Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

IHS DID NOT COORDINATE SUPPLY SERVICE CENTER OPERATIONS BEFORE AND DURING THE COVID-19 PANDEMIC AND SHOULD CONSIDER UPGRADING SUPPLY CENTERS' INVENTORY MANAGEMENT SYSTEMS AND IMPLEMENTING POLICIES AND PROCEDURES TO ENHANCE COORDINATION AND ALIGNMENT

Inquiries about this report may be addressed to the Office of Public Affairs at Public.Affairs@oig.hhs.gov.

Amy J. Frontz
Deputy Inspector General
for Audit Services

March 2024
A-07-22-04131

Office of Inspector General

https://oig.hhs.gov

The mission of the Office of Inspector General (OIG) is to provide objective oversight to promote the economy, efficiency, effectiveness, and integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of the people they serve. Established by Public Law No. 95-452, as amended, OIG carries out its mission through audits, investigations, and evaluations conducted by the following operating components:

Office of Audit Services. OAS provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. The audits examine the performance of HHS programs, funding recipients, and contractors in carrying out their respective responsibilities and provide independent assessments of HHS programs and operations to reduce waste, abuse, and mismanagement.

Office of Evaluation and Inspections. OEI's national evaluations provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. To promote impact, OEI reports also provide practical recommendations for improving program operations.

Office of Investigations. OI's criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs and operations often lead to criminal convictions, administrative sanctions, and civil monetary penalties. OI's nationwide network of investigators collaborates with the Department of Justice and other Federal, State, and local law enforcement authorities. OI works with public health entities to minimize adverse patient impacts following enforcement operations. OI also provides security and protection for the Secretary and other senior HHS officials.

Office of Counsel to the Inspector General. OCIG provides legal advice to OIG on HHS programs and OIG's internal operations. The law office also imposes exclusions and civil monetary penalties, monitors Corporate Integrity Agreements, and represents HHS's interests in False Claims Act cases. In addition, OCIG publishes advisory opinions, compliance program guidance documents, fraud alerts, and other resources regarding compliance considerations, the anti-kickback statute, and other OIG enforcement authorities.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC

at https://oig.hhs.gov

Section 8M of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG website.

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

Report in Brief
Date: March 2024
Report No. A-07-22-04131

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL

IHS Did Not Coordinate Supply Service Center Operations Before and During the COVID-19 Pandemic and Should Consider Upgrading Supply Centers' Inventory Management Systems and Implementing Policies and Procedures To Enhance Coordination and Alignment

Why OIG Did This Audit

The Indian Health Service (IHS) provides comprehensive health services for American Indians and Alaska Natives—a population that has long experienced health disparities and a lower life expectancy compared to other Americans. A previous OIG report found that IHS's Gallup Regional Supply Service Center (GRSSC) had no reporting relationship with the National Supply Service Center (NSSC), potentially causing inefficiencies. This audit is a followup to that previous audit.

Our objectives were to determine whether: (1) IHS coordinated NSSC and GRSSC operations to provide for the effective distribution of medical and other supplies and (2) the GRSSC distributed medical and other supplies effectively.

How OIG Did This Audit

Our audit covered 277,205 GRSSC transactions that occurred between January 1, 2019, and March 31, 2022 (this audit period thus encompassed GRSSC operations before and during the COVID-19 pandemic). We selected a judgmental sample of 70 transactions between the GRSSC and its customers for medical and other supplies, and we reviewed documentation supporting these transactions to determine whether orders were fulfilled completely and effectively. We asked questions of IHS headquarters staff, GRSSC staff, and some GRSSC customers to help us evaluate the distribution of supplies.

What OIG Found

IHS did not coordinate NSSC and GRSSC operations to provide for the effective distribution of medical and other supplies. The NSSC and the GRSSC routinely conducted operations independently of one another and with minimal visibility, coordination, and communication with one another. The GRSSC attempted to distribute medical and other supplies to customers on behalf of the NSSC during the COVID-19 pandemic, but the GRSSC did not have an inventory management system that could maintain any records of its supply distributions. IHS did not have policies and procedures to ensure that the GRSSC's and the NSSC's inventory management systems could work together.

For our second objective, the GRSSC did not demonstrate that it distributed medical and other supplies effectively during our audit period. The GRSSC confronted a number of challenges, to include its inability to properly track the delivery of medical and other supplies because its inventory management system was outdated, as well as employee turnover in key positions, during our audit period. Consequently, the GRSSC's inventory levels were not always accurate, and customers sometimes had to order from different vendors to obtain the supplies they needed.

What OIG Recommends and IHS Comments

We recommend that IHS develop and implement policies and procedures that enable the NSSC and the GRSSC to coordinate their operations and communicate directly with one another, align their inventory management systems, and use the same vendors when feasible; and consider upgrading the GRSSC's inventory system or implement other strategies to better coordinate the delivery of supplies to all customers.

IHS concurred with our recommendations and described corrective actions that it had taken or planned to take. Specifically, IHS stated that it had begun to develop and implement a supply chain modernization plan to align the NSSC and GRSSC operations with unified policies and procedures. This plan includes the procurement of a new inventory management system. We commend IHS for the actions it has taken and plans to take.

The full report can be found on the OIG website.

TABLE OF CONTENTS

INTRODUCTION

WHY WE DID THIS AUDIT

The Indian Health Service (IHS) provides comprehensive health services for American Indians and Alaska Natives—a population that has long experienced health disparities (in quality of care, access to care, and outcomes) and a lower life expectancy compared to other Americans. IHS operates a National Supply Service Center (NSSC) that provides medical and other health care-related supplies to all IHS health care facilities. Within IHS but separate from the NSSC, the Gallup Regional Supply Service Center (GRSSC) provides health care-related and other supplies to the Navajo, Albuquerque, and Phoenix IHS areas (these are 3 of the 12 IHS Areas, which we discuss further below).

A previous Department of Health and Human Services (HHS), Office of Inspector General (OIG), report found that the NSSC lacked a framework to guide decision making during emergency situations and used an inventory management system that was outdated.[1] In addition, we noted that IHS facilities located in the Navajo, Albuquerque, and Phoenix areas could order supplies from both the NSSC and the GRSSC. However, the GRSSC had no reporting relationship to the NSSC, potentially causing inefficiencies in how the NSSC and the GRSSC distributed supplies to these locations.

COVID-19 created extraordinary challenges for the delivery of health care and human services to the American people. As the oversight agency for HHS, the OIG oversees HHS's COVID-19 response and recovery efforts. This audit, which is part of OIG's COVID-19 response strategic plan, has an audit period of January 1, 2019, through March 31, 2022, and thus focuses on the operations of the GRSSC before and during the COVID-19 pandemic.[2]

OBJECTIVES

Our objectives were to determine whether: (1) IHS coordinated NSSC and GRSSC operations to provide for the effective distribution of medical and other supplies and (2) the GRSSC distributed medical and other supplies effectively.

BACKGROUND

Indian Health Service

Within HHS, IHS delivers primary and preventative health services to American Indians and Alaska Natives. IHS provides a comprehensive health service delivery system for approximately

[1] *IHS's National Supply Service Center Was Generally Effective in Providing Supplies to Facilities During the COVID-19 Pandemic, but Its Internal Controls Could Be Improved* (A-07-20-04124); Sept. 16, 2022.

[2] OIG's COVID-19 response strategic plan and oversight activities can be accessed at HHS-OIG's Oversight of COVID-19 Response and Recovery | HHS-OIG.

2.6 million American Indians and Alaska Natives who belong to 574 federally recognized Tribes in 37 States. IHS receives annual appropriations to fund these services.

IHS has a decentralized management structure that consists of two major components: headquarters (IHS HQ) in Rockville, Maryland, and 12 Area Offices. IHS HQ responsibilities include setting health care policy, ensuring the delivery of quality comprehensive health services, and advocating for the health needs and concerns of Tribal members. The Area Offices are responsible for distributing funds to programs within their geographical areas, monitoring operations of IHS Direct programs, and providing guidance and technical assistance to Direct, Tribal, and Urban Programs, which we discuss just below.

A graphic depiction of the IHS Areas, which also marks the locations of the GRSSC and the NSSC, appears as Appendix B.

IHS Programs

Direct Programs

The Indian Health Care Improvement Act (IHCIA) authorizes IHS to provide health services to American Indians and Alaska Natives who are members of federally recognized Tribes. IHS provides these services through IHS Direct programs.[3] These programs provide services, such as medical care and dental care, through IHS-operated facilities located within the Area Offices' geographic areas.

Tribal Programs

In 1975, Congress enacted the Indian Self-Determination and Education Assistance Act (ISDEAA). ISDEAA allows Indian Tribes and Tribal organizations to have greater autonomy and to have the opportunity to assume the responsibility for programs and services administered to them on behalf of the Federal Government. ISDEAA ensures that Tribes have paramount involvement in the direction of services provided by the Federal Government in an attempt to target the delivery of such services to the needs and desires of the local communities. Tribal programs authorized under the ISDEAA allow Indian Tribes and Tribal organizations to administer health care programs or services, which IHS would have otherwise provided, under self-determination contracts with IHS (Title I Tribal programs) or self-governance compacts with IHS (Title V Tribal programs).[4] Area Offices are responsible for Title I Tribal programs, through which Tribes contract with IHS to provide one or more individual services. IHS's Office of Tribal Self-Governance develops and oversees the implementation of Tribal Self-Governance legislation and authorities within IHS under Title V.

[3] The Indian Health Care Improvement Act, P.L. No. 94-437 (Sep. 30, 1976), as amended; codified under 25 U.S.C. chapter 18.

[4] The Indian Self-Determination and Education Assistance Act, P.L. No. 93-638 (Jan. 4, 1975), as amended; codified under 25 U.S.C. chapter 46.

Urban Programs

Urban programs authorized under Title V of the IHCIA receive IHS funds through grants and contracts with Area Offices; the contracts are subject to the provisions of the Federal Acquisition Regulation. These programs serve American Indians and Alaska Natives who do not have access to the resources offered through IHS or tribally operated health care facilities because they do not live on or near a reservation.

IHS Supply Service Centers

Gallup Regional Supply Service Center

IHS operates the GRSSC, which is located in Gallup, New Mexico. The GRSSC coordinates and manages the purchase and distribution of medical, dental, janitorial, and administrative supplies (referred to as "medical and other supplies" in this report) to approximately 30 health care facilities operated by Direct and Tribal Programs in the Navajo, Albuquerque, and Phoenix IHS Areas. The GRSSC operates in the Navajo Area. The GRSSC Director reports to the Area Director of the Navajo Area Office and has no reporting relationship to the NSSC. In this report, we refer to the facilities that use the GRSSC as its "customers."

National Supply Service Center

IHS also operates the NSSC, which is located in Oklahoma City, Oklahoma.[5] The NSSC coordinates and manages the purchase and distribution of pharmaceuticals and medical and other health care-related supplies to health care facilities operated by Direct, Tribal, and Urban Programs. The NSSC provides supplies and support services to facilities in all 12 IHS Areas. The NSSC Director reports to the Area Director of the Oklahoma City Area Office.

A depiction of the organizational structure of the GRSSC and the NSSC, within IHS, appears as Appendix C.

Gallup Regional Supply Service Center Operations Before and During the COVID-19 Pandemic

During our audit period, the GRSSC distributed supplies to its customers in two ways:

- **Distribution from GRSSC inventory.** In keeping with its usual (i.e., pre-pandemic) distribution process, the GRSSC maintained an inventory catalog of medical and other supplies available for purchase. A customer submitted a request (an order) from the inventory catalog to the GRSSC. The order specified the item(s) requested, quantity, cost(s), and whether the items would be picked up or delivered. Requested items were retrieved from the GRSSC warehouse and made available for pickup or delivery usually

[5] The NSSC was originally established (in 1981) as a Central Supply Service Center for the Oklahoma City Area. The entity transitioned to what is now known as the NSSC in 2000.

within 5 days from when the order was placed. If the customer requested delivery, the GRSSC delivered the items using trucks it owned.

- **Distribution of supplies from the NSSC during the COVID-19 pandemic.** The NSSC maintained an inventory of certain medical and other supplies (such as masks, thermometers, and COVID-19 test kits) and shipped these—without having received a request to do so—to customers using an allocation methodology that the NSSC developed during the pandemic. During the early part of the pandemic, the NSSC asked the GRSSC to deliver these supplies to the GRSSC's customers. These deliveries did not follow the GRSSC's normal distribution process and were not tracked in the GRSSC's inventory management system.

  Early in 2021, the NSSC determined that it was unable to continue to use the GRSSC to deliver supplies during the pandemic because after a site visit, NSSC officials determined that the GRSSC was unable to quickly distribute products to its customers. Consequently, the NSSC discontinued this arrangement.

HOW WE CONDUCTED THIS AUDIT

Our audit covered 277,205 GRSSC transactions that occurred between January 1, 2019, and March 31, 2022 (this audit period thus encompassed GRSSC operations before and during the COVID-19 pandemic).[6] We selected a judgmental sample of 70 transactions between the GRSSC and its customers for medical and other supplies, and we reviewed documentation supporting these transactions to determine whether orders were fulfilled completely and effectively. Specifically, we reviewed to determine whether the GRSSC maintained documentation to support if and when orders were delivered. We chose 20 transactions from each calendar year of 2019, 2020, and 2021 as well as 10 transactions from first quarter of calendar year 2022. Our sample included transactions for various types of medical and other supplies associated with 17 customers.

We asked questions of IHS HQ staff, GRSSC staff, and some of the 17 GRSSC customers to help us evaluate the distribution of supplies from the GRSSC to customers.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix A contains the details of our audit scope and methodology.

[6] For this report, we use the term "transactions" to denote customer orders from the GRSSC.

FINDINGS

IHS did not coordinate NSSC and GRSSC operations to provide for the effective distribution of medical and other supplies. Throughout our audit period (January 1, 2019, through March 31, 2022), the NSSC and the GRSSC routinely conducted their operations independently of one another and with minimal visibility, coordination, and communication with one another. During the emergency response to the COVID-19 pandemic, the NSSC attempted to coordinate with the GRSSC for the distribution of emergency supplies to NSSC customers, but the GRSSC did not have an inventory management system that could maintain any records of its supply distributions on behalf of the NSSC. As a result, we were unable to verify that those items of medical and other supplies had been distributed. Further, IHS, for its part, did not have policies and procedures to ensure that the GRSSC's and the NSSC's inventory management systems could interface or connect with one another. The difficulties in the GRSSC's inventory management and supply distribution systems were reflected in the fact that the NSSC eventually decided that it was unable to continue to use the GRSSC to distribute supplies during the COVID-19 pandemic.

For our second objective, the GRSSC did not demonstrate that it distributed medical and other supplies effectively during our audit period. Of the 70 GRSSC transactions in our judgmental sample, the GRSSC's records for 23 transactions were fully supported, but for each of the other 47 sampled transactions, the GRSSC did not maintain a delivery ticket to support that the item had been delivered to the customer. Because the delivery ticket was not maintained, we could not verify that the item had been delivered or how long it took for the item to be delivered to the customer.

The GRSSC confronted a number of challenges, to include its inability to properly track the delivery of medical and other supplies because its inventory management system was outdated. Furthermore, the GRSSC experienced employee turnover in key positions, including in its leadership position, during our audit period. Consequently, the GRSSC's inventory levels were not always accurate, and customers sometimes had to order from different vendors to obtain the supplies they needed.

IHS DID NOT COORDINATE NATIONAL SUPPLY SERVICE CENTER AND GALLUP REGIONAL SUPPLY SERVICE CENTER OPERATIONS TO PROVIDE FOR THE EFFECTIVE DISTRIBUTION OF MEDICAL AND OTHER SUPPLIES

IHS Requirements

The *Indian Health Manual* states: "The Director, Management Policy and Internal Control Staff (MPICS), has primary responsibility for coordinating all IHS management control functions. This includes developing, maintaining, and providing Agency-wide guidance policies or procedures for FMFIA [Federal Managers Financial Integrity Act] processes and related matters" (part 5, chapter 16, section 5-16.2E). Additionally, the *Indian Health Manual* states: "Managers must have records and documents available to properly assess their internal operations and

management control systems, including transaction records and internal guidelines" (part 5, chapter 16, sections 5-16-5E(3) and (5)).[7]

Lack of Coordination Between National Supply Service Center and Gallup Regional Supply Service Center Operations

IHS did not coordinate NSSC and GRSSC operations to provide for the effective distribution of medical and other supplies to their customers. The GRSSC did not have records of, or delivery support for, the items of medical and other supplies it was asked to distribute to customers on behalf of the NSSC during the COVID-19 pandemic. As a result, we were unable to verify that those items of medical and other supplies had been distributed. Further, IHS for its part, did not have policies and procedures to ensure that the GRSSC's and the NSSC's inventory management systems could interface or connect with one another.

The National Supply Service Center and the Gallup Regional Supply Service Center Routinely Operated Independently of One Another

Throughout our audit period (January 1, 2019, through March 31, 2022), the NSSC and the GRSSC routinely conducted their operations independently of one another and with minimal visibility, coordination, and communication with one another. The supply centers operated independently because under IHS's structure, the NSSC and the GRSSC report to different Area Offices. Specifically, the NSSC reports directly to the IHS Oklahoma City Area Office while the GRSSC reports directly to the IHS Navajo Area Office. Neither our discussions with officials of these two entities, nor our own audit work, could establish that effective and routinely accessed coordination and communication links existed between the NSSC and the GRSSC. In addition, these discussions established, among other things, that the NSSC and the GRSSC generally do not use the same vendors. The lack of coordination and use of different vendors meant that the NSSC and the GRSSC essentially operated without knowing what the other supply center was doing.

The Gallup Regional Supply Service Center Operational Difficulties During the COVID-19 Pandemic

During the emergency response to the COVID-19 pandemic, the NSSC attempted to coordinate with the GRSSC for the distribution of emergency supplies to GRSSC customers, but the GRSSC did not have an inventory management system that could maintain any records of its supply distributions on behalf of the NSSC during the COVID-19 pandemic. Therefore, we were unable to verify that those items of medical and other supplies had been distributed.

The NSSC eventually decided that it was unable to continue to use the GRSSC to facilitate the delivery of COVID-19-related medical and other supplies because the GRSSC had incomplete

[7] After our audit period ended, IHS issued a *Notice to Rescind Indian Health Service, Indian Health Manual, Part 5, Chapter 16, Management Control System (Aug. 9, 2023)*.

inventory data and inefficient operations during the COVID-19 pandemic. In the context of this decision, NSSC officials told us that using the same inventory management system would increase visibility, coordination, and communication between the NSSC and the GRSSC. Furthermore, NSSC officials stated that the NSSC would like to share warehouse space, and have common vendors, with the GRSSC. NSSC officials also recognized a need for all parties to be aligned in their supply distribution operations and added that doing so would require IHS to align all of its policies and procedures.

IHS Lacked Policies and Procedures for the Coordination of the Gallup Regional Supply Service Center Operations

For its part, IHS did not provide effective coordination between the NSSC and the GRSSC to ensure that the people served by IHS received the medical and other supplies—through GRSSC's customers—that they needed during the pandemic. Specifically, IHS did not have policies and procedures in place to ensure that the GRSSC and the NSSC could coordinate their operations, when it was necessary for them to do so, particularly with respect to interfaces between their inventory management systems.

THE GALLUP REGIONAL SUPPLY SERVICE CENTER DID NOT DISTRIBUTE MEDICAL AND OTHER SUPPLIES EFFECTIVELY BEFORE AND DURING THE COVID-19 PANDEMIC

IHS Requirements

The *Indian Health Manual* states: "Vital records are those records that are essential to the daily business of the IHS without which the Agency and/or its individual components could not effectively operate. The Records Management Program (RMP) will work with offices to identify records needed during and after an emergency or disaster" (part 5, chapter 15, section 5-15.8).

The *Indian Health Manual* also states (part 5, chapter 15, section 5-15.10):

> All employees and contractors are required to take annual records management training. Records management training serves as a reminder of the responsibility to maintain and protect IHS records. Records management training may be conducted online or in person. Courses may include, but not be limited to basic records management, file plan development, electronic records management, and vital records guidance. Supervisors and Contracting Officer's Representatives are responsible for briefing new employees and contractors regarding the types of records they create and maintain.

In addition, the *Indian Health Manual* states: "The RMP will conduct periodic assessments to monitor the effectiveness, adherence, and performance of the program. Consistent assessments provide opportunities for refining and improving the program through the establishment of best practices and identification of new cost efficiencies" (part 5, chapter 15, section 5-15.11).

"The Director, MPICS, has primary responsibility for coordinating all IHS management control functions. This includes developing, maintaining, and providing Agency-wide guidance policies or procedures for FMFIA processes and related matters" (part 5, chapter 16, section 5-16.2E). Furthermore, "Managers must have records and documents available to properly assess their internal operations and management control systems, including transaction records and internal guidelines" (part 5, chapter 16, section 5-16-5E(3) and (5)) (footnote 7).

The Gallup Regional Supply Service Center Did Not Demonstrate That It Effectively Distributed Medical and Other Supplies Because of Challenges Experienced

With respect to our second objective, the GRSSC did not demonstrate that it distributed medical and other supplies, including essential items of personal protective equipment (PPE), effectively both before and during the COVID-19 pandemic because of challenges it experienced. Of the 70 GRSSC transactions in our judgmental sample, the GRSSC's records for 23 transactions were fully supported and correctly included delivery tickets that indicated when the items had been delivered. However, for each of the other 47 sampled transactions, the GRSSC did not maintain a delivery ticket to support that the item had been delivered to the customer. Because the delivery ticket was not maintained, we could not verify that the item had been delivered or how long it took for the item to be delivered to the customer.

For example, a customer ordered 12 units of rubbing alcohol on June 7, 2019. The GRSSC was able to give us the customer's order and documentation that the customer was charged for these items. However, the GRSSC was not able to provide documentation supporting when the items were actually delivered to the customer.

GRSSC customers also indicated that the GRSSC was not meeting their needs in responding to the COVID-19 pandemic. Initially, and as the COVID-19 pandemic progressed, the Navajo Area Office emergency distribution plan—which applied to the GRSSC, among other entities—called for the GRSSC to be used as a single-point ordering entity for its customers, so that purchasing and distribution of critical medical and other supplies could be monitored and managed. However, because many items of medical and other supplies were frequently backordered at the GRSSC and because it experienced low on-hand inventory of many items, customers began to purchase PPE directly from vendors, resulting in a multi-point ordering process. A customer told us that it no longer used the GRSSC for COVID-19-related PPE supplies because the GRSSC took between 2 and 3 months to fill backorders. Another customer stated that during the COVID-19 pandemic, it experienced a decrease in order quantities and had to order through other vendors to keep up with supply needs and demands.

Although some customers told us that the GRSSC had "great customer service," other customers said that they were not able to use the GRSSC as a vendor as much as they would have liked. Specifically, a GRSSC customer noted that some items of medical and other supplies had been discontinued, but that information was not communicated to that customer. Another customer told us that as it is located in a rural area, "we try . . . to plan [for future needs] but, in the hospital, emergencies are not planned and [we] would like a more concerted effort in [the

GRSSC's] process to address backorders, seasonal items and especially the high use items." Subsequently, this customer decided that it had to resort to filling increased orders with other vendors.

A different customer noted that it had to make several trips to the GRSSC to pick up ordered supplies, because the GRSSC had given this customer no notification that the order had been fulfilled. This customer added that certain supplies were generally not stocked and were instead either backordered or out of stock. In addition, this customer stated that it was easier to use other vendors for its supply needs. Another customer stated that (during the COVID-19 pandemic) it was not happy with the GRSSC "at this time." This customer added that ordering from the GRSSC was not as easy as it used to be because the ordering process had become much more complicated and time-consuming.

The Challenges the Gallup Regional Supply Service Center Faced Were Caused by an Outdated Inventory Management System and Key Staff Turnover

To a considerable extent, the challenges discussed above resulted from the fact that the GRSSC used an outdated inventory management system that required staff to manually enter product information into a paper system when items of medical and other supplies were received. Because this inventory management system was outdated, the GRSSC was unable to properly track the delivery of medical supplies and equipment. Accordingly, GRSSC employees did not always know the amounts of inventory stocked within their warehouse. In addition, the GRSSC experienced employee turnover in key positions during our audit period, including one Director who resigned at the beginning of the COVID-19 pandemic and another Director who resigned during the COVID-19 pandemic. In our discussions with GRSSC staff, they could not always describe their processes during our audit period because they had not been employed with the GRSSC at that time.

The combination of its outdated inventory management system and employee turnover contributed to the GRSSC not being well positioned to effectively track the inventory on hand in its warehouse or determine whether ordered items had been delivered. Because of the GRSSC's low on-hand inventory and lengthy delivery delays due to backordering, its customers turned to other vendors to obtain needed items, which exacerbated the GRSSC's ability to understand what items of medical and other supplies its customers still required. The GRSSC was thus unable to quickly distribute products to customers in its service area, and as a workaround the NSSC made the decision (after conducting a site visit at the GRSSC) to become the principal IHS supplier of crucial medical and other supplies, including PPE.

RECOMMENDATIONS

We recommend that Indian Health Service:

- develop and implement policies and procedures that enable the NSSC and the GRSSC to coordinate their operations and communicate directly with one another, align their inventory management systems, and use the same vendors when feasible; and

- consider upgrading the GRSSC's inventory system or implement other strategies to better coordinate the delivery of supplies to all customers.

IHS COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, IHS concurred with both of our recommendations and described corrective actions that it had taken or planned to take. Specifically, for our first recommendation, IHS stated that in Federal fiscal year (FY) 2023 it began to develop and implement a supply chain modernization plan. This plan consists of aligning the NSSC and the GRSSC operations with unified policies and procedures as well as updating, in FY 2025, the *Indian Health Manual*. IHS also stated that "[t]he primary objective of aligning [the] NSSC and [the] GRSSC operations is to improve coordination, communication, and product visibility between the two centers . . . ." IHS added that an intra-agency agreement between the IHS Oklahoma City Area and the Navajo Area Directors had been executed, which established expectations and outlined roles for each supply center. The NSSC and GRSSC alignment process began on October 1, 2023, with an anticipated completion date of September 30, 2024. IHS added that this supply chain modernization plan includes the procurement and implementation of a new inventory management system, which will be managed by the NSSC and used by both the NSSC and the GRSSC, resulting in a "unified inventory framework for joint storage and distribution of products available via NSSC and GRSSC warehouses" and the use of shared vendors.

For our second recommendation, IHS stated that "[p]rior to the COVID-19 pandemic, [the] NSSC determined a need for a modernized agencywide inventory management system . . . ." IHS noted that it was unable to procure and implement the software system before the onset of the public health emergency. IHS stated that it "used the experience and lessons learned during the pandemic to procure a modernized software package in FY 2023" that will be implemented simultaneously at the NSSC and the GRSSC. Furthermore, IHS stated that "[the] NSSC is working with [the] GRSSC to modernize its distribution process . . . ." This would allow its customers to track shipments and confirm that orders were delivered. IHS added that it anticipated that this modernized process would be completed at the GRSSC by the end of FY 2024.

IHS's comments appear in their entirety as Appendix D.

We commend IHS for the actions it has taken and plans to take to address our recommendations.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our audit covered 277,205 GRSSC transactions that occurred between January 1, 2019, and March 31, 2022 (this audit period thus encompassed GRSSC operations before and during the COVID-19 pandemic). We selected a judgmental sample of 70 transactions between the GRSSC and its customers for medical and other supplies, and we reviewed documentation supporting these transactions to determine whether orders were fulfilled completely and effectively. Specifically, we reviewed to determine whether the GRSSC maintained documentation to support if and when orders were delivered. We chose 20 transactions from each calendar year of 2019, 2020, and 2021 as well as 10 transactions from the first quarter of calendar year 2022. Our sample included transactions for various types of medical and other supplies associated with 17 customers.

We asked questions of IHS HQ staff, GRSSC staff, and some of the 17 GRSSC customers to help us evaluate the distribution of supplies from the GRSSC to customers.

We determined that the GRSSC's control environment, control activities, and information and communication were significant to our audit objective. We assessed the design and implementation of the GRSSC's internal controls related to the distribution of medical and other supplies during our audit period. We met with GRSSC staff to gain an understanding of the GRSSC's organizational structure, responsibilities, and operating procedures. We also reviewed the GRSSC's operations, specifically its inventory management system as well as the extent of its coordination and communication with the NSSC during the COVID-19 pandemic. We asked questions of GRSSC's customers to determine the effectiveness of both supply distribution and communication between the GRSSC and its customers.

We performed audit work from June 2022 through February 2024.

METHODOLOGY

To accomplish our objectives, we performed the following steps:

- We reviewed applicable Federal laws, regulations, and guidance.
- We discussed with IHS program officials the operations of the GRSSC.
- We interviewed GRSSC staff to gain an understanding of how the GRSSC operated both before and during the COVID-19 pandemic.
- We obtained and evaluated the GRSSC's policies and procedures.

- We requested a list of items that the GRSSC delivered on behalf of the NSSC during the COVID-19 pandemic in an effort to evaluate whether the items were distributed effectively.

- We asked questions of GRSSC customers to gain an understanding of the customers' operating procedures and to evaluate relevant aspects of their working relationships with the GRSSC.

- We obtained a list of transactions between the GRSSC and its customers from January 1, 2019, through March 31, 2022.

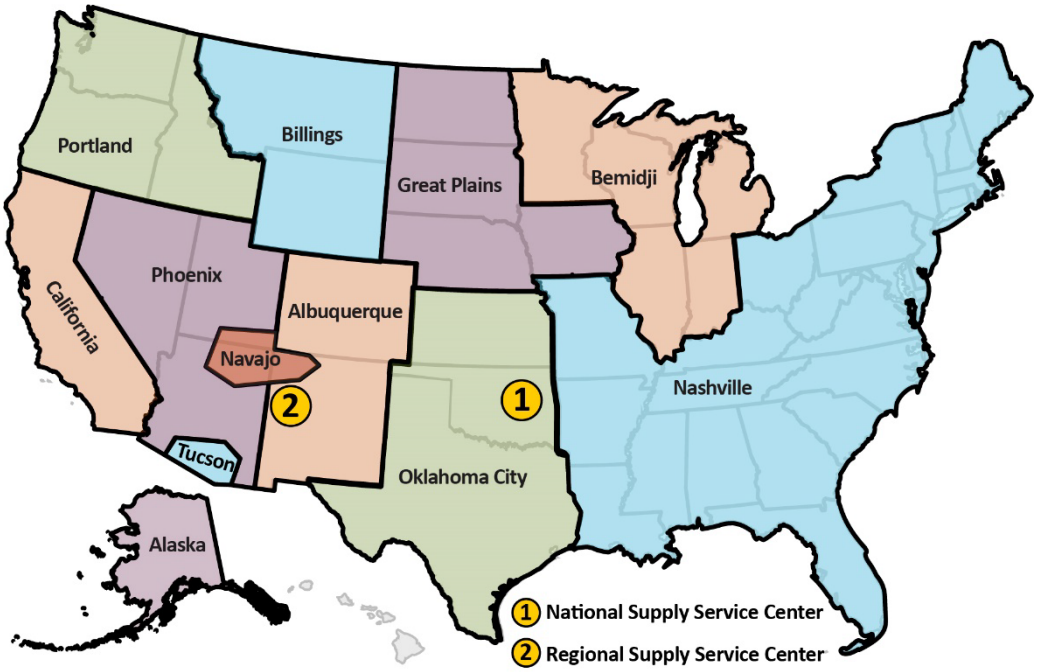
- We judgmentally selected 70 transactions to review. Specifically, we selected transactions from 17 customers, as well as transactions that included various types of medical and other supplies.

- For each of the 70 transactions, we reviewed documentation such as customer orders and delivery lists and determined whether the transaction was fulfilled and delivery was supported.

- We discussed the results of our audit with IHS officials on October 18, 2023.

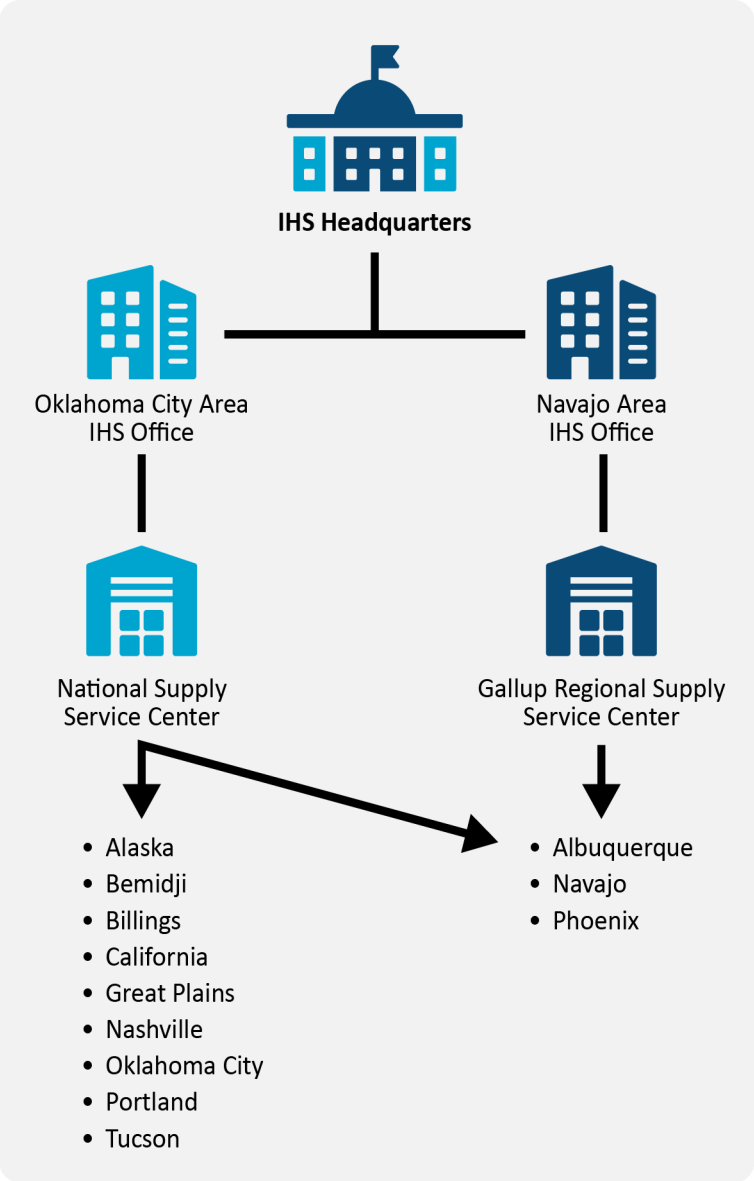
We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX B: IHS AREAS AND NATIONAL AND GALLUP REGIONAL SUPPLY SERVICE CENTERS



NOTE—Texas is within the Oklahoma City Area but also includes programs that report to the Albuquerque and Nashville Areas. In addition, IHS does not have any direct service, tribal, or urban Indian organization sites in Hawai'i, but the California Area does have a contract to provide limited services at one facility in Hawai'i.

APPENDIX C: IHS SUPPLY CENTERS' ORGANIZATIONAL STRUCTURES



DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

Indian Health Service
Rockville MD 20857

DATE: February 28, 2024

TO: Amy J. Frontz, Deputy Inspector General for Audit Services

FROM: Director

SUBJECT: IHS Response to Draft OIG Report: *IHS Did Not Coordinate Supply Service Center Operations Before and During the COVID-19 Pandemic and Should Consider Upgrading Supply Centers' Inventory Management Systems and Implementing Policies and Procedures To Enhance Coordination and Alignment,* (A-07-22-04131), dated February 1, 2024

We appreciate the opportunity to provide our official comments on the draft Office of Inspector General (OIG) report entitled, *IHS Did Not Coordinate Supply Service Center Operations Before and During the COVID-19 Pandemic and Should Consider Upgrading Supply Centers' Inventory Management Systems and Implementing Policies and Procedures To Enhance Coordination and Alignment.* The Indian Health Service (IHS) concurs with the two OIG recommendations below.

OIG Recommendation No. 1: The IHS concurs with this recommendation.

OIG recommends the IHS develop and implement policies and procedures that enable the NSSC and the GRSSC to coordinate their operations and communicate directly with one another, align their inventory management systems, and use the same vendors when feasible.

Planned and completed actions:
The IHS began developing and implementing its IHS Supply Chain Modernization Plan (the Plan) in Fiscal Year (FY) 2023, which addresses this recommendation. The Plan consists of two Phases. The priority for Phase I is the alignment of the National Supply Service Center (NSSC) and the Gallup Regional Supply Service Center (GRSSC) operations with unified policies and procedures implemented by both centers. Phase II priority will be to update the Indian Health Manual Part 5, Chapter 6, Supply Management in FY 2025.

The primary objective of aligning NSSC and GRSSC operations is to improve coordination, communication, and product visibility between the two centers, with particular focus on both enhancing response capabilities during critical situations and improving distribution efficiency. The IHS conducted alignment strategy formulation activities from August 1 through September 30, 2023, which included a due diligence assessment of the GRSSC program and facility. The findings yielded a strategy encompassing several steps: emphasizing collaboration, gaining standardization, and sharing technological advancements to optimize the health care supply chain. As part of the strategy, an intra-agency agreement between the IHS Oklahoma City and

Navajo Area Directors was executed, establishing expectations and outlining roles for each center. The NSSC-GRSSC alignment process began October 1, 2023, in concert with Phase I of the Plan, with an anticipated completion date of September 30, 2024. A primary step in the alignment involves sharing personnel and resources to streamline the procurement, inventory management, quality assurance, and distribution processes for warehouse items.

Phase I of the Plan also includes the procurement and implementation of a new inventory management system managed by NSSC and utilized by both centers, which will be completed in FY 2024. This will create a unified inventory framework for joint storage and distribution of products available via NSSC and GRSSC warehouses. It is expected that products will be procured jointly by NSSC and GRSSC resulting in the use of shared vendors.

OIG Recommendation No. 2: The IHS concurs with this recommendation.

OIG recommends the IHS consider upgrading the GRSSC's inventory system or implement other strategies to better coordinate the delivery of supplies to all customers.

Planned and completed actions:
Prior to the COVID-19 pandemic, NSSC determined a need for a modernized agencywide inventory management system; however, the NSSC was unable to procure and implement the software system before the onset of the public health emergency. As a result, the IHS had limited ability to interface among IHS Areas, customers, and vendors regarding product inventories and distribution schedules. The NSSC used the experience and lessons learned during the pandemic to procure a modernized software package in FY 2023 and is working to secure an implementer. The Plan includes the simultaneous implementation of the software at NSSC and GRSSC in Phase I.

Also, NSSC is working with GRSSC to modernize its distribution process with the addition of a third-party logistics agreement for shipping, which will give customers the ability to track shipments and confirm orders were delivered. The third-party logistics shipment support at GRSSC is expected to be completed by the end of FY 2024.

Thank you for the opportunity to review and comment on this draft report. Please refer any follow-up questions you have regarding our comments to Mr. Benjamin Smith, Deputy Director, IHS, by email at Benjamin.Smith@ihs.gov.

Roselyn Tso -S
Digitally signed by Roselyn Tso -S
Date: 2024.02.28 15:12:02 -05'00'

Roselyn Tso
Director