



Highlights of [GAO-04-718](#), a report to the Committee on Government Reform, House of Representatives

## Why GAO Did This Study

The Department of Veterans Affairs (VA) provides healthcare to millions of veterans at VA's medical centers and healthcare facilities across the country. To support veterans, VA manages a Federal Supply Schedule (FSS) program and a national contract program. Both use VA's sizeable buying power to provide VA and other federal agencies discounts on medical products and services. To cover its costs in running the FSS program, VA charges its customers a user fee.

Although sales through VA's FSS and national contracts totaled almost \$7 billion in fiscal year 2003, concerns have been raised about the efficiency of these contract programs. GAO was asked to determine whether the FSS and national contracts have provided medical products at favorable prices and to identify opportunities to improve purchasing practices and increase savings. GAO was also asked to determine if VA's user fee is sufficient to cover program cost.

## What GAO Recommends

GAO recommends that VA use its buying power to obtain more favorable prices for healthcare services, and strengthen oversight to ensure its medical centers obtain the best available prices. GAO also recommends that VA identify the complete cost of the FSS program and reassess its user fee to see if it needs to be adjusted. VA concurred with GAO's recommendations.

[www.gao.gov/cgi-bin/gettrpt?GAO-04-718](http://www.gao.gov/cgi-bin/gettrpt?GAO-04-718).

To view the full product, including the scope and methodology, click on the link above. For more information, contact David Cooper at (202) 512-4841 or [cooperd@gao.gov](mailto:cooperd@gao.gov).

## CONTRACT MANAGEMENT

### Further Efforts Needed to Sustain VA's Progress in Purchasing Medical Products and Services

#### What GAO Found

The more than 1,200 FSS and 330 national contracts that VA has awarded have resulted in more competitive prices and have yielded substantial savings. VA has achieved these favorable prices and savings, in part, by exercising its audit rights and access to contractor data to pursue best prices aggressively for medical supplies and services. For example, pre-award audits of vendors' contract proposals and post-award audits of vendors' contract actions resulted in savings of about \$240 million during fiscal years 1999 to 2003. VA has also taken steps to further leverage its buying power on widely used healthcare items—such as pharmaceuticals and high-tech medical equipment—through its national contracts. According to VA, its national pharmaceutical contracts have led to a cost avoidance of \$394 million in fiscal year 2003. However, VA has not taken the same aggressive approach to negotiate more competitive prices for healthcare services, such as radiology. In fiscal year 2003, healthcare services totaled about \$1.7 billion, yet VA facilities only purchased about \$66 million through VA FSS contracts. Instead, most medical healthcare services are purchased through contracts that individual VA medical centers have negotiated, a process that may not provide the most favorable prices.

VA could also realize additional savings through improved medical center purchasing practices. Despite increases in medical centers' FSS purchases—which more than doubled between fiscal years 1999 and 2003—medical centers have not always taken advantage of the best prices available through VA's contracts. For example, in fiscal year 2001, a VA Inspector General (IG) report stated that VA medical centers frequently purchased healthcare products from local sources, instead of from available FSS contracts. Although VA has since implemented policies and procedures that generally require its medical centers to purchase medical products and services through VA's contract programs, a more recent VA IG report found that medical centers continued to make purchases from local suppliers. The VA IG estimated that, with improved procurement practices at medical centers, VA could save about \$1.4 billion over 5 years. However, ensuring VA medical centers comply with VA's purchasing policies and procedures will be a challenge for VA, in part, because its monitoring of purchases lacks adequate rigor.

The user fee that VA collects on FSS purchases—0.5 percent of sales—is expected to approximate the program costs. VA, however, does not have complete information on the costs to administer the FSS program. Without this cost data, VA is unable to know whether it is charging an appropriate user fee.