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VA AND DEFENSE HEALTH CARE

Potential Exists for Savings through Joint Purchasing of Medical and Surgical Supplies

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss an important component of the Department of Veterans Affairs' (VA) business practices—purchasing medical and surgical supplies—and its efforts to jointly procure them with the Department of Defense (DOD). In fiscal year 2001, VA spent about $500 million and DOD spent about $240 million for these supplies. Since the early 1980s, the Congress has urged VA and DOD to achieve greater efficiencies through improved acquisition processes and increased sharing of medical resources. In June 1999, VA and DOD signed a memorandum of agreement to combine their buying power and achieve lower medical supply costs and eliminate contracting redundancies for certain items, including pharmaceuticals and medical and surgical supplies.

Last year we reported that VA and DOD saved over $170 million annually by jointly procuring pharmaceuticals.[1] VA and DOD achieved these savings by agreeing on—or "standardizing"—particular drugs that their facilities would purchase and then contracting with the manufacturers of these drugs for discounts based on their combined larger volume. As a follow-up to that study, you requested that we provide information on VA and DOD's progress in jointly procuring medical and surgical supplies. VA and DOD purchase approximately 200,000 different medical and surgical supplies. Some commonly used supplies include gloves, masks, surgical tape, needles, and syringes. Many medical and surgical supplies are disposable—that is, one-time use items.

My testimony today focuses on (1) the status of VA and DOD's efforts to jointly contract nationally for medical and surgical supplies, including actual and potential savings from collaboration, and (2) factors that impede their efforts for joint contracting. To examine these issues, we conducted site visits at VA and DOD headquarters and at eight of their medical facilities. We also reviewed studies, documents, and current literature relating to standardization, unique identifiers for medical and surgical supplies, and joint contracting. In addition, we compared and analyzed data from current VA and DOD contracts for medical and surgical supplies and conducted numerous interviews with VA and DOD

[1]U.S. General Accounting Office, *DOD and VA Pharmacy: Progress and Remaining Challenges in Jointly Buying and Mailing Out Drugs*, GAO-01-588 (Washington, D.C.: May 25, 2001).

officials. Our work was conducted from January 2002 through June 2002 in accordance with generally accepted government auditing standards.

In summary, VA and DOD have not awarded joint national contracts for medical and surgical supplies as envisioned in their memorandum of agreement, and it is unlikely that the two departments will have joint national contracts for supplies anytime soon. However, a few VA and DOD facilities have yielded modest savings through local joint contracting agreements. VA's and DOD's procurement efforts have focused on contracting separately—VA on a national basis and DOD on a regional basis. VA's and DOD's current separate contracts are expected to save about $19 million annually. Our analysis of about 100 identical medical and surgical items that VA and DOD now contract for separately indicates that jointly purchasing these items will yield additional savings, although we were unable to quantify the full potential. For example, in fiscal year 2001, if VA had collaborated with DOD and obtained a discounted price from one of DOD's regions for needle and syringe disposal containers, VA could have saved tens of thousands of dollars on this one item alone. Similarly, DOD could have realized additional savings if it had obtained VA's lower national contract price on one type of intravenous tubing.

The lack of progress VA and DOD have made in jointly contracting for medical and surgical supplies has, in part, been the result of their different approaches to standardizing medical and surgical supplies. These differing approaches—VA's national approach of selecting specific items for all its facilities to purchase and DOD's regional approach that allows each of nine geographic regions[2] to individually standardize specific items—increase the possibility that VA and DOD regions could select and standardize different items for purchase and thereby minimize the opportunities for national joint procurements. Other impediments to joint purchasing have been incomplete VA and DOD procurement data and the lack of a means for identifying similar high-volume, high-dollar purchases. Because of these shortcomings, it is difficult for VA and DOD to identify items that would produce the greatest benefits from standardization within—let alone between—their departments. The Secretary of Veterans Affairs recently approved a procurement reform initiative to address these impediments. If implemented, this initiative would increase the likelihood that VA could procure medical and surgical supplies more economically

[2]For health care delivery, DOD has 12 regions. However, for standardization, it has combined some regions for a total of nine geographic regions.

and put it in a better position to identify and enter into joint procurements with DOD. In addition, VA and DOD are making improvements to their automated information systems, which should enhance their ability to identify items for standardization. However, neither VA nor DOD could confirm that their enhanced systems will contain compatible data that will allow the two departments to readily exchange procurement information—a key capability for facilitating standardization and joint procurement.

Background

VA operates one of the world's largest health care systems, spending about $21 billion a year to provide approximately 3.8 million veterans health care through 163 VA hospitals and over 800 outpatient clinics nationwide. DOD spends about $19 billion on health care for over 5.8 million beneficiaries, including active duty personnel and military retirees and their dependents. Most DOD health care is provided at the more than 500 Army, Navy, and Air Force hospitals and other military treatment facilities worldwide.

VA and DOD have separate systems for procuring and distributing medical and surgical supplies. VA purchases supplies through the Federal Supply Schedule (FSS), which is maintained by VA's National Acquisition Center in Hines, Illinois, and is available to all federal purchasers. VA validates a sample of FSS prices to ensure that they are no more than the prices manufacturers charge their most-favored, nonfederal customers.[3] Once FSS prices are established, VA manually analyzes its procurement history to identify like items, such as gauze bandages, for which it could potentially standardize and negotiate blanket purchase agreements (BPA) and national contracts directly with vendors (manufacturers or distributors) for a larger discount based on volume purchasing. After like items are identified, a team of clinicians—including doctors, technicians, and nurses—assesses the products for quality and agrees on a specific item or items that are acceptable for use by all VA hospitals.[4] Acquisition officials then negotiate BPAs with the vendors of the chosen products to obtain lower prices. Once BPAs are established, VA facilities are required to purchase the items from the selected vendors. If medical and surgical

[3]In cases where VA's validation process identifies that the FSS price is more than the price paid by most-favored, nonfederal customers, VA recovers the price differences from the manufacturers.

[4]Not all medical and surgical supplies are viable candidates for standardization for various reasons, such as strong clinician preferences for a specific item.

supplies are not available through BPAs, VA medical facilities have the option of purchasing supplies from FSS, locally, or on the open market directly from manufacturers. Recently, VA began monitoring facility compliance with national BPAs.

DOD purchases medical and surgical supplies through Distribution and Pricing Agreements (DAPA), which are negotiated and maintained by the Defense Supply Center in Philadelphia, Pennsylvania.[5] DOD also allows its regions to individually standardize medical and surgical items and negotiate their own regional incentive agreements (RIA) to obtain larger discounts on certain high-volume, high-dollar medical and surgical items. Teams of military and contractor personnel in each region identify items for standardization. As in VA's process, clinicians then assess and select items to standardize. Finally, the teams negotiate regional price discounts with the vendors. DOD facilities are required to buy from certain vendors to take advantage of DAPA pricing or, if a better price has been negotiated, through RIAs. If items are not available through DAPA or RIAs, facilities can purchase items locally or directly from manufacturers.

Over the past 2 decades, the Congress has urged VA and DOD to maximize efficient use of federal dollars by sharing their health care resources. In May 1982, the Congress passed the VA and DOD Health Resources Sharing and Emergency Operations Act,[6] which encouraged the two departments to enter into health resources sharing agreements. After the Congressional Commission on Servicemembers and Veterans Transition Assistance issued its 1999 report calling for VA and DOD to combine their market power, the Congress passed the Veterans Millennium Health Care and Benefits Act,[7] which required VA and DOD to report on their joint pharmaceutical and medical supplies procurement activities.

[5]Currently, DAPA is being converted to FSS pricing.

[6]Public Law 97-174.

[7]Public Law 106-117.

VA and DOD Have Not Awarded Joint National Contracts; Potential Savings Exist

VA and DOD have not awarded national joint procurement contracts for medical and surgical supplies, and none appear likely in the near future. While a few VA and DOD facilities have obtained modest savings through local joint contracting agreements, we identified some additional joint procurement opportunities that have the potential to increase VA's and DOD's savings. Since their 1999 memorandum of agreement, VA's and DOD's procurement efforts have focused on separately contracting for standardized medical and surgical supplies. Their separate national and regional contracts are expected to save a total of about $19 million annually.

VA and DOD's joint procurement efforts for medical and surgical supplies have been limited to the local level. In May 2000, we reported that six VA and seven DOD facilities had joint purchasing agreements for certain medical supplies, realizing modest savings.[8] Under one local contract, some VA and DOD facilities in Virginia and North Carolina negotiated discounts with a manufacturer for chemistry test slides; these VA and DOD facilities reported savings of $358,000 and $301,000, respectively. Subsequently, VA and DOD facilities in another region joined the contract for additional savings of slightly over $1 million.

Currently, VA has about 150 national BPAs—most of which were awarded in 2000—covering over 1,900 individual medical and surgical items such as examination gloves, surgical face masks, and tongue depressors.[9] VA estimates that it saves about $13 million annually through these national BPAs. DOD has 53 RIAs—most awarded in 2002—for items such as surgical tape, needles, and syringes.[10] The department expects to save about $6 million annually through these agreements. The combined savings of about $19 million are about 22 percent less than the $88 million the two departments would have spent had the RIAs and national BPAs not been negotiated and are indicative of the savings potential that exists.

[8]U.S. General Accounting Office, *VA and Defense Health Care: Evolving Health Care Systems Require Rethinking of Resource Sharing Strategies*, GAO/HEHS-00-52 (Washington, D.C.: May 17, 2000).

[9]VA has 126 national BPAs, 17 basic ordering agreements with industries operated by the disabled, and 6 national contracts covering over 1,900 individual medical and surgical items. For simplicity, we refer to these as national BPAs.

[10]The total number of medical and surgical items for the 53 RIAs in nine geographic regions was not available centrally.

However, additional savings can be achieved through VA and DOD collaboration. By comparing DOD's RIA data from one geographic region to VA's national BPA data, we identified about 100 identical medical and surgical items that are procured by both VA and DOD. For most of these items, the price difference was less than 4 percent. However, for 19 of the items, the cost differentials range from 4 to 43 percent, with DOD generally paying more than VA. For 14 of these items, VA negotiated lower prices with the manufacturer than DOD (see table 1); for 5 others, DOD negotiated lower prices (see table 2). For example, for a large bore intravenous extension set used for quickly delivering fluids or blood, DOD's negotiated unit price per case is $179—43 percent more than VA's negotiated unit price of $102. For borderless dressings, which are used to treat serious wounds, DOD's negotiated case price of $90 is 36 percent lower than VA's negotiated case price of $141. Purchasing the items from the vendors offering the lowest price will yield additional savings for both departments. For example, in fiscal year 2001, VA could have saved over $52,000 on one item alone—8-gallon sharps containers for disposing of used syringes—if it had collaborated with DOD and obtained its regional price. In that same year, DOD could have saved about $200,000 on intravenous pumps and tubing accessories if it had collaborated with VA and obtained VA's lower national BPA prices. While the item-by-item savings may be relatively small, the cumulative effect of joint purchasing thousands of items can be significant.

Table 1: Unit Price Comparison for Select Identical Medical and Surgical Items; VA More Economical Than DOD

Item description	Unit price (dollars)		Difference	
	VA	DOD[a]	Dollars	Percent
Advanced woundcare – Manufacturer A				
Polyurethane sterile foam dressing, 3" x 3"	$37.39	$51.16	$13.77	27
Polyurethane sterile foam dressing, 12" x 10"	385.47	401.38	15.91	4
Polyurethane sterile foam dressing, 27-5/8" x 15-3/4"	438.57	456.67	18.10	4
Polyurethane sterile foam dressing adhesive, 2" x 2"	44.95	69.81	24.86	36
Polyurethane sterile foam dressing, 4" x 4"	27.25	42.38	15.13	36
Wound dressing alginate, 2 grams	9.93	16.21	6.28	39
Wound dressing alginate, 3" x 4-3/4"	14.91	25.75	10.84	42
Intravenous pumps and tubing accessories				
Luer-Lock Smart-Site needleless valve port	87.00	105.00	18.00	17
Extension set with two injection sites	174.00	273.00	99.00	36
Extension set with 0.2 micron filter	197.00	214.00	17.00	8
Large bore extension set	102.00	179.00	77.00	43
Extension set with 1.2 micron filter	144.00	191.00	47.00	25
Vial adapter/access device	145.00	172.00	27.00	16
Vial dispensing/access device	147.00	209.00	62.00	30

[a]The DOD unit price is from one DOD geographic region.

Source: GAO analysis of May 2002 VA and DOD prices.

Table 2: Unit Price Comparison for Select Identical Medical and Surgical Items, DOD More Economical Than VA

Item description	Unit price (dollars)		Difference	
	DOD[a]	VA	Dollars	Percent
Advanced woundcare – Manufacturer B				
Borderless dressing, 8" x 8"	$90.00	$140.63	$50.63	36
Island dressing, 1-3/4" x 2-1/2"	111.00	135.00	24.00	18
Island dressing, 4-1/2" x 9-1/2"	66.00	74.25	8.25	11
Sharps containers				
8-gallon sharps container, red with clear hinged lid	52.08	63.50	11.42	18
2-gallon sharps container, yellow	65.97	77.00	11.03	14

[a]The DOD unit price is from one DOD geographic region.

Source: GAO analysis of May 2002 VA and DOD prices.

Impediments to Joint Procurement

The lack of progress VA and DOD have made in jointly contracting for medical and surgical supplies has, in part, been the result of their different standardization approaches—national versus regional. Other impediments to joint purchasing have been incomplete procurement data and the lack of a means for each department to identify similar high-volume, high-dollar purchases. Because of these shortcomings, it is not only difficult for VA and DOD to identify items that should be standardized within their departments but between their departments as well. VA is considering improvements to its acquisition policies and is designing an enhanced automated information system. These improvements are intended to minimize local purchases, accelerate identification of items for standardization, and create greater purchasing power, placing it in a better position to jointly purchase with DOD. For its part, DOD is implementing a new automated information system, which is intended to enhance its ability to identify items for standardization. However, according to officials from both departments, it is uncertain whether data from the new systems will be compatible. Such capability would assist both departments in identifying joint procurement opportunities.

Different Approaches to Standardization Limit Potential for Joint National Contracts

While VA and DOD have both begun to independently standardize medical and surgical supplies for their facilities, VA has standardized nationally and DOD has standardized regionally. According to a DOD official, DOD has made several attempts at national standardization but has been unable to do so. The official said that the primary reason was because DOD was unable to gain widespread clinician acceptance across all its medical facilities. DOD officials consider the regional approach more feasible for standardizing medical and surgical supplies because it would be easier to gain acceptance among smaller groups of clinicians. However, this approach limits the prospects for jointly procuring with VA because it increases the possibility that different medical and surgical items will be standardized within DOD regions. For example, while eight of the nine DOD geographic regions individually standardized and contracted for needles and syringes from the same vendor, six of the nine geographic regions standardized on surgical gloves from five different vendors.

Incomplete Procurement Data and Lack of a Means for Identifying Similar Items Complicate Standardization

VA and DOD acknowledge that standardizing medical and surgical supplies is a critical step toward achieving joint procurement. However, identifying and standardizing like items has been a cumbersome and time-consuming process for VA and DOD because they lack complete data on their medical and surgical supply procurements. In addition, they lack unique item identifiers that would make recognizing similar items easier.

Complete data on all medical and surgical supplies purchased by their facilities would enable VA and DOD to more readily identify prospective items for standardization and joint purchasing opportunities. While VA has multiple information systems and databases that provide procurement information, the systems do not have the capability to provide a systemwide list of its top high-volume, high-dollar medical and surgical items purchased by all VA facilities. Instead, VA only has quantity and price information on items purchased from its national BPAs. DOD also does not have information on the top medical and surgical items purchased by its facilities because its systems do not capture information on purchases that individual facilities make locally or directly from manufacturers.

In addition to lacking complete data, VA and DOD face a difficult task in identifying like items because not all medical and surgical supplies have universal product numbers (UPN) or similar coding. Industry estimates

show that from 40 to 80 percent of medical and surgical supplies have UPNs depending on the unit of packaging—individual items, cases, or pallets.[11] A product's UPN and associated bar code identify characteristics such as the manufacturer, product type, size, and unit of packaging (for example, 10 per carton). As such, UPNs not only facilitate standardization but also enable purchasers of medical and surgical supplies to develop standard product groups, track prices, and employ prudent purchasing methods—paying for medical and surgical supplies that meet quality standards at competitive prices.

Without UPNs or another identification system, VA and DOD must pull information from various sources—including ad hoc acquisition reports and multiple databases—to identify like items. For example, to identify the types of surgical gloves used at VA facilities, staff working on the procurement reform initiative had to manually look at item descriptions in various databases. For this one item, VA identified more than 12 different product names, including sterile gloves, surgeon's gloves, and orthopedic gloves. Stock number identifiers were also inconsistent because each facility has the option of using the manufacturers' stock numbers or various distributors' stock numbers. With a dozen product names and a proliferation of stock numbers, this one item—surgical gloves—could appear in VA's acquisition system as numerous separate items.

The manufacturing and distribution industry has been reluctant to adopt more UPNs for medical and surgical supplies. The industry contends it is too costly and there is a lack of demand from purchasers. To address the cost concerns, VA is in the process of performing an economic analysis to determine the cost and benefits of requiring vendors to include UPNs and associated bar codes for all medical and surgical supplies on FSS. Concerning demand, however, purchasers have presented a different perspective from that held by the manufacturing and distribution industry. For example, the Healthcare EDI Coalition—which represents 20 major health care buying groups, including VA and DOD—endorsed the use of UPNs for medical and surgical items in February 1998. At that time, this group represented over 90 percent of all health care group contract purchases in the nation. In June 2000, a group of four health care purchasing groups, with annual purchases of over $38 billion and whose

[11]Industry standards organizations have created two UPN formats for medical equipment and supplies: (1) an alphanumeric standard that provides detailed product information and (2) an all-numeric standard that is more consistent with international coding standards.

membership includes more than 5,800 health care facilities, teamed with three e-commerce companies to endorse UPNs for medical supplies. According to a VA official, one of the largest group purchasing organizations (GPO)[12] for health care products, which represents over 1,800 nonprofit hospitals and health systems and about $14 billion in annual purchases, recently began an effort to require UPNs for all medical and surgical items purchased through its organization—an initiative we believe is consistent with best business practices. In 1998, we recommended that the Administrator of the Health Care Financing Administration, now the Centers for Medicare and Medicaid Services, require suppliers to identify the specific medical equipment, supplies, and devices they bill to Medicare by including UPNs on their Medicare claims.[13]

Some Impediments Beginning to Be Addressed, but Impact on Joint Procurement Unclear

VA is considering how to implement improvements to its acquisition policies. These improvements are intended to minimize local purchases, accelerate standardization, and create greater purchasing power. If implemented, the improvements will place the department in a better position to jointly purchase with DOD. VA and DOD are also making improvements to their automated information systems. However, it is uncertain whether data from the new systems will be compatible. Such capability would assist both departments in identifying joint procurement opportunities.

In May 2002, VA's Procurement Reform Task Force issued its report on improving the efficiency and effectiveness of VA's acquisition system, which included 65 recommendations. Recognizing that standardizing medical and surgical supplies is critical to achieving cost savings, the task force recommended that VA establish a contract purchasing hierarchy that would require its facilities to purchase supplies first from national BPAs; then multiregional, regional, or local BPAs; and then from FSS. Only when items are not available from these sources can facilities enter into local agreements or purchase them directly from the manufacturers. This recommendation is timely because VA recently estimated that from 30 to 35 percent of facilities' purchases are not from BPA contracts. To further enhance VA national standardization, the task force also recommended

[12]GPOs use volume purchasing of their member facilities to negotiate lower prices from vendors.

[13]U.S. General Accounting Office, *Medicare: Need to Overhaul Costly Payment System for Medical Equipment and Supplies*, GAO/HEHS-98-102 (Washington, D.C.: May 12, 1998).

that VA continue standardizing medical and surgical products to obtain maximum benefits by focusing on high-volume, high-dollar medical and surgical items.

Regarding UPNs, the task force recommended that VA take a leadership position in advocating their use as a way to improve quality, increase safety, and enhance cost-effectiveness of medical and surgical supply purchases. Currently, VA is in the process of preparing a cost-benefit analysis for the Office of Management and Budget (OMB) to support a regulation that would require vendors to include UPNs and associated bar codes on all items sold on FSS.[14] DOD officials stated that DOD has been a long-time supporter of the requirement that vendors include UPNs and plans to participate with VA in discussing the rulemaking initiative with OMB. Until UPNs are established, the task force recommended that VA assign a unique identifier to each medical and surgical product purchased.

Finally, the task force recommended that VA intensify its ongoing initiatives to identify and create opportunities for joint VA and DOD purchasing to achieve lower medical material costs by combining the purchasing power of the two departments and eliminating contracting redundancies. The task force report did not specify how to achieve this, given VA's and DOD's different approaches to standardization. However, joint purchasing could partially be achieved by the task force's recommendation that VA include in its national BPAs a clause allowing DOD facilities or regions to purchase medical and surgical supplies from VA's BPAs and create tiered pricing to provide additional discounts as more items are purchased. A DOD official stated that the department would not require but would support any initiative by its nine geographic regions to take advantage of lower medical and surgical supply item pricing that may be available through VA's national BPAs.

In addition to considering implementation of the task force's recommendations, VA is in the process of designing an enhanced automated information system—the CORE Financial Logistics System. Similarly, DOD is implementing its enhanced automated information system—the Defense Medical Logistics Supply System. VA and DOD officials stated that their improved systems will provide information on all

[14]Under Executive Order 12866, dated September 30, 1993, departments are required to submit assessments of the potential costs and benefits of significant regulatory actions to OMB, along with the draft regulatory actions.

medical and surgical items purchased, including local and high-dollar, high-volume purchases. However, because each department is developing its system independently, neither could assure us that the enhanced systems will contain compatible information that could be compared between the two departments. Without such a capability, it will be more difficult for VA and DOD to routinely exchange information on medical and surgical standardization efforts and identify additional opportunities for joint procurement.

Concluding Observations

While it is difficult to quantify the potential savings joint contracting could yield, these savings could be meaningful given that VA's and DOD's separate approaches to procuring surgical and medical supplies have yielded an estimated $19 million annually in savings. However, much needs to be done to take advantage of additional savings opportunities. At this point, neither department has accurate, reliable, and comprehensive procurement information—a basic requirement for identifying potential medical and surgical items to standardize. Furthermore, because DOD has opted to follow a regional rather than a national approach to standardization, opportunities for national joint procurement will be more difficult to achieve. Within VA, its Procurement Reform Task Force highlighted many department procurement shortcomings and potential solutions. Continued management attention and commitment to implementing the task force's recommendations is a positive step to improving the efficiency and effectiveness of VA's acquisition system. DOD is currently implementing a new procurement system and has been a long time supporter of efforts to establish UPNs for medical and surgical supplies. However, the future of joint VA and DOD procurement initiatives depends on the progress and success each department has in improving its acquisition system and, ultimately, each department's commitment to joint procurement.

Mr. Chairman, this concludes my prepared statement. I will be happy to answer any questions you or other members of the subcommittee may have.

Contact and Acknowledgments

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