



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

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The Honorable Bill Chappell  
House of Representatives

R Dear Mr. Chappell:

Your May 7, 1975, letter requested that we obtain data on outpatient prescription costs in the Veterans Administration (VA). You wanted us to emphasize not only drug costs but also certain overhead and administrative costs associated with outpatient prescriptions. You felt that adequately considering these factors would provide a more meaningful comparison between VA and private administration of the outpatient pharmacy program.

VA does not accumulate cost data on each of the categories you outlined in your letter. We agreed with your office to collect data on directly chargeable costs--drug costs, drug supplies, and personnel--to VA's outpatient pharmacy program. We also agreed to include indirect costs, such as administration and depreciation, that were available from VA records at the locations visited. We also obtained the total costs for fee-basis prescriptions (prescriptions filled by non-VA pharmacies) reported by these facilities.

From our review, we estimate that the VA cost per outpatient prescription amounts to \$4.57. The average cost per fee-basis prescription amounts to \$7.82, about 71 percent more than the VA cost.

We made our review at (1) VA's central office in Washington, D.C., (2) VA hospitals in Altoona and Lebanon, Pennsylvania; Denver, Colorado; Fort Howard, Maryland; and Miami, Florida, and (3) VA independent outpatient clinics in Boston, Massachusetts; San Antonio, Texas; and Los Angeles, California.

BACKGROUND

As part of its health care system, VA operates an outpatient treatment program, primarily through outpatient clinics at VA hospitals. On September 24, 1975, 215 outpatient clinics were in operation, of which 7 were independent clinics not affiliated with a VA hospital. In fiscal year 1975, VA reported an outpatient workload of 14.6 million

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visits and costs of about \$602 million. For fiscal year 1976, VA estimates a workload of about 14.7 million visits and costs of about \$700 million.

According to VA, the demand for outpatient care will continue to increase, primarily resulting from Public Law 93-82, approved August 2, 1973. This act authorizes treating veterans for non-service-connected disabilities as outpatients without their first being admitted to a hospital. Previously, outpatient treatment for these veterans could be provided only in conjunction with inpatient treatment in a VA hospital.

During fiscal year 1975, VA spent about \$118.4 million for drugs, including those used in the outpatient program. Outpatient prescriptions may be filled either by VA or a private fee-basis pharmacy. VA records show that, in fiscal year 1975, VA filled about 22 million prescriptions and fee-basis pharmacies filled about 943,000. VA officials at several locations visited said that VA usually tries to have the prescriptions filled by a VA pharmacy because their prescription costs are much less than fee-basis prescription costs. Occasionally, however, because the veteran is employed and cannot get to the VA clinic during business hours or because of a geographical problem, the prescription must be filled by a fee-basis pharmacy.

#### OUTPATIENT PRESCRIPTION PROGRAM COST

VA's accounting system does not report total costs associated with the outpatient prescription program. Consequently, we had to develop a methodology which would account not only for direct costs (costs of drugs and personnel) but also for associated costs, such as administration and various other overhead charges. VA personnel at each of the locations visited agreed with the methodology we used to develop these costs. For comparison, we also obtained the fee-basis prescription costs reported by the facilities visited.

#### Methodology

At each of the locations visited, we identified costs directly related to the outpatient prescription program, including costs of medication, medical supplies, other supplies, and pharmacy personnel (including fringe benefits). We also allocated, where appropriate, a portion of the overhead charges made to the outpatient care area for administration expense, engineering expense, building management

support, and education and training support. We also applied percentages VA uses to compute charges for unbudgeted overhead expenses when it provides specialized medical service under a reimbursable agreement. These unbudgeted overhead expenses are depreciation on equipment and buildings, central office medical administration expense, and interest on net capital investment. Enclosure I describes the basis we used to develop the costs of filling outpatient prescriptions through a VA pharmacy. Cost data was obtained for July 1, 1973, through March 31, 1975.

### Costs of outpatient prescriptions

The following table shows the VA and fee-basis costs per prescription at the locations visited.

<u>VA facility</u>	<u>VA prescription</u>			<u>Fee-basis prescription</u>		
	<u>Cost</u>	<u>Prescriptions filled</u>	<u>Average cost</u>	<u>Cost</u>	<u>Prescriptions filled</u>	<u>Average cost</u>
Fort Howard, Md. (note a)	\$ 102,829	35,843	\$2.87	\$ -	-	\$ -
Altoona, Pa.	418,265	75,252	5.56	43,690	5,484	7.97
Lebanon, Pa.	930,578	165,231	5.63	138,414	15,733	8.80
San Antonio, Tex.	961,395	231,005	4.16	91,475	17,774	5.15
Los Angeles, Calif.	1,116,995	345,633	3.23	700,933	76,899	9.11
Denver, Colo.	1,379,036	275,208	5.01	140,571	19,732	7.12
Boston, Mass.	2,383,955	495,009	4.82	144,313	25,447	5.67
Miami, Fla. (note a)	<u>2,474,486</u>	<u>516,017</u>	4.80	-	-	-
Total	<u>\$9,767,539</u>	<u>2,139,198</u>	\$4.57	<u>\$1,259,396</u>	<u>161,069</u>	\$7.82

a/Facility did not have a fee-basis program.

An official in VA's Pharmacy Service said that the costs for fee-basis prescriptions were actually higher than shown. According to him, these figures did not include the cost for VA to process the fee-basis pharmacies' payment claims. If those costs were recognized, the fee-basis cost per prescription would increase. However, the VA pharmacy costs are also understated inasmuch as they do not reflect postage costs for prescriptions mailed to veterans. VA records contained no information on either of these costs.

QUALITATIVE ASPECTS OF VA PHARMACIES

As discussed with your staff, we agreed to include the qualitative aspects of VA pharmacies, but only from the viewpoint of what we were told, since we had not evaluated those factors. These qualitative aspects are: (1) the patient's medication profile, (2) clinical pharmacists, and (3) pharmacists' experience with prosthetic supplies.

VA maintains medication profiles which contain a brief description of the patient's physical problem and a record of his previous prescriptions. Before filling a new prescription, the VA pharmacist reviews the profile for incompatible drugs and consults with the prescribing physician when necessary.

Clinical pharmacists are pharmacists oriented by education and exposure to a patient centered pharmacy practice. Such a pharmacist has spent his internship and his career in an institutional, rather than a fee-basis pharmacy, environment. Additionally, clinical pharmacists are trained in drug interactions and usually hold advanced degrees.

VA clinical pharmacists provide a data base of drug information not routinely available at a fee-basis pharmacy. This information enables the pharmacists to more effectively spot dangerous drug interactions and drugs incompatible with the patient's condition.

Prosthetic supplies are the software items used by a prosthetic patient who needs a medical device to function. Examples of such supplies are ostomy bag, indwelling catheter, external catheter, and cervical collar. VA pharmacists are trained to fit these supplies and advise patients on their use.

CONCLUSIONS

We believe that the difference in outpatient prescription costs between VA and fee-basis pharmacies justifies filling outpatient prescriptions through VA pharmacies.

AGENCY COMMENTS

VA concurred with our conclusion (see enc. III) and stated that the report should prove valuable in their own future program evaluations.

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Regarding costs associated with mailing VA prescriptions and processing fee-basis prescriptions, VA believes the processing costs to exceed the mailing costs, making an even greater cost difference between VA and fee-basis prescriptions. However, we were unable to verify this belief because neither of these costs were available from VA records.

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As agreed by your office, we are sending copies of this report to the Administrator of Veterans Affairs.

Sincerely yours,



DEPUTY Comptroller General  
of the United States

Enclosures - 3

EXPLANATION OF COSTS COMPUTATION

The following describes the basis of the computations we made to develop the costs of filling outpatient prescriptions through a VA pharmacy. The basic document used in our analysis was VA's Report of Medical Care Distribution Accounts (RCS 14-4).

DIRECT CHARGES

To arrive at direct charges for outpatient prescriptions, we extracted the charges made to the pharmacy under the various outpatient care categories. These charges consisted of personnel services, including fringe benefits, medication, medical supplies, and other supplies.

OVERHEAD CHARGES

VA allocates overhead charges from the local VA hospital or independent outpatient clinic down to the outpatient care unit for the following areas: (1) administration expense, (2) engineering and building management support, and (3) education and training support. To determine the share of administrative overhead for the outpatient pharmacy area, we compared the direct charges for the outpatient pharmacy to direct charges for the entire outpatient care unit and applied this ratio to the administrative costs allocated to the outpatient care unit. The result was an allocation of administrative overhead to outpatient prescriptions.

Engineering and building management support overhead applicable to outpatient prescriptions was determined by comparing the square footage of the pharmacy used for outpatient prescriptions to the total footage in the outpatient care unit. This ratio was then applied against the overhead costs charged to the outpatient care unit. The result was the engineering and building management support overhead for outpatient prescriptions.

Education and training support overhead was allocated based on the actual amount of education and training used by pharmacy personnel.

UNBUDGETED EXPENSES

To enable its individual stations to determine charges for unbudgeted expenses, VA's central office has developed various formulas to provide a station with the percentages to be charged for overhead. There are three formulas, one each for equipment depreciation, building depreciation, and

interest on net capital investment. For the fourth item, central office medical administrative expense, the percentage is provided by VA's central office. Therefore, for each of the four overhead elements, a percentage exists which, when applied by the station against its total budgeted operating costs, will provide the appropriate allocation of overhead. We applied these percentages against the budgeted costs and arrived at an allocation of overhead costs.

SCHEDULE OF DIRECT AND OVERHEAD CHARGES  
APPLICABLE TO OUTPATIENT PRESCRIPTIONS  
FOR 7/1/73 THROUGH 3/31/75

	<u>Ft. Howard</u>	<u>Altoona</u>	<u>Lebanon</u>	<u>Denver</u>	<u>Miami</u>	<u>Independent outpatient clinics</u>		
						<u>Boston</u>	<u>San Antonio</u>	<u>Los Angeles</u>
Direct charges:								
Personnel services	\$ 32,815	\$ 72,483	\$195,512	\$ 184,995	\$ 400,001	\$ 562,209	\$196,695	\$ 386,681
Medication and supplies	<u>49,325</u>	<u>241,333</u>	<u>575,856</u>	<u>897,940</u>	<u>1,318,102</u>	<u>1,255,200</u>	<u>535,455</u>	<u>494,082</u>
Total	<u>82,140</u>	<u>313,816</u>	<u>771,368</u>	<u>1,082,935</u>	<u>1,718,103</u>	<u>1,817,409</u>	<u>732,150</u>	<u>880,763</u>
Overhead charges:								
Administrative	8,617	37,852	74,123	135,381	501,147	351,593	157,287	175,873
Engineering and building management	7,173	19,759	6,086	51,184	69,603	2,654	556	20,889
Education and training	-	-	-	15,299	4,429	-	-	-
Total	<u>15,790</u>	<u>57,611</u>	<u>80,209</u>	<u>201,864</u>	<u>575,179</u>	<u>354,247</u>	<u>157,843</u>	<u>196,762</u>
Support services provided (note a)	-	-	-	-	-	<u>46,427</u>	<u>34,425</u>	<u>3,554</u>
Unbudgeted expenses:								
Depreciation--equipment	1,469	11,142	11,922	28,606	49,322	50,822	17,564	18,962
Depreciation--building	489	8,170	14,477	11,726	26,444	-	-	-
Central office medical administration	1,077	4,085	9,367	14,670	25,188	24,399	10,169	11,891
Interest on net capital investment	<u>1,864</u>	<u>23,441</u>	<u>43,235</u>	<u>39,235</u>	<u>80,250</u>	<u>90,651</u>	<u>9,244</u>	<u>5,063</u>
Total	<u>4,899</u>	<u>46,838</u>	<u>79,001</u>	<u>94,237</u>	<u>181,204</u>	<u>165,872</u>	<u>36,977</u>	<u>35,916</u>
Total overhead expenses	<u>20,689</u>	<u>104,449</u>	<u>159,210</u>	<u>296,101</u>	<u>756,383</u>	<u>566,546</u>	<u>229,245</u>	<u>236,232</u>
Total direct and overhead charges	<u>\$102,829</u>	<u>\$418,265</u>	<u>\$930,578</u>	<u>\$1,379,036</u>	<u>\$2,474,486</u>	<u>\$2,383,955</u>	<u>\$961,395</u>	<u>\$1,116,995</u>
Prescriptions dispensed	35,843	75,252	165,231	275,208	516,017	495,009	231,005	345,633
Cost per prescription	<u>\$ 2.87</u>	<u>\$ 5.56</u>	<u>\$ 5.63</u>	<u>\$ 5.01</u>	<u>\$ 4.80</u>	<u>\$ 4.82</u>	<u>\$ 4.16</u>	<u>\$ 3.23</u>

a/Support services provided by local VA hospitals for independent outpatient clinics.  
 Support services at VA hospital pharmacies are included in overhead.

ENCLOSURE II

ENCLOSURE II



VETERANS ADMINISTRATION  
OFFICE OF THE ADMINISTRATOR OF VETERANS AFFAIRS  
WASHINGTON, D.C. 20420

NOVEMBER 5 1975



Mr. Gregory J. Ahart  
Director  
Manpower and Welfare Division  
U. S. General Accounting Office  
Washington, D. C. 20548

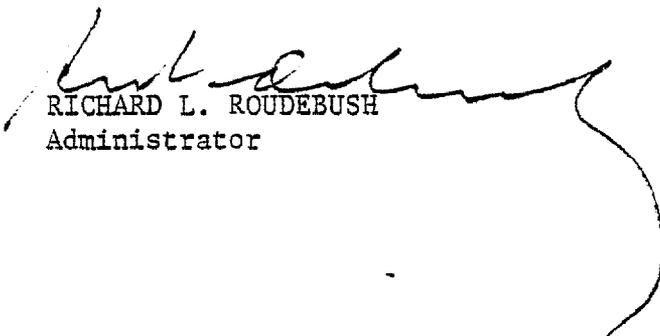
Dear Mr. Ahart:

We appreciate the opportunity to review and comment on your draft report on the Comparison of VA Pharmacy Prescription Costs With Fee-Basis Pharmacy Prescription Costs. We concur generally with its conclusions.

We do believe that a more exact accounting of the costs associated with mailing VA prescriptions and processing fee-basis prescriptions would show that the processing costs exceed the mailing costs. This would indicate an even greater difference between VA and fee-basis prescription costs.

The report should prove valuable for use as a basis for our own future evaluations of these programs.

Sincerely,

  
RICHARD L. ROUDEBUSH  
Administrator