United States General Accounting Office

GAO

Report to the Honorable
Frank H. Murkowski, U.S. Senate

January 1992

VA HEALTH CARE

Modernizing VA's Mail-Service Pharmacies Should Save Millions of Dollars

GAO/HRD-92-30

GAO

United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

B-247064

January 22, 1992

The Honorable Frank H. Murkowski
United States Senate

Dear Senator Murkowski:

Mail-service pharmacies are playing an increasing role in slowing the growth of our nation's health care costs. Frequent advances in technology have occurred in recent years, primarily due to the highly competitive nature of this rapidly growing segment of the pharmaceutical industry. You expressed concern that the Department of Veterans Affairs (VA) may not be successfully using new technology to improve the operations of its mail-service pharmacies. Specifically, you asked us to (1) assess whether VA's pharmacies are efficiently and economically filling veterans' prescriptions and (2) identify ways that services could be improved.

Results in Brief

VA could save millions of dollars by modernizing its mail-service pharmacies. Currently, VA operates too many mail-service pharmacies. They rely on labor-intensive processing of veterans' prescriptions. Also, because VA's pharmacies fill prescriptions in uneconomically small quantities, they incur unnecessary handling costs.

VA recently started to study ways to change the basic structure of its mail-service pharmacies. But, VA's study does not include an assessment of optimal prescription dispensing quantities. VA will not be able to implement a systemwide modernization plan that maximizes cost savings unless it dispenses prescription medications in economical quantities.

Background

VA operates the largest health care system in the United States. Of the 172 hospitals and 240 outpatient clinics, most are organized into 159 medical centers; each center contains one or more pharmacies. In fiscal year 1990, 229 VA pharmacies spent more than $650 million in drug procurement and labor costs; labor costs include those for about 3,400 pharmacists, pharmacy technicians, and clerical staff. Other pharmacy costs, such as for space and utilities, are not separately allocated for budgeting purposes.

These pharmacies filled more than 58 million prescriptions for veterans on an outpatient basis, as prescribed by VA physicians. VA mailed about 34 million of these prescriptions to the veterans, and the rest were picked up at the pharmacies.

VA Mail-Service Pharmacy

VA was the first organization in the United States to deliver prescription medications to patients on a large scale by mail. After World War II, this service was started as a convenience to disabled, homebound veterans. Today, all but 3 of VA's 229 outpatient pharmacies provide mail service. Generally, veterans choose to receive new prescription medications in person and refills by mail.

Private Mail-Service Pharmacies

A recent industry survey reports that over the past 30 years,[1] 34 mail-service pharmacies have been started in the private sector. These include traditional pharmacies that developed a mail-service component and companies that were established solely to provide prescription mail services. The 34 pharmacies generally provide nationwide service to corporate, union, and government employers.

Prescription mail services grew rapidly during the last decade; more than half of the 34 pharmacies began operating after 1983. Sales grew from $100 million in 1981 to over $1.5 billion in 1988, and they are expected to reach $5 billion by 1993. Annually, these pharmacies dispense about 60 million prescriptions. The two largest pharmacies accounted for about two-thirds of the dollar sales and prescriptions dispensed.

Private mail-service pharmacies operate in a highly structured environment and use centralized dispensing processes. Few pharmacies have more than one distribution site, although several have plans to establish additional sites. These pharmacies achieve cost savings primarily through economies of scale. Important cost-containment areas include overhead expenses, buying power, efficient use of support personnel, and effective use of mechanical and electronic technology.

Scope and Methodology

We reviewed VA's policies and procedures for prescribing and dispensing drugs and interviewed headquarters officials to determine how physicians and pharmacies are expected to implement them. We reviewed information that pharmacy officials provided to VA headquarters on prescribing and dispensing practices at 123 pharmacies; the remaining pharmacies did not provide information on their prescribing practices. We also visited five VA pharmacies and three private mail-service pharmacies to gather information on the cost-effectiveness of different operating strategies and structures.

[1]The Role of Mail Service Pharmacies, Health Affairs, fall 1990, pp. 66-74.

We visited VA pharmacies located in West Los Angeles and Livermore, California; Albany, New York; Cheyenne, Wyoming; and Milwaukee, Wisconsin. The Livermore and Albany pharmacies were selected because their dispensing practices varied widely—Livermore dispensed medications in supplies of 30 days or less, and Albany dispensed in supplies up to 90 days. At each pharmacy, we discussed the rationale for the policies with physicians and pharmacists. We also reviewed a sample of prescriptions dispensed at the pharmacies and by mail for two drugs used frequently for chronic conditions.

We visited the West Los Angeles pharmacy because it operated solely as a mail-service pharmacy. It provided mail prescription service for veterans served at three nearby medical centers and one outpatient clinic. At this pharmacy we discussed management policies and procedures, observed the dispensing operations, and reviewed general performance data.

We visited the Cheyenne and Milwaukee pharmacies because they had developed plans to consolidate prescription mail services of nearby VA pharmacies into a single, automated facility; Albany had also developed an automation plan. We assessed the feasibility of the pharmacies' plans, focusing on the estimated productivity and cost efficiencies of automation. We also interviewed and obtained information from pharmacy officials on quality-of-care concerns, as well as other issues related to the potential restructuring of their pharmacy operations.

We visited mail-service pharmacies operated by Medco Containment Services (Dallas), Healthcare Services, Inc. (Albuquerque), and Baxter Prescription Service (Lincolnshire, Illinois). In selecting these pharmacies, we obtained a cross-section of various operational settings, including large and small pharmacies; pharmacies using different technologies; and those providing nationwide service from single and multiple locations. At each pharmacy we discussed its management policies and procedures, observed the dispensing operations, and reviewed general performance data.

We performed our work between May 1990 and September 1991 in accordance with generally accepted government auditing standards.

VA Pharmacies Dispense Prescription Medications in Uneconomical Quantities

When treating veterans with chronic conditions, VA physicians frequently prescribe drugs for long periods of time. Although VA mail-service pharmacies may fill prescriptions in 90-day quantities, most routinely dispense drugs in 30-day quantities. Such dispensing practices are not cost-efficient because handling costs are generally much higher than the cost of the drugs.

Pharmacies Authorized to Fill Prescriptions in Economical Quantities

VA authorizes physicians to prescribe medications to veterans for up to 6 months at a time. Physicians can continue to prescribe these medications (for 6-month periods) as long as the veteran has a continuing need for them. Generally, long-term prescriptions are used for veterans who need medications to stabilize chronic conditions, such as cardiopulmonary conditions, arthritis, or hypertension.

VA authorizes pharmacies to dispense prescription drugs for periods up to 90 days, a policy which has been in effect since 1979. Before then, pharmacies were required to dispense prescription drugs for periods of 30 days or less. VA's policy change was designed to benefit veterans by eliminating their need to return to VA or mail in refill orders every 30 days for drugs they would be taking for long periods. In addition, it was intended to reduce the pharmacy work load.

VA officials gave pharmacies flexibility in determining the quantities to be dispensed because they recognize that using 90-day periods may be inappropriate in certain circumstances. For example, some drugs may be too expensive or dangerous to risk providing larger quantities. Also, a physician may want to restrict the supply for patients who do not adhere to the prescribed regimen.

The three privately operated mail-service pharmacies we visited adjust prescription quantities to take advantage of the most economical distribution quantity. Officials at these pharmacies stated that they automatically dispense maintenance drugs in 90-day supplies, unless organizations with which they contract require prescriptions to be dispensed for shorter periods or a physician specifically requires smaller quantities in individual cases.

Many VA Pharmacies Fill Prescriptions in Uneconomical Quantities

Many pharmacies did not change prescription dispensing practices following VA's 1979 policy revision. At our request, VA headquarters officials surveyed all pharmacies in April 1991 to determine what dispensing practices were in use. Officials had not previously assessed the effect of this policy change on pharmacies' practices or costs. Eighty-seven pharmacies dispensed all prescription drugs in supplies of 30 days or less, and 36 dispensed for periods up to 90 days. A VA pharmacy service official said that he had no reason to believe that the responding pharmacies were different from those that had not responded.

The 36 pharmacies dispensing in periods up to 90 days reported varying dispensing practices. Generally, they dispensed for longer time periods based on certain classes of veterans, such as former prisoners of war, or certain types of drugs. For example, one pharmacy uses a 90-day supply for all maintenance drugs prescribed at a stabilized dosage for 90 days or longer, except controlled substances[2] and psychiatric drugs; such maintenance drugs accounted for almost one of four prescriptions. By contrast, another pharmacy dispensed only four drugs in 90-day quantities. Appendix I shows typical drugs that pharmacies reported as being dispensed in 90-day quantities.

To assess the cost-effectiveness of dispensing for longer time periods, we visited pharmacies operated by the Albany and Livermore Medical Centers. The Albany pharmacy significantly changed its dispensing practices in 1987, while Livermore's remain unchanged. At each pharmacy, we reviewed a sample of prescriptions for aspirin (325 mg),[3] which VA physicians commonly prescribe for cardiopulmonary conditions, and ibruprofen (800 mg), which is commonly used to treat rheumatoid arthritis and osteoarthritis. During fiscal year 1990, the two pharmacies filled over 11,600 prescriptions for these drugs. Headquarters and pharmacy officials told us that these drugs represent typical maintenance drugs that could be dispensed in 90-day quantities.

[2]Such substances are narcotics, depressants, and stimulants designated by the Drug Enforcement Administration as having significant potential for abuse.

[3]VA issues all drugs by prescription regardless of whether the Food and Drug Administration requires a prescription. This is done as a means of controlling inventory and ensuring that only drugs ordered by a physician are given to a veteran.

Albany Pharmacy

The Albany pharmacy began dispensing prescriptions in 90-day supplies for 27 drugs in 1987. Its current policy is to issue all prescriptions, after a strict review of patients' profiles, in up to 90-day supplies, except controlled substances and psychiatric drugs.

The pharmacy chief said that these changes were designed to reduce handling costs. Dispensing 90-day supplies can significantly reduce costs for medications used to treat chronic conditions, as the following examples show.

- Of the 50 aspirin prescriptions sampled, 40 covered a 6-month period, and the rest were for shorter periods. Albany dispensed 39 of these prescriptions in 90-day supplies. Filling these prescriptions in 30-day supplies would have cost an additional $341.
- Of the 50 ibruprofen prescriptions sampled, 23 covered a 6-month period. Albany dispensed 20 of these prescriptions in 90-day supplies, and the rest were for shorter periods. Filling these prescriptions in 30-day supplies would have cost an additional $181.

Dispensing maintenance drugs in 90-day supplies is generally cost-efficient because VA's drug purchase costs are much lower than handling costs. For example, mailing a typical 90-day supply of aspirin costs about $0.27 for the aspirin, and $3.27 for handling and postage. Thus, the cost of unnecessarily handling the drugs greatly outweighs the potential loss through waste.

The Albany pharmacy chief said that dispensing maintenance drugs in 90-day supplies had reduced the mail-service work load by 40 percent, thereby allowing his pharmacists to focus on other patient services. He said that he would need to hire an additional 22 pharmacists if he returned to a 30-day dispensing policy. He estimated that the pharmacy had saved over $750,000 in labor costs in fiscal year 1990.

Livermore Pharmacy

Unlike Albany, the Livermore pharmacy dispenses all prescriptions for maintenance drugs in 30-day supplies. Veterans generally receive a 6-month prescription, which consists of an initial 30-day supply and authorizations for five refills for 30 days each. The center's chief of staff said that using 30 days is arbitrary and there is no reason not to provide a 90-day supply unless that amount of drugs would pose a health risk to patients who accumulate excess medication. The chief of pharmacy also cited potential health risks as a factor for limiting the use of 90-day supplies. He

also cited reduced physician control over patients and increased costs because of waste as other limiting factors.

Dispensing prescriptions in 30-day supplies at Livermore unnecessarily increased handling costs for medications used to treat chronic conditions, as the following examples show.

- Of the 50 aspirin prescriptions sampled, 33 covered 6-month periods, and 9 covered 90 days or more. The prescriptions were filled in 30-day quantities. If the pharmacy had dispensed the 42 prescriptions in 90-day supplies, it would have saved $226.
- Of the 50 ibroprofen prescriptions sampled, 25 were for 6 months, issued in 30-day supplies. Issuing these prescriptions in 90-day supplies would have saved $146.

VA Needs to Modernize Pharmacy Mail Services

VA could save as much as $34 million annually by reducing the number of mail-service pharmacies and modernizing them by using available equipment. In a February 1989 circular, VA informed its pharmacies that they could submit plans to regional directors for consolidating and automating mail-service pharmacies. While a few developed plans, most of the 226 pharmacies had no plans to change their operating practices. In 1991, VA headquarters pharmacy officials started providing greater leadership to ensure the effectiveness of pharmacies' consolidation and automation activities.

VA's Current System Is Inefficient

Using each of the pharmacies to provide mail prescription services is inefficient because it results in uneconomically small work loads at almost all locations. Pharmacies, as a whole, incur unnecessary costs for labor, inventory, and space. Individual pharmacies have limited opportunities to use new automated machinery because such use is not economical due to their insufficient work load.

VA's pharmacies use labor-intensive processes to package and mail prescription drugs. During fiscal year 1990, VA used an estimated 2,000 full-time-equivalent employees to mail about 135,000 prescriptions a day, an average of 68 prescriptions per employee.[4] In general, VA pharmacy employees manually retrieve drugs from pharmacy stock, label prescription containers, and package them for mailing. When drug supplies are not stored in quantities prescribed, for example, 100-tablet bottles, pharmacy employees must manually obtain the quantities needed from bulk supplies.

Over the last decade, a number of highly sophisticated machines have been marketed that can fill thousands of prescriptions a day with a low error rate and a high production rate per employee. The three private-sector mail-service pharmacies we visited had dispensing capacities of approximately 7,500, 14,000, and 15,000 prescriptions per day. For example, the pharmacy that dispensed 7,500 prescriptions per day used 52 employees, resulting in a daily productivity rate of 150 prescriptions per employee. Its officials said that it could fill 15,000 prescriptions daily without increasing the number of employees significantly. If VA could automate its prescription filling processes to achieve a daily production rate of 150 prescriptions per employee, its mail-service volume of 34 million prescriptions could be handled by about 900 pharmacy personnel. Using the fiscal year 1990 average cost of $31,627 for a pharmacy employee, the annual labor savings could be as much as $34 million.[5]

VA could achieve such savings by consolidating its 226 mail-service pharmacies so that a daily volume at individual locations was comparable to the private pharmacies we visited. Currently, most VA pharmacies handle fewer than 1,000 prescriptions daily compared with the 7,500 to 15,000 prescriptions at the three private pharmacies.

[4]We used VA's staffing standards (about 7 minutes per mail prescription) and computed that the time used to mail the 34 million prescriptions was about 4 million hours. Using a standard work year of 2,087 hours, we estimated that VA used about 2,000 full-time employees.

In commenting on a draft of this report, VA stated that our estimate, of the number of employees, may be somewhat high. It estimated that the number of employees associated with mail-service pharmacies was closer to 40 percent of the total pharmacy employees, or about 1,360. However, VA has no data to support this estimate. Assuming VA's estimated employee level, an average dispensing rate of about 100 prescriptions per employee would be achieve.

[5]If VA's estimate of the number of employee associated with its mail-service pharmacy functions were used, the labor savings would have been $14.5 million.

Some VA Pharmacies Developed Plans to Consolidate and Automate

During 1990, VA pharmacies located in Cheyenne, Milwaukee, and Albany developed proposals to automate mail prescription services in their areas. Even though the three proposals were designed to use various types of equipment, they all projected substantial savings or increased productivity. VA headquarters had authorized local pharmacies to develop proposals for such automated facilities and provided for these proposals to be reviewed and approved by regional directors.

The Cheyenne plan estimated annual savings of $3.1 million, including $2.2 million for personnel costs and $0.9 million for price discounts on volume drug purchases. Start-up costs of $2 million, including $1.7 million for prescription handling and automatic data processing equipment, would be incurred.

The Cheyenne plan was based on mailing about 9,700 prescriptions a day. This would be achieved by consolidating high-volume drugs, which are routinely dispensed in standard quantities for 28 mail-service pharmacies in 11 western states. This would be about 80 percent of these facilities' prescription mail work load. The 28 facilities would continue to dispense low-volume prescriptions.

The Cheyenne pharmacy planned to use equipment that handles the daily mailings using 75 employees, resulting in a daily production rate of 129 per employee. Currently, the 28 pharmacies are using 139 employees to handle the same volume.

The Milwaukee pharmacy developed an approach similar to Cheyenne's. It planned to consolidate the dispensing of high-volume items from eight surrounding pharmacies that would generate a daily work load of 8,000 prescriptions. However, Milwaukee planned to use different equipment to achieve a daily production rate of approximately 197 prescriptions per employee. Using this plan, the pharmacy expected to achieve annual savings of $1.0 million. This would result from needing only 41 employees to handle the daily work load compared with 67 under the existing system. Estimated start-up costs were about $3.4 million, including equipment costs of $2.2 million.

The Albany plan contained two different operating strategies. The first assumed a work load of 4,000 daily prescriptions, and the second provided for 16,000 daily prescriptions. An estimated 35 employees would be needed for the smaller work load, and an additional 15 would be needed for the larger one. By using automated equipment, a daily production rate of

114 prescriptions per employee was estimated for the smaller work load, and a rate of 400 for the larger one. This contrasts to Albany's fiscal year 1990 daily rate of 48 prescriptions per employee. Start-up costs were estimated at $4.4 million for the smaller work load, including $1.5 million to purchase space and $2.9 million for equipment. The larger work load would have required an additional $3.8 million for equipment. The Albany plan did not contain estimated cost savings. The Cheyenne and Milwaukee proposals were not approved. The Albany pharmacy has been authorized to pursue the testing of prototype equipment.

VA Headquarters Is Studying Consolidation and Automation Options

While these proposals were being developed and reviewed by regional officials, VA headquarters officials decided that, without adequate leadership, such regional activities could result in too many facilities, unused capacity, or incompatible equipment. During the spring of 1991, headquarters pharmacy officials developed a pilot study to test equipment and assess the operational requirements of consolidated, automated mail-service pharmacies. They solicited proposals from VA pharmacies that wanted to be test sites.

The proposals were to address six areas: (1) sufficiency of space, (2) adequacy of support services (e.g., administration and supply), (3) recruitment and retention of pharmacists, (4) availability of current pharmacy staff, (5) adequacy of postal support, and (6) access by commercial transportation.

VA headquarters officials plan to select at least two test site pharmacies. They expect to start the tests in fiscal year 1992. Ultimately, they expect to use the test results to reorganize the current system of 226 mail-service pharmacies into a smaller network of high-volume pharmacies that would provide prescription mail services. The system will be designed so that these pharmacies use compatible dispensing equipment and computer systems. VA plans to require the existing pharmacies to transfer all of their mail-service prescriptions to the newly established mail-service pharmacies. The 229 pharmacies will continue to dispense medication to veterans in person when physicians prescribe them and dispense medications to veterans who choose to come to the facility rather than use the mail.

Conclusions

VA eased its prescription dispensing policy in 1979 so that pharmacies could eliminate unnecessary handling of low-cost maintenance drugs. Veterans were also to benefit from this change because they could obtain their medications with less time and effort on their part. But most pharmacies have not taken advantage of this policy change, which reduces dispensing costs or eases the burden on veterans. While we believe that VA pharmacies should have flexibility in determining appropriate dispensing quantities for individual veterans, we also believe that the pharmacies should dispense in 90-day supplies to the maximum extent practical. It appears that this objective will not be achieved without additional direction and guidance from VA headquarters on how to establish and implement economical prescription drug dispensing policies and procedures.

During our fieldwork, we found that several pharmacies were developing plans or taking actions to consolidate or automate. This could have resulted in a fragmented system that had incompatible equipment and processes. We believe that VA headquarters needs to assume a strong role for the successful development and implementation of such a plan, which provides the most efficient prescription mail-service system possible.

Initially, VA is planning to pilot-test different equipment and processes. This should provide information needed to develop an automation strategy that is tailored to VA's specific prescription mail-service needs. But, VA's planning must still address such key factors as projected work load.

VA will need to develop a plan for projecting its prescription mail-service work load. VA's existing work load data should not be used for planning purposes because so many pharmacies are operating inefficiently. If VA could maximize the use of 90-day prescription supplies, its experience should provide better data for planning purposes.

VA will also need to develop plans for determining the best locations for operating mail-service pharmacies in addition to the optimal work load for individual pharmacies. As with its pilot study, criteria for site selection should include such factors as availability of pharmacy and administrative staff, reasonableness of labor and other operating costs, and adequacy of postal and transportation access. Criteria for each facility's optimal work load should be designed to maximize efficiency, while minimizing the number of pharmacies. Ultimately, VA's consolidation strategy will be based on work load projections and the automated equipment and processes selected, but it appears that veterans' prescription needs could be met with fewer than 10 mail-service pharmacies.

Recommendations to the Secretary of Veterans Affairs

We recommend that the Secretary of Veterans Affairs direct the Chief Medical Director to require pharmacies to maximize the use of 90-day supplies when dispensing maintenance drugs, which are prescribed at a stabilized dose. We also recommend that the Secretary require the Chief Medical Director to ensure that VA's plans for consolidating and automating mail-service pharmacies (1) determine the optimal work load for the pharmacies by using work load data that assume maximum use of 90-day supplies; (2) select the most cost-efficient locations for the facilities, considering such factors as available transportation and personnel; and (3) ensure compatibility of prescription handling and automatic data processing equipment throughout VA facilities to maximize efficiency.

Agency Comments

VA commented on a draft of this report on November 19, 1991 (see app. II). VA agreed in principle with our recommendations and has initiated several actions to implement them. VA also commented on several matters discussed in the report.

VA agreed that pharmacies should maximize the use of 90-day supplies when dispensing maintenance drugs. VA plans to encourage the expansion of the 90-day option and monitor its implementation. VA pointed out, and we agree, that the optimum quantity of drugs to be dispensed is dependent on the patient and must be determined by a physician. Our recommendation is intended to ensure that all maintenance drugs are dispensed in 90-day supplies when patients are on stabilized doses and when the physicians have not otherwise limited the quantities. Now, an estimated two-thirds of VA's pharmacies have policies limiting the dispensing of all drugs to 30 days. Physicians in those facilities do not have the opportunity to prescribe for longer than 30 days because of medical center policy limiting all prescription dispensing to a 30-day supply. We believe that VA should require all its medical facilities to allow physicians to prescribe, and pharmacies to fill, prescriptions for maintenance drugs for longer than 30 days when conditions warrant it.

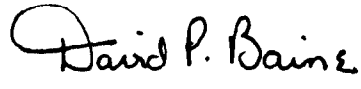
VA stated that it would select mail-service pharmacy sites based on identifying the most cost-efficient locations considering transportation and recruitment issues. Its goal is to double efficiency, and the staffing will reflect this goal. VA added that when completed, it's mail-service pharmacy program will be compatible from site to site and will use automatic data processing equipment nationwide that will maximize efficiency. VA said it would reserve the decision on the number of mail-service pharmacies needed until the concept has been pilot-tested and the results assessed.

VA stated that our estimate of savings by consolidating and automating its mail-service pharmacies could be somewhat high. Our estimate was based on the best available data, and VA did not provide data to support its contention. We revised our report to explain our estimating methodology and VA's concern. Our estimate is intended to show the order of magnitude of potential savings from consolidating and automating VA's mail-service pharmacies. Only after testing can it be said with certainty what the savings would be, but we believe such savings should be substantial.

VA also questioned our description of VA's management of consolidation and automation initiatives and our portrayal of the status of the Albany proposal. We have clarified our description of the initiatives of individual medical centers to show that proposals by these medical centers were in response to a February 1989 circular from VA headquarters. Our primary concern was that each region could take a different approach. We have also clarified the status of the Albany proposal.

We are sending copies of this report to the Secretary of Veterans Affairs, the Director, Office of Management and Budget; and other interested congressional parties. Copies also will be made available to others upon request. If you have any questions regarding this report, please contact me on (202) 275-6207. Major contributors to this report are listed in appendix III.

Sincerely yours,



David P. Baine
Director, Federal Health
Care Delivery Issues

Contents

Abbreviations

VA Department of Veterans Affairs

Typical Maintenance Drugs Issued in 90-Day Quantities

Drug	Unit cost	Strength used for pricing
Acetaminophen	$.003	325 mg tablet
Allopurinol	.029	300 mg tablet
Ascorbic acid	.010	500 mg tablet
Aspirin	.003	325 mg tablet
Clonidine	.007	0.1 mg tablet
Digoxin	.057	0.25 mg tablet
Dipyridamole	.010	25 mg tablet
Docusate sodium	.006	100 mg capsule
Ferrous sulfate	.005	325 mg tablet
Folic acid	.004	1 mg tablet
Furosemide	.006	40 mg tablet
Hydralazine	.007	50 mg tablet
Hydrochlorothiazide	.003	25 mg tablet
Ibuprofen	.022	800 mg tablet
Isosorbide	.004	10 mg tablet
Phenytoin	.019	100 mg capsule
Potassium chloride	.013	750 mg tablet
Propranolol	.004	40 mg tablet
Pyridoxine	.004	50 mg tablet
Theophylline	.020	300 mg tablet

Comments From the Department of Veterans Affairs

THE SECRETARY OF VETERANS AFFAIRS
WASHINGTON

NOV 19 1991

Mr. David P. Baine
Director, Federal Health Care
Delivery Issues
Human Resources Division
U. S. General Accounting Office
441 G Street, Northwest
Washington, DC 20548

Dear Mr. Baine:

I am pleased to respond to your report, **VA HEALTH CARE: Modernizing VA's Mail-Service Pharmacies Should Save Millions of Dollars** (GAO/HRD-92-30). I agree in principle with your conclusions and have already initiated several actions to implement your recommendations. Current VHA guidance to our pharmacists encourages 90-day quantities for maintenance drugs prescribed at stabilized doses.

In addition, you have identified a longstanding VHA goal: consolidated mail outpatient pharmacies (CMOP). VHA's support of CMOPs since 1974 was a driving force that stimulated the industry to develop automated labeling equipment needed for VHA's operation. The Chief Medical Director's CMOP plans will include maximum use of 90-day dispensing quantities coupled with prudent quality assurance of medical care to our patients. These plans will also include the most cost efficient CMOP location considering transportation and recruitment issues. Finally, the plans will assure compatibility of prescription handling and automatic data processing equipment throughout VA's medical system to maximize operational efficiency.

The enclosure details actions planned and underway to implement your recommendations. Thank you for the opportunity to comment on this report.

Sincerely yours,

Edward J. Derwinski

Enclosure
EJD/vz

Enclosure

DEPARTMENT OF VETERANS AFFAIRS COMMENTS TO
GAO DRAFT REPORT, **VA HEALTH CARE: Modernizing VA's Mail-Service Pharmacies Should Save Millions of Dollars**
(GAO/HRD-92-30)

GAO recommends that I direct the Chief Medical Director to require pharmacies to maximize the use of 90-day quantities when dispensing maintenance drugs which are prescribed at a stabilized dose.

VHA guidance to its pharmacies appropriately encourages expansion of the 90-day option. However, the optimum quantity of drugs to dispense is dependent on the patient and the medication and must be determined by the physician. VHA will continue to communicate the benefits of the 90-day option to the field and will monitor its implementation. During numerous site visits, VHA Central Office officials recommended facilities explore the feasibility of using the 90-day quantity option and will continue to do so. However, central to the dispensing of 90-day quantities is the assessment of the patient's medical condition, the nature and cost of the medication and the assessment of whether the patient is compliant and understanding of the medications prescribed.

Any estimates of cost-effectiveness associated with 90-day quantity dispensing should consider patient outcome. Comparisons to private sector mail order companies may be misleading since private sector companies are not responsible for the total care of the patient. They are only involved with actually dispensing the drug. The effect of the quantity dispensed on patient compliance or outcome is not an issue with private sector companies.

GAO also recommends that I require the Chief Medical Director to assure that VA's plans for consolidating and automating mail service pharmacies (1) determine pharmacy dispensing capacity by using workload data which assumes maximum use of 90-day quantities,

VHA has not yet determined the scope of CMOPs. We will assess the first phase of expansion and automation of CMOPs and then determine the scope and impact of standardization on formularies and quantities dispensed.

(2) select the most cost-efficient locations for the facilities considering such factors as available transportation and personnel, and

VHA will select CMOP sites based on identifying the most cost efficient locations considering transportation and recruitment issues. CMOP planning is based on developing a compatible network of sites. Our goal is to double efficiency and our CMOP staffing plans for the CMOPs will reflect this goal. Nevertheless, we question the estimated savings cited in the report. Estimates of efficiencies cited for VAMCs Milwaukee and Albany are based on equipment that is still in testing or development. We believe claiming any cost efficiencies based on equipment that has not been thoroughly tested is premature at best.

In addition, GAO does not discuss its methodology to determine the full-time equivalent employee (FTEE) level involved in mail prescription functions in FY 1990 in the report. It appears, however, that the report makes some assumptions that may be misleading. VA does not have specific data on FTEE dedicated to mail prescription functions although our Automated Management Information System report does show the total number of FTEE associated with outpatient pharmacy functions. Based on GAO's conclusions, there is an assumption that as 60 percent of the outpatient prescription workload is mail prescription workload, then 60 percent of the total outpatient staffing is involved in mail prescription functions. We estimate that the total FTEE associated with mail prescription functions is closer to 40 percent of the total outpatient pharmacy FTEE level. This methodology should be verified since it affects the reported efficiency of our current system and the estimated savings of a new system. Also, any staffing information from private facilities must be verified. VA officials have visited some of the same facilities GAO visited; however, the information VA officials received varied from official to official at the same facility.

(3) assure compatibility of prescription handling and automatic data processing equipment throughout VA facilities to maximize operational efficiency.

Since 1988, VHA has coordinated a nationwide effort to assure a systematic approach to expanded CMOPs. In fact this system-wide effort to consolidate and automate VA's mail pharmacy program stimulated industry to develop automated labeling equipment need for VHA's operation. The report incorrectly characterizes these efforts as the independent and uncoordinated work of a few VA medical centers (VAMC). When completed, VHA's CMOP program will be compatible from site to site and will use automatic data processing equipment nationwide that will maximize operational efficiency. Also, the report incorrectly states VAMC Albany has

been authorized to purchase equipment to automate its prescription mail service. VAMC Albany is merely involved in a test of the prototype equipment.

VHA will reserve the decision on the number of CMOPs until the concept has been pilot tested and the results assessed. The first determinant will be the span of control within which quality of service is at its maximum. Our primary goal for CMOPs is to enhance the service we provide to veterans. Economies from establishing a close working relationship between the CMOP and the primary service VA medical center may be as significant as the economies associated with the automated equipment and staff utilization. The potential exists to standardize formularies within the cluster of medical centers serviced by the CMOP. This consolidation may have an effect on efficiencies as significant as the quantity of drugs dispensed.

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