



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

110089



HUMAN RESOURCES
DIVISION

B-133044

AUGUST 9, 1979

The Honorable J. Bennett Johnston
United States Senate



110089

Dear Senator Johnston:

Your March 20, 1979, letter requested that we report on a bill (S. 1553) you introduced last year that would provide nonhospitalized veterans with freedom of choice in obtaining prescription drugs. Specifically, you asked us to assess the facts and conclusions contained in a Veterans Administration (VA) report on the proposed legislation and the methodology VA used to project increased costs if the proposed legislation were enacted. In addition, you requested information on

- the number of VA facilities providing fee-basis and outpatient prescriptions by State and county;
- personnel costs of providing prescription services to veterans, distinguishing between licensed pharmacists and other personnel;
- nonpersonnel costs associated with the VA fee-basis and outpatient prescription service facilities;
- the number of veterans obtaining prescriptions from VA facilities on both a fee basis and outpatient basis; and
- the inventory turnover associated with prescriptions provided on a fee basis and outpatient basis.

BACKGROUND

As part of its health care system, VA operates an outpatient treatment program, primarily through outpatient clinics at VA medical centers. However, veterans who do not live near a VA center or clinic or who need specialized treatment, unavailable at a nearby VA facility, may be eligible for VA's

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GKN 00190
HRD-79-109
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fee-basis program and may obtain the needed services from private providers who are reimbursed by VA. During fiscal year 1978, 220 outpatient clinics were in operation, and VA reported an outpatient workload of about 15 million visits.

VA operates an outpatient pharmacy program for those patients being treated on an outpatient basis. Currently, only those veterans covered under the fee-basis program are eligible to obtain their prescriptions from certain designated VA facilities or private pharmacies. Generally, all other outpatients must have their prescriptions filled at a VA facility by either appearing at the facility or having the prescriptions mailed to them.

VA records indicate that, during fiscal year 1978, VA pharmacies dispensed 32,166,386 outpatient prescriptions, including 4,741,344 written by private physicians, and private fee-basis pharmacies dispensed 1,050,648. During that year, the total cost for drugs and related supplies dispensed to VA outpatients by VA pharmacies was \$111.5 million and the total cost of prescriptions dispensed to VA outpatients by private fee-basis pharmacies was \$10.6 million.

VA REPORT ON S. 1553

VA's August 23, 1977, report to the Senate Committee on Veterans' Affairs stated its opposition to S. 1553. The basis for VA's position was that its method of dispensing drugs and medicines to nonhospitalized veterans was satisfactory and economical. In addition, VA held that the enactment of this legislation would substantially increase the cost of providing such drugs and medicines. VA projected, over a 5-year period (fiscal years 1978-82), an increase of over \$135 million for fee-basis prescriptions only, and over \$851 million if all outpatient prescriptions were included under the proposed legislation.

VA's views on current method of dispensing drugs

VA's report on S. 1553 states that its current method of providing drugs and medicines has proven to be satisfactory and economical. Furthermore, with respect to veterans receiving VA outpatient treatment, the report states that "our medical facilities now supply prescription service to these veterans efficiently and expeditiously."

VA's position on economy is based on its annual summary of pharmacy activities which shows that, over the past several years, the average cost of dispensing drugs and medicines on a fee basis exceeds the average cost incurred by VA pharmacies. With regard to VA's ability to provide prescription services efficiently and expeditiously, VA has not conducted any studies on this matter; instead, it has relied on veterans' complaints to highlight possible problem areas. VA officials stated that, although they dispense over 32 million prescriptions annually, they receive relatively few complaints.

The VA central office has no formal reporting requirements relating to the timeliness of outpatient prescription services that veterans receive at its facilities; however, VA operating instructions require a weekly review by each VA facility of the timeliness of mail-out prescriptions. Backlogs of more than 5 working days must be reported to the facility's director and, if this occurs for more than 4 consecutive weeks, to VA's central office. The reports submitted to the central office are to contain information on the deficiencies noted, unusual circumstances involved, and corrective action taken. Four such reports were forwarded to the VA central office during fiscal year 1979, four in fiscal year 1978, and six in fiscal year 1977.

VA's methodology for projecting cost increases

Because VA was not certain if the proposed legislation would apply only to veterans eligible for treatment on a fee basis or to all veterans receiving outpatient treatment, it prepared cost projections for each situation, using fiscal year 1976 data. These projections included two underlying assumptions: all future prescriptions would be filled by private pharmacies on a fee basis and the prescription volume would increase 17 percent each year.

Fee-basis prescriptions only

In fiscal year 1976, approximately 5.3 million prescriptions were written by private physicians for nonhospitalized veterans. Of these fee-basis prescriptions, about 4.2 million were filled in VA pharmacies at a cost of \$18.7 million--an average cost of \$4.49 per prescription. The remaining 1.1 million fee-basis prescriptions were filled by private pharmacies at a cost of \$9.6 million--an average cost of \$8.45 per prescription.

Assuming that all future prescriptions would be filled by private pharmacies, VA applied the \$8.45 cost per prescription to the 5.3 million prescriptions written by private physicians. The resulting amount of \$44.8 million, when compared with the actual cost incurred in 1976 of \$28.3 million, represented an increased cost of \$16.5 million. VA then projected the increased cost for fiscal years 1978-82 using an estimated workload increase of 17 percent for each year. (Enc. I provides additional details on these projections.)

All outpatient prescriptions

VA's methodology for projecting the increased cost for all outpatient prescriptions was similar to that used for fee-basis prescriptions only. All outpatient prescriptions in fiscal year 1976 totaled 27.3 million, including the 5.3 million fee-basis prescriptions. The total cost was \$127.3 million, consisting of \$117.7 million for prescriptions filled by VA pharmacies and \$9.6 million for those filled by private pharmacies. Using this information, VA estimated a cost increase of \$103.8 million if all outpatient prescriptions were filled by private pharmacies. Again, using an estimated workload increase of 17 percent, VA then projected the increased cost for fiscal years 1978-82. (See enc. II for additional information on these projections.)

OBSERVATIONS

Our review of VA's report on S. 1553 included discussions with officials of VA's central office and a review of pertinent records, reports, and other documents. In addition, we referred to our previous efforts related to the VA prescription program. The following are our views on the conclusions contained in VA's report and the methodology used in projecting increased costs if the proposed legislation were enacted.

VA's current method of dispensing drugs

Veterans who are receiving outpatient treatment are provided drugs and medicines by VA pharmacies either directly or through the mail. When this is not practical, they receive drugs and medicine from private pharmacies. In December 1978, we reported 1/ that our work at three VA medical centers

1/Letter report to Senator Jesse Helms (HRD-79-29, Dec. 21, 1978).

indicated that, for the most part, drugs were being dispensed in a timely manner. We did note that, at one location, it was taking from 5 to 7 working days to fill mail-out refill prescription requests. VA required mail-out prescription requests to be processed and dispatched within 2 working days.

In December 1975, we reported 1/ on the cost of VA's outpatient prescription program at five VA medical centers and three independent outpatient clinics. Our review at the six VA facilities with a fee-basis program showed that, in each instance, the cost of fee-basis prescriptions was greater than the cost of VA pharmacy prescriptions. The difference ranged from 18 to 182 percent. In that report, we concluded that the difference in outpatient prescription costs between VA and fee-basis pharmacies justified filling outpatient prescriptions through VA pharmacies.

Similarly, other previous work we performed at VA medical centers indicated that the cost of providing prescriptions through the fee-basis program was substantially greater than through VA pharmacies.

Thus, it appears that VA's position, that its current method of providing drugs and medicines has proven to be satisfactory and economical, is reasonable.

VA's projected cost increases

As previously stated, VA made two assumptions in projecting cost increases: the volume of prescriptions filled would increase 17 percent each year and all future prescriptions would be filled by fee-basis pharmacies.

The first assumption was based on the percent of growth of outpatient prescriptions filled by VA pharmacies during fiscal year 1976, which was the latest fiscal year for which complete information was available. During the previous 5 fiscal years, the growth of outpatient prescriptions ranged from 13 to 20 percent and averaged 17 percent. Thus, this assumption appears reasonable.

1/Letter report to Representative Bill Chappell (MWD-76-46, Dec. 5, 1975).

With regard to VA's second assumption, while the proposed legislation, if enacted, would probably increase the number of fee-basis prescriptions, it is doubtful that it would result in a 100-percent conversion to fee basis. VA's use of this second assumption resulted in the maximum projected cost increases possible under the proposed legislation. It appears, therefore, that the cost increases stated in VA's report on S. 1553 exceed the cost increases that can reasonably be anticipated under the proposed legislation. However, based on our previous work and a review of VA records, we concur with VA that enactment of the proposed legislation would increase the cost of dispensing drugs.

ADDITIONAL INFORMATION REQUESTED

Your letter also requested that we obtain specific information related to VA's outpatient and fee-basis programs. We obtained the following information from VA officials and a review of VA records and reports.

VA facilities providing fee-basis
and outpatient prescriptions
by State and county

Currently, 219 VA facilities are providing outpatient prescription services. Of these facilities, 80 have been designated clinics of jurisdiction and, in that capacity, are responsible for managing the fee-basis program within a defined geographic area. Veterans eligible for participation in the fee-basis program may have their prescriptions filled at a clinic of jurisdiction or a private pharmacy.

Enclosure III contains a list of the 80 clinics of jurisdiction and the State and county where they are located.

VA personnel and nonpersonnel costs
for prescription services

During fiscal year 1978, VA personnel costs for outpatient prescription services totaled \$38,079,600. This included \$25,894,128 for 1,058 licensed pharmacists and \$12,185,472 for 1,142 nonprofessional positions. Nonpersonnel costs, consisting of drugs, medical supplies, containers, administration, building management, engineering, and depreciation, were estimated to be \$147,039,800 for the

same period. The cost of fee-basis prescriptions during fiscal year 1978 totaled \$10,840,371 consisting of \$10,657,693 in prescription costs and \$182,678 in VA processing costs.

Number of veterans receiving fee-basis
and outpatient prescriptions

VA pharmacies filled 32,166,386 outpatient prescriptions during fiscal year 1978. Also, during the same period, fee-basis pharmacies filled 1,050,648 prescriptions. VA officials stated that their record system does not permit a determination of the number of individual veterans receiving the above prescriptions, and that multiple prescriptions dispensed to the same individual would be included in these totals.

Inventory turnover for fee-basis
and outpatient prescriptions

Because the VA central office does not require VA facilities to conduct an inventory of their drugs other than controlled substances, current and complete data were not available to accurately determine this information. At our request, VA developed an inventory turnover rate using the latest available inventory data at several VA facilities. The data used showed that the inventory turned over an average of 8.3 times a year; however, the data were at least 2 years old and included all drugs and medicines at those facilities since VA does not designate portions of its supplies as being available for inpatient and outpatient use.

VA facilities can obtain drug supplies (1) from VA supply depots, (2) from the Federal Supply Schedule, and (3) through direct purchases from local suppliers. Information we obtained in connection with another review now in progress indicates that the VA supply depots maintain a drug inventory level of about \$25 million and have an inventory turnover rate of 3.4. While only 37.5 percent of the value of drugs obtained by VA facilities in fiscal year 1978 came from VA supply depots, the above information does provide at least an indication of the inventory turnover rate.

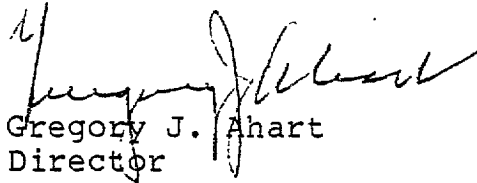
Fee-basis prescriptions can be filled by virtually any private pharmacy willing to participate in this program.

Because inventory turnover rates would differ for each participating pharmacy, we were unable to develop any meaningful information on fee-basis inventory turnover rates.

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As agreed with your office, we did not obtain written comments from VA. We did, however, discuss the matters covered in this report with VA officials, and their comments have been included as appropriate. Also, as agreed with your office, we will send copies of this report to the Administrator of Veterans Affairs and make copies available to others upon request.

Sincerely yours,



Gregory J. Ahart
Director

Enclosures - 3

VA PROJECTIONSFEE-BASIS PRESCRIPTIONS ONLY (note a)

	<u>Present system</u>			<u>All fee-basis prescrip- tions</u>
	<u>VA pharmacies</u>	<u>Fee-basis pharmacies</u>	<u>Total</u>	
Prescrip- tions filled	4,171,274	1,136,859	5,308,133	5,308,133
Average cost	\$4.49	\$8.45	\$5.34	\$8.45
Cost	\$18,729,020	\$9,606,458	\$28,335,478	\$44,853,723

The difference between the cost of dispensing drugs and medicines under the present system (\$28,335,478) and the cost if they were all dispensed by fee-basis pharmacies (\$44,853,723) is \$16,518,245. Applying a workload increase of 17 percent each year, VA projected the following additional costs for a 5-year period:

FY 1978	\$19,326,346
FY 1979	22,611,824
FY 1980	26,455,834
FY 1981	30,953,325
FY 1982	36,215,390

a/Based on FY 1976 data.

VA PROJECTIONSALL OUTPATIENT PRESCRIPTIONS (note a)

	<u>Present system</u>			<u>All fee-basis prescrip- tions</u>
	<u>VA pharmacies</u>	<u>Fee-basis pharmacies</u>	<u>Total</u>	
Prescrip- tions filled	26,211,116	1,136,859	27,347,975	27,347,975
Average cost	\$4.49	\$8.45	\$4.65	\$8.45
Cost	\$117,687,910	\$9,606,458	\$127,294,368	\$231,090,388

The difference between the cost of dispensing drugs and medicines under the present system (\$127,294,368) and the cost if they were all dispensed by fee-basis pharmacies (\$231,090,388) is \$103,796,020. Applying a workload increase of 17 percent each year, VA projected the following additional costs for a 5-year period:

FY 1978	\$121,441,343
FY 1979	142,086,371
FY 1980	166,241,054
FY 1981	194,502,033
FY 1982	227,567,379

a/Based on FY 1976 data.

VA CLINICS OF JURISDICTIONBY LOCATION

<u>Clinic</u>	<u>State</u>	<u>County</u>
Albany	New York	Albany
Albuquerque	New Mexico	Bernalillo
Allen Park	Michigan	Wayne
Altoona	Pennsylvania	Blair
Atlanta	Georgia	Fulton
Baltimore	Maryland	(Independent city)
Bath	New York	Steuben
Bay Pines	Florida	Pinellas
Beckley	West Virginia	Raleigh
Boise	Idaho	Ada
Boston (OPC)	Massachusetts	Suffolk
Brooklyn (OPC)	New York	Kings
Buffalo	New York	Erie
Butler	Pennsylvania	Butler
Cheyenne	Wyoming	Laramie
Chicago (West Side)	Illinois	Cook
Cincinnati	Ohio	Hamilton
Cleveland	Ohio	Cuyahoga
Coatesville	Pennsylvania	Chester
Columbia	South Carolina	Richland
Columbus (OPC)	Ohio	Franklin
Dallas	Texas	Dallas
Denver	Colorado	Denver
Des Moines	Iowa	Polk
East Orange	New Jersey	Essex
El Paso (OPC)	Texas	El Paso
Erie	Pennsylvania	Erie
Fargo	North Dakota	Cass
Fort Harrison	Montana	Lewis and Clark
Honolulu	Hawaii	Honolulu
Houston	Texas	Harris
Huntington	West Virginia	Cabell
Indianapolis	Indiana	Marion
Iron Mountain	Michigan	Dickerson
Jackson	Mississippi	Hinds
Juneau	Alaska	Southeastern
Kansas City	Missouri	Jackson
Lebanon	Pennsylvania	Lebanon
Lincoln	Nebraska	Lancaster
Little Rock	Arkansas	Pulaski

Note: OPC indicates an outpatient clinic.

<u>Clinic</u>	<u>State</u>	<u>County</u>
Los Angeles (OPC)	California	Los Angeles
Louisville	Kentucky	Jefferson
Lubbock (OPC)	Texas	Lubbock
Manchester	New Hampshire	Hillsboro
Manila	Philippines	-
Martinsburg	West Virginia	Berkeley
Minneapolis	Minnesota	Hennepin
Montgomery	Alabama	Montgomery
Muskogee	Oklahoma	Muskogee
Nashville	Tennessee	Davidson
Newington	Connecticut	Hartford
New Orleans	Louisiana	New Orleans
New York	New York	New York
Philadelphia	Pennsylvania	Philadelphia
Phoenix	Arizona	Maricopa
Pittsburgh		
(Psychiatric)	Pennsylvania	Allegheny
Pittsburgh (General)	Pennsylvania	Allegheny
Portland	Oregon	Multnomah
Providence	Rhode Island	Providence
Reno	Nevada	Washoe
Salem	Virginia	(Independent city)
Salisbury	North Carolina	Rowan
Salt Lake City	Utah	Salt Lake City
San Antonio	Texas	Bexar
San Diego	California	San Diego
San Francisco	California	San Francisco
San Juan	Puerto Rico	San Juan
Seattle	Washington	King
Shreveport	Louisiana	Caddo
Sioux Falls	South Dakota	Minnehaha
St. Louis	Missouri	(Independent city)
Syracuse	New York	Onondaga
Togus	Maine	Augusta
Waco	Texas	McLennan
Washington, D.C.	-	(Independent city)
White River Junction	Vermont	Windsor
Wichita	Kansas	Sedgwick
Wilkes-Barre	Pennsylvania	Luzerne
Wilmington	Delaware	New Castle
Wood	Wisconsin	Milwaukee