards.** Purchase cards can be an excellent payment tool that can lead to efficiencies in managing inventory programs. Purchase card users must use “detailed” IFCAP transactions when purchasing all recurring inventory items (see VHA Directive 1730, Use and Management of the Government Purchase Card Program). Use of the item file, bar coding, auto-generate option, and detailed orders blends the efficiency of GIP with the purchase card system. 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 Information Technology (IT) equipment and software requirements must be planned in coordination with the overall facility IT plan. The Information Resource Manager needs to understand the inventory management plan and implementation schedule. **NOTE:** *The Information Resource Manager needs to be informed of changing requirements, technology advancements, software releases and replacement needs.*

(2) The GIP implementation plan must include assignment of menu options. The inventory manager, inventory technician, purchasing agent, control point clerk, etc., may all have access to different menus. Determine which menus are needed and work with IRM to see that menus are assigned to appropriate staff. **NOTE:** *Refer to the official IFCAP GIP manual for specific details. A current electronic copy of the manual will be provided to all participants of the "train-the-trainer" sessions.*

(3) The CFO is charged with overall management of financial resources. The management of inventories is a process that saves recurring resources. It is imperative that the CFO be involved during development of inventory managements plans. The CFO will be interested in the data that becomes available through effective use of GIP. The CFO can provide valuable support in efforts to improve fund control management. The inventory manager works with the accounting staff to provide monthly and/or quarterly cost reports and budget projections to the local CFO and customers. The exchange of information improves the value of the inventory management program and assists the CFO with budget decisions.

7. TRAINING PROGRAM

a. **Train the Trainer.** Sessions will be conducted by the VHA CLO Office and OA&MM to train staff from each network in use of GIP, basic inventory management practices, and small purchasing regulations (up to \$25,000), so that they can return to their network and train others on the information provided. Training includes a comprehensive course on inventory management principles, the VHA Standardization Program, and all related directives and handbooks. Trainees are provided with all training materials and course content necessary to conduct VISN-level training for all employees involved in the Inventory Management process. **NOTE:** *This training will be repeated as necessary to address new inventory tools, regulations, practices or processes (i.e., IFCAP Version 5.1, Core FLS).*

b. **VISN-Level Training.** The training teams trained at the preceding sessions are responsible for conducting VISN-level training based on the criteria provided to them. This training is to be completed within 60 days after completion of the train-the-trainer sessions. Records must be maintained of training completed and must be reported to the VISN CLO. They are to be considered the network experts for Inventory Management and are to provide on-going support to all of the network facilities. This includes: troubleshooting (help-desk) services, initiation support of new inventory accounts, monitoring compliance with this Handbook, and reporting accomplishments to their VISN CLO.

c. **Facility-Level Training.** Inventory Management staff at the facility are responsible for educating users regarding the inventory management process as it relates to them. The users need to understand what exactly GIP is, how it works, why it will make them more efficient, what their responsibilities are, how they can help make the implementation go smoothly. For

example, users will need to provide input on usage, which will ultimately be used to set the stock levels in GIP.

d. **Remote Access.** In order for VISN GIP Training Team members to provide assistance during the initial set-up of GIP accounts and on-going online help-desk support, they need remote access to IFCAP databases at each facility in their network. They need access to the following menus and accounts:

- (1) Item Master File.
- (2) Vendor File.
- (3) Warehouse Menu and Option Layout.
- (4) Primary Inventory Point Main Menu.
- (5) Secondary Inventory Point Main Menu.
- (6) All Primary Inventory Accounts.
- (7) All Secondary Inventory Accounts.

***NOTE:** Each Team member must submit a System Access Request, approved by their network CLO, to each facility Chief IRM through the facility Chief A&MMS (or similar position) and IFCAP Coordinator, requesting access to the preceding menus and accounts.*

8. REPORTING REQUIREMENTS

a. **Facility Level Performance Management and Benchmarking Reports.** Inventory Management Benchmark Data. Inventory Management Benchmark Data measures the impact of mandatory GIP use on: days stock-on-hand, turnover rate, inventory balance, cost of sales, and line items managed. In addition it monitors compliance with VHA Handbook 1761.2 and inventory implementation progress.

(1) **Format.** Use the Stock Status Reporting System on the VHA website, <http://vhacoweb1.cio.med.va.gov/logistics/stockreport/userlogin.asp>, to report all data.

(2) **Source of Data.** Use GIP Stock Status Reports as the source document for data. Run this report at the end of each month. The turnover rate and days stock on hand will be calculated in the system for each inventory for each month of the quarter.

(3) **Inventories.** The Stock Status Reporting System divides the primary data into seven types of inventories as follows:

1. Posted Stock, Super Primary, and Total Supply Support.
2. Medical, Surgical, and SPD.

3. Dental.
4. Imaging.
5. Laboratory.
6. Engineering.
7. Environmental Management.

(4) **Data Fields.** VA medical centers and VISNs must enter data in the following fields described as follows.

(a) TOTAL SALES - Cost of sales. Defined as the dollar value of sales or issues for a specific month from the Stock Status Report. Enter a figure.

(b) CLOSING BALANCE - Inventory balance. Defined as the closing inventory balance from the Stock Status Report. Enter a figure.

(c) TURNOVER RATE - Turnover rate. Defined as the sales for the current month x 12 months divided by the inventory balance for the current month. No data entry required as it will be calculated automatically using the aforementioned formula.

(d) DAYS OF STOCK-ON-HAND - Number of days stock-on-hand. Defined as 365 days divided by the turnover rate. No data entry required as it will be calculated automatically using the aforementioned formula.

(e) NUMBER OF LINE ITEMS MANAGED - Line items managed. Defined as the number of inventory items managed within the inventory. Enter a number.

(f) PERCENT OF INACTIVE SUPPLY. Defined as the percentage of inventory items with no activity over a specified time period. Enter a figure.

(g) PERCENT OF LONG SUPPLY. Defined as the percentage of inventory items with greater than 270 days stock-on-hand.

(5) **Collected and Submitted By.** Designated field facility staff.

(6) **How Often.** Monthly. *NOTE: The stock status report must be run at midnight on the last day of the month in order to produce accurate data.*

(7) **Send To.** Approved by the VISN Chief Logistics Officer (CLO).

(8) **Report By.** 10 workdays after the end of each month.

(9) **For Period.** Previous month.

b. Network-level Reports

(1) CLO is responsible for the collection and submission of all reports for facilities within their network to VHA Chief Logistics Office (10F) through the Network Director.

(2) CLO prepares and/or reviews monthly stock status reports and approves for submission to the VHA Chief Logistics Office (10F). Reports are due 10 workdays after the end of each month, commencing the first full month after implementation begins.

(3) Networks not completing implementation plans within the 12-month implementation period will be required to provide an updated implementation plan to the VHA Chief Logistics Office (10F) that shows corrective action, at least 30 days prior to the end of this period. Reports are required quarterly.

c. VHA Central Office Responsibilities

(1) The VHA Chief Logistics Office (10F), being charged with performance measurement of inventory management in VHA, determines benchmarking criteria and compliance reporting measures to be used by VHA facilities.

(2) VHA Chief Logistics Office (10F) provides a quarterly summary of progress made on implementation of this handbook to the Chief Network Office (10N) within 15 days of each quarter's end.

9. EXCEPTIONS

a. **Prosthetics.** 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. This software does not capture certain data elements that may be useful for recurring stock items in Prosthetics Service, such as: line item inventory count and dollar value, days of stock on hand, and monthly usage. These data elements may be captured through GIP, whereby the items incorporated into PIP are acquired through GIP. This is accomplished by "receiving" the items procured through GIP into PIP. Staffing utilization may suggest that GIP be used in combination with PIP. It is intended that functionality available in PIP is to be incorporated in the new Core FLS program.

b. **Nutrition and Food Service.** 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 centers. 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. Consequently, it was determined to be unnecessary to mandate the use of GIP for subsistence items. However, it is expected that other non-food supplies stocked in Nutrition and Food Service areas will be kept in a GIP Inventory account, as prescribed by this Handbook.

c. **Pharmacy.** Pharmacy Service at all VA medical centers and consolidated mail outpatient pharmacies (CMOPs) must adopt the following Inventory Management Practices:

(1) **Pharmaceutical Prime Vendor.** Pharmaceuticals are purchased through a Pharmaceutical Prime Vendor utilizing a proprietary ordering system. The current Pharmaceutical Prime Vendor's proprietary ordering system also 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. Economic Order Quantity (EOQ) is the quantity of stock to order that minimizes all costs. The prime vendor inventory management software calculates the EOQ 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:

(a) Demand Forecasting. Weighting factors are applied to past purchases to predict future needs.

(b) Calculation of Safety Stock levels. Safety Stock is used to compensate for delays in delivery or greater than anticipated demand.

(c) Calculations of order point and minimum and maximum inventory stock levels. Generation of bar coded shelf labels contain this information.

(d) Ability to override normal demand forecasting when necessary.

(e) Ability to designate lead time which affects required inventory stock levels.

(f) Calculation of inventory turns.

(g) Support of the ABC inventory analysis method. Approximately 70 percent of inventory dollars are spent on 10 percent of the products. These are "A" items and need to be monitored closely to reduce total replenishment 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. The "C" items are 10 percent of the inventory dollars and 70 percent of the products. These items can be managed the least aggressively.

(h) Report capabilities to support the available tools.

(2) **Program Implementation**

(a) The Prime Vendor Inventory module must be used to manage all VA medical center and CMOP pharmacy inventories.

(b) The EOQ is calculated for each line item using the inventory management software. The Carrying Cost used to determine the EOQ will be set to a value of 25.

(c) Facilities must calculate the Order Line Cost for their individual pharmacies. The VA Pharmacy Benefits Management (PBM) can assist facilities in calculating the Order Line Cost by providing a spreadsheet to perform the necessary calculations.

1. Facilities are to conduct time and motion studies of the ordering, receiving and restocking processes to accurately calculate the labor costs associated with those activities. Labor cost calculations will be based on the actual cost to the government for the employees performing the work (i.e., salary plus fringe benefits).

2. The facility-specific calculated Order Line Cost must be entered into the Prime Vendor inventory management software. If there is a significant change in any of the factor values, an Order Line Cost recalculation must be performed.

(d) To determine Safety Stock values:

1. Facilities that are located in urban areas or that can borrow emergency stock with ease will set the Lead Time value to one.

2. Facilities that are in small metropolitan and semi-rural areas or that can borrow emergency stock with less ease will set the Lead Time value to two.

3. Facilities that are in rural areas or that have difficulty borrowing emergency stock will set the Lead Time value to three.

(e) Bar Code shelf labels containing the product name, order number, minimum stock level, maximum stock level, order point, and EOQ must be affixed to all stock locations.

(f) 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.

(g) The hand held bar code reader provided by the Prime Vendor is used for scanning the shelf label, entering quantity of product desired, and up-loading the order into the Prime Vendor computer system for transmission. As an alternative, the inventory management software can be used to generate a suggested order for all products scanned, which can be edited and transmitted to the Prime Vendor.

(h) The ABC method of inventory management is to be used to determine inventory frequency.

1. A items will be inventoried and ordered a minimum of two times weekly.

2. B items will be inventoried and ordered a minimum of weekly.

3. C items will be inventoried and ordered once every 14 days.

(i) End of year purchases are to be avoided.

(j) VA treatment facilities, designated by the Under Secretary for Health, must store a cache of pharmaceuticals and medical supplies reserved specifically for the treatment of casualties from a weapons of mass destruction event. These pharmaceutical caches are exempt from the inventory management plan described in this Handbook. Those inventories will be managed in

accordance with VHA Directive 2002-026, Pharmaceutical Caches in a Weapons of Mass Destruction Event, dated May 13, 2002.

(3) **Training.** Upon request, the Pharmaceutical Prime Vendor must provide training manuals and conduct VISN-level training at individual VISN locations.

(4) **Monitoring.** Inventory turnover, or inventory turns, is the primary measure of the effectiveness of inventory management. In a recent Lilly Hospital Pharmacy Survey, the average inventory turns for all hospitals was twelve to thirteen annually. The Health Care Consulting Group Ernest & Young recommends an appropriate target range for inventory turns between fifteen and eighteen annually for pharmacy. As previously detailed, increasing inventory turns decreases inventory carrying costs but increases order line costs. The appropriate balance must be struck to keep total replenishment costs low.

(a) An annual wall-to-wall physical inventory must be performed for all items. The PBM has developed a standardized methodology for conducting physical inventories for pharmacy and has provided training to the field. Baseline inventories were conducted.

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

1. The goal of inventory turns for the entire pharmaceutical inventory will be determined following an analysis of initial data. It is anticipated that the inventory turn goal level will be between fifteen and twenty turns annually.

2. The Forecast Exceptions report must be used monthly to adjust minimum and maximum inventory levels and order points to recommended levels.

(5) **Reporting**

(a) Monthly theoretical turns for each inventory class must be sent to the PBM in a standardized electronic format by individual facilities on a quarterly basis. The PBM has issued guidance to the field on the desired format and transmission specifications and provided training for facility personnel. Once reported to the PBM, the data is aggregated and returned to the VISN Formulary Leaders on a quarterly basis. The PBM also aggregates the data nationally and forwards a copy to the VHA Logistics Office (10F) for monitoring purposes.

(b) The dollar amount of the annual physical inventory of items is being sent by individual facilities to the PBM by February 28th of each calendar year. Once reported to the PBM, the data is aggregated by VISN and returned to the VISN Formulary Leaders. The PBM also aggregates the data nationally and forwards a copy to the VHA Chief Logistics Office (10F) for monitoring purposes.

(c) The National CMOP Board requires that each CMOP conduct an annual wall-to-wall inventory during the month of August. The results are reported to the National CMOP Director who prepares a summary report and presents to the National CMOP Board.

INSTRUCTION SHEET

The following step-by-step instructions are provided to assist in obtaining information required by the Generic Inventory Package (GIP) Survey.

1. Line Items

- a. Primary Inventory Point Main Menu:
- b. Primary Inventory Point: **Enter Primary Title**
- c. Enter/Edit Inventory and Distribution Points
- d. Select a "Primary" type Inventory Point: **Enter Primary Title**

*NOTE: The total number of line items appears in the upper right hand corner of the screen.
Select Item(s): **Enter PL***

NOTE: This gives a listing of all the Secondary Distribution Points for this Primary Inventory.

2. Average Closing Balance

- a. Primary Inventory Main Menu:
- b. Primary Inventory Point: **Enter Primary Title**
- c. Reports Menu
- d. Stock Status Report
- e. Print Stock Status report for Month and Year: **Enter desired month and year.**

NOTE: Print report for each month for the past 12-month period. Total the closing balances and divide by 12 to compute the average closing balance.

3. Annual Sales

- a. Primary Inventory Main Menu:
- b. Primary Inventory Point: **Enter Primary Title**
- c. Reports Menu
- d. History of Distribution Report
- e. **Default to From//**
- f. Start Printing Distribution from Date (Month Year): **Enter Beginning Date**
- g. End Printing Distribution with Date (Month Year): **Enter Ending Date**
- h. Is a breakout the cost by MIS costing section wanted:
- i. **Default to Yes//**

PART I, PRIMARY INVENTORIES

All questions in this part pertain to facility unposted primary inventories. Respond with information that specifically relates to primary inventories only. **NOTE:** *If primary inventories are supported by the Supply Fund, report the information under Part II.*

1. Are the primary line items entered into the Integrated Funds Distribution, Control Point Activity, Accounting, and Procurement (IFCAP) item file?

- a. All _____
- b. 75 percent _____
- c. 50 percent _____
- d. None _____

2. Is bar code scanning used to replenish secondaries and/or delivery points?

- a. All _____
- b. 75 percent _____
- c. 50 percent _____
- d. None _____

3. Are automated supply dispensers (Omnicell/Pyxis) used to replenish any of the secondaries and/or delivery points?

- a. >50 percent _____
- b. 25 percent _____
- c. 10 percent _____
- d. None _____

4. If GIP is not used, what other software or tracking system is used to manage inventory and issues? Explain in detail.

5. If GIP is not used, why not? Explain barriers, problems, better alternatives, etc.

6. Fill out SPREADSHEET #1, PRIMARY INVENTORY, to answer the rest of the questions concerning primary inventories. Complete a separate spreadsheet for each primary that is managed.

SAMPLE

SERVICE	FCP	Value of Primary	DATE	BARRIERS/ISSUES/COMMENTS	
BOISE - JOSIE CONWAY 208-422-1142					
MANAGED INVENTORY	200	\$123,070	Apr-99	May need to reclassify one position.	COMPLETED NOW MANAGED INVENTORY
PLAMS (LAB)	028	\$18,000	Apr-00	Support from Fiscal to make control point changes.	
RESPIRATORY	051	\$11,250	Jul-99	Service cooperation in transition to GIP.	COMPLETED NOW MANAGED INVENTORY
SURGICAL STOCK	042	\$62,300	Jul-99	Service cooperation in transferring funding to GIP FCP.	COMPLETED NOW MANAGED INVENTORY
PHARMACY MED/SURG	024/025	\$23,500	Apr-99	Construction changes in warehouse to accommodate Medical/Surgical item.	COMPLETED NOW MANAGED INVENTORY
N&FS	120	\$1,200	Nov-99		
RADIOLOGY	037	\$26,812	Nov-99		
DENTAL	058	\$4,061	Nov-99		
		\$270,193			
PORTLAND – GLORIA MARANGE 700-424-5295					
JANITORIAL	08		Apr-99	NEED TO MODIFY ORGANIZATIONAL STRUCTURE	Will be implemented Oct 2003
LINENS	10		Apr-99		
OPERATING ROOM	52		Oct-99	SPACE MAY BE AN ISSUE	
SURGICAL SUPP	54		Oct-99		
ANESTHESIA	56		Oct-99	SOME FTEE MAY BE NEEDED	
MEDICAL MEDIA	70		Jan-00		
AUDIOLOGY	75		Jan-00		
NEUROLOGY	50		Jan-00		
DERMATOLOGY	43		Jan-00		
ENGINEERING	00		Jul-00		
M&R SUPPLIES	98		Jul-00		
M&R NON-REC	96		Jul-00		
FURNITURE	07		Oct-00		
NO MED M&R	95		Oct-00		