

## **Need for A Pharmaceutical Prime Vendor Full Cost Recovery Fee**

For the Indian Health Service (IHS) to have an effective pharmaceutical evaluation, review, contracting and acquisition program requires integration of the IHS National Pharmacy and Therapeutics Committee (NPTC) activities and the National Supply Service Center (NSSC) pharmaceutical procurement management function (PPMF). Additionally, to assure appropriate and equitable funding for PPMF activities performed by the NSSC, and to continue to save IHS, Tribes and Tribal Organizations (“Tribes”) tens of millions of dollars annually on pharmaceutical procurement, all IHS and Tribes ordering medications through the Department of Veterans Affairs (VA) Pharmaceutical Prime Vendor (PPV) need to contribute financially, through a Full Cost Recovery Fee (FCRF), to the NSSC team serving as the single point of contact, or IHS Intermediary for pharmaceutical acquisition to the VA PPV contract.

### DISCUSSION

The VA currently allows IHS and Tribes operating health programs pursuant to contracts under the Indian Self-Determination Education and Assistance Act (ISDEAA), Public Law 93-638, use of the VA PPV for purchasing pharmaceuticals. By ordering pharmaceuticals through the VA PPV, the IHS and Tribes are able to access the Federal Supply Schedule (FSS) Contract, National Standardization Contract (NSC), and Blanket Purchase Agreement (BPA) pricing for pharmaceuticals. The PPV also provides additional savings by taking an additional 4.55% off the cost of all prescription drug orders (a negative distribution fee generated through bulk purchasing). The VA charges IHS and Tribes a 0.25 percent fee with each order for VA activities related to the PPV contract management. The IHS and Tribes pharmaceutical purchases through the VA PPV totaled over \$250 million in fiscal year (FY) 2006 (total pharmaceutical expenditures are estimated at \$275 million when including non-McKesson HRSA 340B program purchases and orders from other sources).

The IHS and Tribal facilities place their own pharmaceutical orders using McKesson (the current PPV) software. The orders are routed electronically through an IHS intermediary (the NSSC, Area IHS or Area IHS warehouse) for funding, processing, and payment to the PPV. The pharmaceuticals are delivered directly to the ordering facility by the PPV. The Gallup Regional Supply Service Center (GRSSC) also orders and stores high use medications at their warehouse in anticipation of Navajo Area orders. The VA PPV staff estimate that IHS and Tribes save approximately 50 percent off of the average manufacturer’s price on pharmaceutical costs by using the PPV and receiving FSS, NSC, and BPA pricing.

The IHS and Tribal facilities have access to VA NSCs and manufacturer’s BPA prices through the PPV but this process is not automatic. The NSSC serves as the IHS liaison to the VA National Acquisition Center (NAC) managing IHS and Tribal activities related to hundreds of VA NSCs and BPAs annually. The NSSC works with the VA NAC to assure IHS and Tribal participation in contracts and agreements and to gather and complete required paperwork including usage data. The NSSC also develops national IHS specific pharmaceutical BPAs for high use, high cost items. The NSSC uses Area Contracting Officer Technical Representatives (COTRs) in each Area to assist with gathering and disseminating information.

The VA PPV requires Tribal sites to use an IHS intermediary when ordering medications and other products from the PPV (Tribes had hoped to be able to access the PPV directly without using an IHS intermediary, however the VA has decided not to develop this option at this time). The NSSC serves over 100 sites as the order processing point (for Federal sites) and as the IHS intermediary (for Tribal sites). The IHS cost associated with managing the VA NSCs and BPAs and order management and payment processing (e.g., paying invoices, tracking credits, etc.) is covered through the assessment of a management fee on each pharmaceutical order processed for NSSC customers.

The National Pharmacy and Therapeutics Committee (NPTC), a permanent national committee of the IHS established in February 2004, ensures that the IHS National Core Formulary remains up to date with changes in medical knowledge and practice and provides IHS and Tribal clinicians with the tools they need to provide evidence-based and cost-effective pharmaceutical services. The NPTC membership includes a full-time Vice-Chair (a pharmacist trained in pharmacoconomics), a part-time physician Chair, and a mix of 12 practicing physicians and pharmacists with local or Area pharmacy and therapeutics committee experience that are drawn from the ranks of IHS and Tribally operated Indian health care facilities. The NPTC meets at least quarterly.

When the NPTC formed, the designated funding mechanism was to be a management fee charged to all sites based on a percentage of their PPV purchased. The fee was to be added by the prime vendor at the time of purchase. The IHS was unable to negotiate processing of this fee with the VA NAC. In 2006, the VA NAC staff stated that collection of a management fee for NPTC and NSSC activities should be part of an internal IHS process.

In the past, the IHS considered the NPTC as a free standing entity. In FY 2006, IHS determined that coordination and integration of the NPTC activities with NSSC PPV contract management activities was essential to assuring appropriate contracting and procurement of pharmaceuticals. While the NPTC and NSSC communicate on procurement issues, by further integrating these activities, the IHS will be better able to plan and manage all aspects of the pharmaceutical review and procurement process and coordinate their interaction with counterparts at the VA NAC and the Department of Defense (DoD) Pharmacoconomics Center (PEC). The NAC and PEC are exceptional resources for IHS as they have staffing and funding to do disease state research and pharmaceutical category reviews that IHS cannot do with current staffing and funding levels. The review of medications by the NPTC and the committee's recommendations for the National Core Formulary or treatment guidelines are essential not only in assuring appropriate clinical outcomes, but it allows the NSSC to negotiate lower prices for medications from manufacturers. The activities of both the NPTC and NSSC benefit all IHS and Tribal sites that use the VA PPV for pharmaceutical acquisition.

Funding for this combined organization will be generated through use of the current NSSC funding mechanism, the Full Cost Recovery Fee (FCRF). The NSSC does not receive any annual recurring operating funds (no appropriated funding). It is fully funded by user fees. The FCRF is used to recover only the necessary expenses required to operate the NSSC. The increase in volume of pharmaceutical purchases and leveling of the NSSC operating budget has

allowed the NSSC to continue to reduce the FCRF rate to their customers from 5.9 percent in FY 1999 to 2.7 percent in FY 2007.

Charging everyone who uses the PPV and related functions is the only fair way to cover the cost of this significant cost savings program. *The PPV FCRF is separate from the costs associated with order processing and payment processing and does not cover any of the NSSC costs associated with supply warehouse functions.* If a site chooses to use NSSC for order processing **and payment**, the site would pay a set percentage of the cost of each order to cover management costs and a set cost associated with order processing and bill payment (costs associated with the Area finance paying the PPV for the order).

A site could choose to continue to have order processing and payment done by their Area Office. The Area finance office would collect the FCRF related to the pharmaceutical procurement management function and forward it to NSSC and would charge the site any order processing and bill payment costs. Using this process would separate the cost for the NSSC PPMF from order processing and payment and would assure that all IHS and Tribal PPV users that benefit from NSSC activities reimburse NSSC for these activities. If Areas have other costs associated with contract management such as insuring proper fiduciary controls, insuring proper physical controls, insuring contract compliance, providing Contracting Officer Technical Representative (COTR) and Project Officer (PO) functions, collecting usage data, disseminating recall information, coordinating recall efforts, coordinating area level purchasing efforts not addressed at a higher level, and insuring correct system pricing offered by the prime vendor, this may be included in the Area order processing costs or may be negotiated separately with tribes as shares left in the Area Office.

The ordering entity has the legal obligation to insure PPV contract medications are being used in compliance with VA NAC as well as IHS rules and regulations. Area offices (or the authorizing Federal ordering entity) have oversight and audit responsibility for medications ordered under their authority. The ordering entity has the legal obligation to insure medications ordered under any Federal pricing schema are utilized in the manner in which they were intended, and are distributed only to legally authorized recipients. This includes medications purchased directly through a wholesaler under the Federal Supply Schedule (FSS) and 340B programs.