



DEPARTMENT OF VETERANS AFFAIRS
OFFICE OF INSPECTOR GENERAL

Office of Audits and Evaluations

VETERANS HEALTH ADMINISTRATION

VA Should Examine Options
to Expand Retail Pharmacy
Drug Discounts

REVIEW

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Executive Summary

The Veterans Health Care Act of 1992 made prescription drug discounts available to VA pharmacies. The act required drug manufacturers to provide at least a 24-percent discount from the commercially available price to the “Big 4” federal agencies—VA, the Department of Defense (DoD), Public Health Services (including Indian Health Service), and the Coast Guard. However, the act only applies to covered prescription drugs sold and delivered to a facility operated by a Big 4 agency and dispensed directly to beneficiaries. The act does not cover pricing discounts for prescription drugs dispensed through retail pharmacies. The VA purchases these retail prescription drugs at the contracted average wholesale price instead of the discounted price.

In fiscal year (FY) 2018, VA paid about \$603.6 million for about 8 million Civilian Health and Medical Program of the Department of Veterans Affairs (CHAMPVA) outpatient drug claims. CHAMPVA is a health insurance program under which eligible dependents and survivors of veterans receive care from private-sector healthcare providers. About 40 percent of the program’s prescription drug costs are for drugs purchased through retail pharmacies. The VA Office of Inspector General (OIG) conducted this review to determine the feasibility of CHAMPVA obtaining the Big 4 discount for drugs purchased through retail pharmacies.

What the Review Found

VA does not have authority for the CHAMPVA program to purchase prescription drugs through retail pharmacies at Big 4 prices even though the Big 4 price is available to VA for covered drugs purchased directly by VA, and is available to DoD for covered drugs purchased through a retail pharmacy for TRICARE, DoD’s comprehensive managed healthcare program. A VA Office of General Counsel attorney expressed concern that without a change in the law, it did not appear VA had the authority to issue regulations requiring drug manufacturers to give CHAMPVA the Big 4 price for retail drugs. The OIG is not aware of anything to the contrary.

The OIG examined CHAMPVA’s retail pharmacy claims for covered drugs and estimated that if VA had paid the Big 4 price for CHAMPVA claims in FY 2018, it could have saved about \$69 million of the \$181 million paid. The OIG estimated VA could save about \$345.1 million over the next five years if the proper statutory authority, regulations, and processes were in place for CHAMPVA to buy drugs through retail pharmacies at the Big 4 prices.

CHAMPVA Beneficiary Prescription Drug Options

CHAMPVA uses their Meds by Mail program to fill recurring prescriptions for beneficiaries with no other health insurance at no cost to the beneficiary. Meds by Mail uses VA’s Consolidated Mail Outpatient Pharmacies to dispense these drugs. VA pays the Big 4 price for

these drugs because they are dispensed directly through a VA pharmacy. CHAMPVA transfers funds to VA's pharmacy program for VA's cost of these drugs at the Big 4 price.

CHAMPVA beneficiaries with no additional prescription drug coverage can also opt to use a retail pharmacy, but they may have to pay for any required CHAMPVA cost-sharing at the time they fill the prescriptions. VA pays the average contracted wholesale price for drugs beneficiaries obtain through retail pharmacies.¹

CHAMPVA beneficiaries with additional prescription drug insurance must use that coverage as their primary insurance. If they file a claim with CHAMPVA, however, they could be reimbursed by CHAMPVA for any cost-sharing amount as a secondary payer. Therefore, CHAMPVA's cost for these drugs is the out-of-pocket costs claimed by the beneficiaries.

There Is Precedent to Expand Big 4 Pricing to Drugs Purchased through Retail Pharmacies

VA manages the multiple award prescription drug contracts for VA and other federal government agencies. At the time the Veterans Health Care Act of 1992 passed, VA concluded that due to the structure of the Big 4's retail benefits programs (including CHAMPVA and TRICARE) drug manufacturers were not required to provide prescription drugs purchased through retail pharmacies at Big 4 prices.

In October 2004, VA attempted to obtain Big 4 pricing for TRICARE's retail pharmacy program by issuing a letter to drug manufacturers stating that they would have to provide prescriptions to the TRICARE drug program at the discounted Big 4 prices. However, the US Court of Appeals for the Federal Circuit ruled in September 2006 that the letter was not the proper way to enact this change and the drug manufacturers did not have to offer TRICARE the discounted price. Despite this ruling, obtaining Big 4 prescription drug prices for retail pharmacy programs has precedent.

Congress passed a law in January 2008 stipulating that TRICARE was eligible for Big 4 pricing for drugs from retail pharmacies, and DoD implemented that change in December 2010. However, since the law was specific to DoD it does not apply to CHAMPVA.

VA could improve its other programs if it were able to obtain statutory or other authority to purchase drugs for CHAMPVA from retail pharmacies at Big 4 prices by seeking to apply that change to all prescription drug purchases. In addition, VA officials noted the potential for additional money-saving opportunities as VA expands access to community care under the VA MISSION Act of 2018 when purchasing retail drugs for programs other than CHAMPVA.

¹ Cost-sharing generally includes deductibles, coinsurance, copayments, or similar charges, but does not include premiums or the cost of non-covered services.

What the OIG Recommended

The OIG recommended the under secretary for health conduct a formal analysis of VHA's Office of Community Care prescription drug programs to determine what steps VA would need to take to require drug manufacturers to provide Big 4 prices for covered prescription drugs purchased for CHAMPVA and any other VA programs that use retail pharmacies. The OIG also recommended the under secretary collaborate with the Office of Regulatory and Administrative Affairs and pursue any proposed statutory or other changes needed to provide VA with the appropriate legal authority to purchase all prescription drugs through retail pharmacies at Big 4 prices.

Management Comments

The executive in charge for the Office of the Under Secretary for Health concurred with both recommendations and provided responsive action plans. The OIG will monitor implementation of the planned actions and will close the recommendations when the proposed actions are completed.



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Abbreviations

CHAMPVA	Civilian Health and Medical Program of the Department of Veterans Affairs
FSS	Federal Supply Schedule
FY	fiscal year
OCC	Office of Community Care
OIG	Office of Inspector General
PBM	pharmacy benefits manager
VHA	Veterans Health Administration



Introduction

The “Big 4” federal agencies—VA, the Department of Defense (DoD), Public Health Services (including Indian Health Service), and the Coast Guard receive mandatory discounts for covered drugs purchased and dispensed directly through the agencies.² However, the law that created the mandatory discounts did not include prescription drugs purchased and dispensed through retail pharmacies including prescription drugs for beneficiaries using VA’s Civilian Health and Medical Program of the Department of Veterans Affairs (CHAMPVA).³

The VA Office of Inspector General (OIG) conducted this review to determine the feasibility of CHAMPVA receiving the Big 4 discount for prescription drugs purchased through retail pharmacies.

CHAMPVA Program

CHAMPVA is a health insurance program under which eligible dependents and survivors of veterans receive care from private-sector healthcare providers and covers most medically necessary healthcare services, including pharmacy. CHAMPVA does not have a network of medical providers. However, providers that accept CHAMPVA payments can bill CHAMPVA directly for covered services and beneficiaries may also file a claim to be reimbursed for services.

In fiscal year (FY) 2018, VA paid about \$603.6 million for about 8 million CHAMPVA outpatient pharmacy claims. About 40 percent of CHAMPVA’s prescription drug costs are paid to retail pharmacies.

Big 4 Pricing Authority

The Veterans Health Care Act of 1992 created a “federal ceiling price” for the bulk purchase of covered prescription drugs.⁴ The act requires drug manufacturers to provide the Big 4 federal agencies with at least a 24 percent discount from the commercially available price and make them available on the Federal Supply Schedule (FSS).⁵ Drug manufacturers can also voluntarily offer these agencies separate lower prices also included in the FSS. The VA FSS Service provides federal customers with access to contracts awarded to preapproved vendors

² The United States Public Health Service is a division of the Department of Health and Human Services.

³ Covered drugs are those for which a prescription is required and are marketed under an original new drug application or biologic license approved by the Food & Drug Administration, or generics marked under a new drug application (commonly referred to as authorized generics).

⁴ 38 U.S.C. § 8126 (1992).

⁵ The Federal Ceiling Price formula = non-Federal Average Manufacturer’s Price (the weighted average manufacturers’ sales price including price reductions from non-federal sales for each drug) x.76. Price increases are limited to inflation based on the Consumer Price Index – Urban.

based on a commercial “most favored customer” pricing concept. The Big 4 and FSS prices are published together in the FSS twice per month. The statutory pricing is often referred to as the “Big 4” price. However, in this report the lower of the FSS price or Big 4 price is used when referring to the “Big 4” price.

Results and Recommendations

Finding: VA Likely Needs Statutory Authority to Obtain Federally Discounted Prices for Prescription Drugs Dispensed through CHAMPVA at Retail Pharmacies

Based on a preliminary opinion from VA's Office of General Counsel, VA likely would need new statutory or other authority to purchase drugs for CHAMPVA through retail pharmacies at the discounted Big 4 price.⁶ The OIG is not aware of anything to the contrary.

At the time of this review, VA's CHAMPVA program purchased prescription drugs through retail pharmacies at the contracted average wholesale price instead of the discounted Big 4 price even though the Big 4 price is available to VA for covered drugs purchased directly by VA, and is available to DoD for covered drugs purchased through a retail pharmacy for the TRICARE program.

Initially, DoD's TRICARE program could not use Big 4 prices for all retail pharmacy purchases. However, Congress passed a law in January 2008 stipulating that TRICARE was eligible for Big 4 pricing for drugs from retail pharmacies. Although no such law has been implemented for CHAMPVA, VA could request that Congress provide VA with similar authority. The OIG estimated that if VA had paid the Big 4 price for the drugs CHAMPVA beneficiaries chose to obtain through retail pharmacies, VA could have saved about \$69 million in FY 2018, or about \$345.1 million over the next five years.

What the OIG Did

The OIG estimated the potential cost savings to VA for retail prescription drugs listed on the FSS either at the mandatory Big 4 price or at the voluntarily discounted FSS price. The analysis was limited to claims with an FY 2018 date of service and submitted to CHAMPVA by December 17, 2019. The universe, after exclusions described in Appendix B, consisted of 497,812 claims totaling about \$181 million.

The OIG identified each claim that exactly matched the drug code, type, and quantity of a drug listed on the FSS on the date the prescription was filled. For those claims, the OIG identified the lowest price among (1) the price VA paid, (2) the Big 4 price, and (3) the FSS price, and then subtracted the lowest price from the actual price VA paid. For claims that matched the drug code, but the FSS quantity did not match, and there was at least one other claim in the universe that exactly matched the drug code, type, and quantity, the OIG

⁶ The Big 4 price includes single source prescription drugs subject to the federal ceiling price, which by law cannot exceed the statutory price, and other drugs that manufacturers choose to make available at the negotiated most-favored-customer price on the Federal Supply Schedule.

multiplied the actual cost by the average percent savings for the claims with that drug code that were an exact match. For those claims with no other claim in the universe that matched the drug code and type, the OIG multiplied the cost by the average percent savings of all claims in the universe that have an exact match. To calculate the total potential cost savings, the OIG summed the amount of cost savings for all applicable claims with an exact match and estimated the cost savings to be about \$40.8 million (59 percent). The OIG estimated an additional cost savings of about \$28.1 million (41 percent) for all applicable claims without an exact match, for a total potential savings of about \$69 million in FY 2018.

Table 1 illustrates the potential for cost savings for individual drugs in FY 2018 had VA been able to pay the lower Big 4 or FSS price instead of the actual average price paid. The table shows the potential cost savings for examples of claims for individual drugs that did not have a Big 4 price but had a lower FSS price, drugs that had a Big 4 price lower than the FSS price, and drugs that had the same Big 4 and FSS price.

Table 1. Examples of Drugs with Big 4 or FSS Prices Lower Than CHAMPVA

Drug example number	Total claims	Average paid by CHAMPVA	Highest FSS price	Highest Big 4 price	Potential cost savings**
1	3,595	\$304	\$174	N/A*	\$647,992
2	229	\$18,560	\$16,661	\$11,161	\$1,366,474
3	5,476	\$306	\$131	\$131	\$1,104,775

Source: VA OIG analysis of CHAMPVA claims data

* The drug manufacturer did not provide a Big 4 price for this drug; however, they chose to offer the drug on the FSS schedule at a price lower than the contracted average wholesale price CHAMPVA paid.

** The potential cost savings was calculated for each individual claim using the prices in effect during the two-week period that the prescription was filled and then summing these individual results. Therefore, the difference between the highest Big 4 or FSS price and the average price paid by CHAMPVA multiplied by the number of claims does not exactly equal the potential cost savings shown.

This report discusses the following issues:

- VA lacks clear statutory authority to apply Big 4 prices to drugs purchased through retail pharmacies
- CHAMPVA does not have a refund process

VA Lacks Clear Statutory Authority to Apply Big 4 Prices to Drugs Purchased through Retail Pharmacies

As previously stated, the VA Office of General Counsel provided the OIG with a preliminary opinion that without a change in the law VA does not have clear statutory authority to issue regulations requiring drug manufacturers to provide CHAMPVA prescription drugs purchased through retail pharmacies at the Big 4 price. The OIG is not aware of anything to the contrary.

When VA implemented the Veterans Health Care Act of 1992, National Acquisition Center officials (acting under authority delegated by the General Services Administration) added the Big 4 prices to the pharmaceutical FSS. They determined drug manufacturers were not required to provide the Big 4 agencies with prescription drugs purchased through retail pharmacies at the Big 4 price because these prescription drugs are not delivered to and dispensed from Big 4 facilities.⁷ For these prescription drugs, VA pays the average contracted wholesale price instead of the discounted Big 4 price.

This resulted in the Big 4 agencies paying higher prices for drugs dispensed through retail pharmacies than the same drugs purchased and dispensed directly through Big 4 pharmacies. This affected both TRICARE, the DoD's comprehensive managed healthcare program for the military, and VA's CHAMPVA program. The OIG estimated that if VA had paid the Big 4 price for the drugs CHAMPVA beneficiaries chose to obtain through retail pharmacies, VA could have saved about \$69 million in FY 2018. The OIG estimated VA could save about \$345.1 million over the next five years if the proper statutory authority, authorizing regulations, and processes were in place for CHAMPVA to buy drugs through retail pharmacies at the Big 4 prices.

CHAMPVA Beneficiary Options to Acquire Prescription Drugs

The CHAMPVA program, lacking the authority to buy drugs from retail pharmacies at the Big 4 price, developed policies that incentivized beneficiaries to choose the lowest cost options to CHAMPVA by requiring beneficiaries who use a retail pharmacy to pay a cost share. Cost-sharing generally includes deductibles, coinsurance, copayments, or similar charges, but it doesn't include premiums or the cost of non-covered services.

CHAMPVA beneficiaries with additional health insurance coverage must use that insurance as their primary coverage to receive their prescriptions. However, if these beneficiaries file a CHAMPVA claim, they may be reimbursed by CHAMPVA for out-of-pocket costs as the secondary payer. Therefore, CHAMPVA's maximum cost for these drugs is the out-of-pocket costs claimed by the beneficiaries.

CHAMPVA beneficiaries without additional health insurance coverage may use Meds by Mail for recurring monthly prescriptions at no cost to the beneficiary. Meds by Mail prescriptions are dispensed through VA's Consolidated Mail Outpatient Pharmacies. CHAMPVA transfers funds to VA's pharmacy program, which purchases the drugs at Big 4

⁷ VA's National Acquisition Center manages multiple award contracts for medical equipment, supply, pharmaceutical, and Federal Supply Schedule programs. With over \$14 billion in sales, the VA Federal Supply Schedule Service supports the healthcare requirements of VA and other federal government agencies and manages the contracts with drug companies to obtain low prices.

prices, to offset the pharmacy's costs. Over 47 percent of CHAMPVA prescription drug claims were processed through Meds by Mail or through VA medical facilities.

Beneficiaries with no other health insurance can also choose to fill drug prescriptions using retail pharmacies. VA pays the contracted average wholesale prescription price for drugs that beneficiaries obtain through retail pharmacies. About 40 percent of CHAMPVA's prescription costs are paid for drugs purchased through retail pharmacies.

- **In-network:** CHAMPVA contracts with a pharmacy benefits manager (PBM) to provide a network of pharmacies that can forward claims electronically to CHAMPVA for processing and payment. The PBM verifies beneficiary eligibility and determines whether the beneficiary owes any portion of their CHAMPVA deductible or their 25-percent cost share, which the pharmacy collects directly from the beneficiary at the time of purchase.
- **Out-of-network:** Pharmacies not in the CHAMPVA network do not submit claims electronically so beneficiaries must pay the pharmacy the entire cost of the prescription when it is filled. However, they may then submit a claim to CHAMPVA to be reimbursed for CHAMPVA's portion.

TRICARE Program Provides Precedent for CHAMPVA

In October 2004, the acting director of the VA National Acquisition Center, in response to a DoD proposal, issued a letter to drug manufacturers. The letter said the VA Secretary had determined that since DoD had recently restructured the TRICARE Pharmacy Benefits Program by contracting with a PBM, TRICARE prescription drugs would fall under the federal ceiling price provisions of 38 U.S.C. § 8126. The letter also included instructions for calculating refunds and information about transmitting data and collecting refunds.

The drug manufacturers petitioned the US Court of Appeals for the Federal Circuit for review. They argued that the letter was a substantive rule change and was not properly enacted. The manufacturers also argued the letter was invalid because VA officials did not properly interpret Section 8126 requirements for the drugs to be delivered directly to a facility operated by a Big 4 agency and, therefore, Big 4 prices did not apply to drugs delivered through retail pharmacies with or without the use of a contracted PBM.⁸

The court ruled in September 2006 that the letter was not valid because the change was substantive, requiring a new regulation with the opportunity for public comment, and therefore was not properly enacted. However, because the drug manufacturers won the appeal and did not have to offer TRICARE the discounted price, a decision on the substantive

⁸ *The Coalition for Common Sense in Government Procurement* (doing business as The Coalition for Government Procurement) v. *Secretary of Veterans Affairs*, 464 F.3d 1306 (Fed. Cir. 2006).

argument of whether federal ceiling prices applied to drugs delivered through retail pharmacies was not required because a decision either way would not change the outcome of the case. Therefore, the appeals court did not address the manufacturers' argument that the letter did not properly interpret Section 8126.

In January 2008, Congress stipulated that "the TRICARE retail pharmacy program shall be treated as an element of the Department of Defense for purposes of the procurement of drugs by federal agencies under Section 8126 of Title 38." The Secretary of Defense published the final regulation in December 2010 implementing the law.⁹ This regulation established the refund process TRICARE uses to complete the transactions necessary to ultimately pay the Big 4 price. However, since the law was specific to DoD, this change in law did not give CHAMPVA or other VA programs authority to pay the Big 4 price for drugs dispensed at retail pharmacies.

VA officials noted the potential for additional money-saving opportunities when purchasing retail drugs for programs other than CHAMPVA. VA's community care program limits veterans' use of retail pharmacies to a 14-day supply of urgent prescriptions and requires veterans to fill their recurring prescriptions through VA. When considering a request for statutory change to expand VA's authority to receive Big 4 prices, VA needs to evaluate what opportunities or consequences may exist by including all VA programs, including expanding community care under the MISSION Act of 2018.

The OIG recommended VA leaders follow the legal precedent set by TRICARE and conduct a formal analysis of VA's prescription drug programs to determine what steps VA would need to take to require drug manufacturers to provide Big 4 prices (or similar discounts) for covered prescription drugs purchased for any VA program, including CHAMPVA, through a retail pharmacy.

CHAMPVA Does Not Have A Refund Process

In the US retail pharmacy system, manufacturers provide prescription drugs to wholesalers at the available listed wholesale price. The wholesalers then provide the drugs to retail pharmacies and the retail pharmacy sells the drugs to consumers. Retail pharmacies generally contract with PBMs, who function as administrative agents for government agencies or insurers. The PBMs verify each consumer's eligibility; calculate any cost share due from the consumer; and pay the manufacturing, distribution, prescription, and management costs. The government agencies or insurers then reimburse the PBMs for these costs.

However, agency or insurer payments to the PBMs do not reflect any discounts drug manufacturers offer under refund arrangements to entities such as the Big 4 agencies, Medicare, Medicaid, TRICARE, PBMs, and commercial insurers. It is common practice in the

⁹ 32 C.F.R. § 199.21 - TRICARE Pharmacy Benefits Program.

industry for drug manufacturers to distribute refunds to the agencies or insurers with these refunds totaling about \$114.1 billion to all customers in the US in 2016.¹⁰ The procedures used by TRICARE illustrate this process.

When the TRICARE program pays for prescription drugs through a retail pharmacy, it reimburses the PBM based on the drug's wholesale price. To receive the discounted Big 4 price, TRICARE requests a refund directly from the drug manufacturer equal to the price difference between the actual price paid to the retail pharmacy and the maximum Big 4 price. For example, (ignoring transaction fees and other costs) a PBM buys a drug from a drug manufacturer at the wholesale price of \$100 and later sells the drug to a retail pharmacy for \$100. The retail pharmacy dispenses it to a TRICARE beneficiary and TRICARE reimburses the pharmacy, through the PBM, the \$100 wholesale price for the drug. However, the maximum Big 4 price for the drug was \$76. In this case, TRICARE, when making its quarterly refund request from the manufacturer, would request a \$24 refund. When the drug manufacturer pays the refund, the amount initially received by the drug manufacturer from the PBM of \$100 will be reduced to the \$76 owed to complete the transaction.

If VA obtains statutory authority to pay the Big 4 price for drugs dispensed to CHAMPVA beneficiaries at retail pharmacies, new regulations will be needed to provide legal notice to the manufacturers of the pricing change, establish a refund process, and give the manufacturers the opportunity to offer public comment before the new regulations are finalized.

To change the regulations, VA's Office of Community Care (OCC) would need to make a formal request to introduce the new regulations and manage the request through VA's Office of Regulatory and Administrative Affairs' approval process. An Office of Regulatory and Administrative Affairs official stated that, on average, it takes about 18 to 24 months to get a final regulation published after a formal request is made to their office. The process takes time due to VA's lengthy internal approval process and the need to publish the regulation for public comment, time to address the responses, and time to publish the final regulation. OIG discussions with Office of Regulatory and Administrative Affairs officials indicated that the envisioned regulations would not be unusually difficult for its employees to manage.

OCC officials would need to start defining the specific technical requirements necessary to administer an anticipated refund process in conjunction with developing the regulations to ensure timely implementation. OCC should consider the need to create or revise selected policies and procedures and the need to create the framework necessary to implement Big 4 pricing. Because refunds and discounts are commonly used by the drug industry, these policies and procedures should take advantage of existing refund processes.

¹⁰ The Pew Charitable Trusts, *The Prescription Drug Landscape, Explored - A look at retail pharmaceutical spending from 2012 to 2016*, March 2019, page 15.

OIG discussions indicated that implementing a new refund process should be a basic process change. OCC officials can either contract with a PBM to process the refunds on VA's behalf or develop VA systems to implement the new refund process. PBM representatives contacted by the OIG affirmed that they routinely administer the drug refund process for other clients and a VA Office of Information and Technology staff member indicated that developing VA systems should be a straightforward development project.

The OIG recommended that OCC work in conjunction with the Office of Regulatory and Administrative Affairs and, if determined appropriate, pursue any proposed statutory or other changes needed to provide VA with the legal authority to purchase all prescription drugs through retail pharmacies at Big 4 prices.

Conclusion

The OIG estimated that the CHAMPVA program could have saved about \$69 million in FY 2018, or about \$345.1 million over the next five years, if VA could have used Big 4 pricing for covered retail drugs purchased by that program. However, VA needs to obtain clear statutory and regulatory authority, implement new policies, and develop a new refund process to achieve these savings. In addition, when considering a request for statutory change to expand VA's authority to receive Big 4 prices, VA needs to evaluate what opportunities or consequences may exist by including all VA programs in the request, including those under the MISSION Act. Although any change will likely take several years to complete, the OIG's analysis indicates the process should be achievable without extraordinary efforts and the potential savings should outweigh the effort needed to achieve these savings.

Recommendations 1–2

The OIG recommended the under secretary for health¹¹

1. Conduct a formal analysis of VHA's Office of Community Care prescription drug programs to determine what steps VA would need to take to require drug manufacturers to provide Big 4 prices for covered prescription drugs purchased for CHAMPVA and any other VA Community Care programs that use a retail pharmacy; and
2. Collaborate with the Office of Regulatory and Administrative Affairs and, if determined appropriate, pursue any proposed statutory or other changes needed to provide VA with the appropriate legal authority to purchase all prescription drugs through retail pharmacies at the Big 4 prices.

¹¹ Recommendations to the under secretary for health are directed to the executive in charge, who has the authority to perform the functions and duties of the under secretary for health.

Management Comments

The executive in charge, Office of the Under Secretary for Health, concurred with both recommendations and provided responsive action plans. In response to recommendation 1, the executive in charge said by July 2020 VHA's Office of Community Care will establish a workgroup of subject matter experts to analyze feasibility and identify the actions needed for drug manufacturers to provide Big 4 discounted prices for covered prescription drugs purchased by CHAMPVA and other community care programs through retail pharmacies. For recommendation 2, the executive in charge said the Office of Community Care is collaborating with VHA's Office of Legislative Affairs to pursue the changes needed to provide VHA with the appropriate legal authority to purchase prescription drugs through retail pharmacies at Big 4 prices. VHA is developing a legislative proposal to submit to VA leaders with a target date to submit the legislative proposal in March 2020 for the fiscal year (FY) 2022 annual legislative call. The VA's management comments are provided in full in Appendix D.

OIG Response

The corrective action plans submitted by the executive in charge for the Office of the Under Secretary for Health are responsive to the intent of the recommendations. The OIG will monitor implementation of the planned actions and will close the recommendations when sufficient evidence has been provided that illustrates the corrective actions have been implemented.

Appendix A: Scope and Methodology

Scope

The OIG conducted its review work from April 2019 through February 2020. The universe consisted of all CHAMPVA claims received by December 17, 2019 with only one item on the claim and that claim was for a covered drug with a Big 4 or an FSS price on the date the prescription was filled during FY 2018 at an in-network, retail pharmacy.

Methodology

The OIG reviewed applicable laws, including the National Defense Authorization Act of 2008, TRICARE and CHAMPVA regulations, and policies and procedures. The OIG obtained and analyzed FY 2018 CHAMPVA claims for prescription drugs, directed contracted data specialists to perform specific technical data analysis, and reviewed applicable CHAMPVA claims processing procedures. In addition, the OIG conducted interviews with OCC officials at the Health Administration Center in Denver, Colorado; Office of General Counsel staff; Office of Information and Technology staff; and Office of Regulatory and Administrative Affairs staff at other locations.

Fraud Assessment

The OIG assessed the risk that fraud, violations of legal and regulatory requirements, and abuse could occur during this review. The review team exercised due diligence in staying alert to any fraud indicators including soliciting the OIG's Office of Investigations for indicators and analyzing the claims data for duplicate payments. The OIG did not identify any instances of fraud or potential fraud during this review.

Data Reliability

The OIG performed steps to validate the results of the analysis performed by contracted Booz Allen Hamilton data analysts. The contractor developed the computer code at OIG's direction, and the OIG verified the data accuracy for 45 randomly selected claims by tracing the data used in the analysis to the source claim data to ensure the claim number, National Drug Code, quantity, and amount paid matched. In addition, the review verified that the Big 4 price used to calculate the cost savings amount matched the correct FSS rate schedule. The OIG recalculated the savings amount estimates to ensure that the formulas used functioned correctly and returned the correct results.

Government Standards

The OIG conducted this review in accordance with the Council of the Inspectors General on Integrity and Efficiency's Quality Standards for Inspection and Evaluation.

Appendix B: Data Analysis Methodology

The OIG estimated the potential cost savings of using Big 4 prices for retail prescription drug purchases by CHAMPVA. The analysis was limited to claims with an FY 2018 date of service that were submitted to CHAMPVA by December 17, 2019. The OIG augmented its team with technical specialists under a contract with Booz Allen Hamilton. These staff only performed specialized data analysis under the specific direction of the OIG, and the OIG performed adequate validation procedures to provide reasonable assurance of the accuracy of the analysis. Since only claims submitted under certain circumstances would result in a cost savings from the increased use of Big 4 pricing to purchase those drugs, the analysis was limited to that specific subset of claims as described below.

Initial Universe

The initial claims universe was composed of all CHAMPVA prescription drug claims with a date of service beginning October 1, 2014, through September 30, 2018, submitted to CHAMPVA prior to December 17, 2019. All claims had to have a status of “complete” and a nonzero unpaid amount. There were 46,812,603 claims totaling \$3,428,511,592. The OIG only performed a detailed analysis on the claims with a service date in FY 2018. Because there is up to a one-year window to submit claims, the total number of claims is expected to change as new claims are submitted.

Excluded Claims

From the FY 2018 universe of 7,957,264 claims totaling \$603,579,034, the OIG excluded claims for various reasons. Some claims were excluded for more than one reason and were included in more than one category. Therefore, the total exclusion amounts listed below exceeds the total amount excluded. The OIG excluded the following:

- *Claims that included non-prescription drug activity such as outpatient care.* It was not possible to allocate the amount paid for the prescription drug element versus other activity accurately. This totaled 35,773 unique claims (0.4 percent), \$18,079,662 or 3.0 percent of the entire universe.
- *Claims that contained more than one prescription drug.* It was not possible to accurately allocate the amount paid for each drug. This totaled 155,490 unique claims (2.0 percent), \$8,945,434, or 1.5 percent of the entire universe.
- *Claims where other health insurance was the primary insurer.* This totaled 406,238 unique claims (5.1 percent), \$13,353,554, or 2.2 percent of the entire universe of pharmacy claims with only one claimed item.

- *Claims submitted through Meds by Mail, VA medical facilities, or any vendor other than a retail pharmacy.* This totaled 3,371,800 unique claims (42.4 percent), \$286,124,263, or 47.4 percent of the entire universe of pharmacy claims with only one claimed item.
- *Claims for uncovered drugs dispensed at retail pharmacies.* This totaled 2,633,474 unique claims (33.9 percent), \$59,953,574, or 10.4 percent of pharmacy claims with only one claimed item.

Detailed Data Analysis

The universe, after the above exclusions, consisted of 497,812 claims totaling \$180,961,418. For each claim with only one item, a covered drug, the OIG compared the actual cost to the lowest Big 4 price available on the date the prescription was filled. For those claims that exactly matched the drug code, type, and quantity, the OIG determined the lowest price between the price VA paid, the FSS price, and the Big 4 price. The OIG calculated the potential savings based on the differences in these prices. For each drug code that had at least one claim that exactly matched the code but the FSS quantity did not match, the average percent cost savings for the drug cost was multiplied by the actual claimed cost. For those claims with no other claim in the universe that matched the drug code and type, the OIG multiplied the cost by the average percent savings of all claims in the universe that have an exact match. To calculate the total potential cost savings, the OIG summed the potential cost savings of all claims for a covered drug with a potential cost savings.

Appendix C: Monetary Benefits in Accordance with Inspector General Act Amendments

Recommendations	Explanation of Benefits	Better Use of Funds	Questioned Costs
1-2	Potential cost savings that could be realized over the next five years if CHAMPVA could obtain Big 4 pricing for covered prescription drugs purchased through retail pharmacies	\$345.1 million	
	Total	\$345.1 million	

Note: Total better use of funds was calculated by multiplying the FY 2018 estimated savings of \$69 million by five years (difference due to rounding). The OIG uses a five-year estimate to emphasize the importance of taking corrective actions and to highlight the potential magnitude of identified issues if such actions are delayed or never implemented. The OIG acknowledges that the actual future monetary impact will vary because of unforeseen CHAMPVA program changes, varying utilization rates, and changing prescription drug prices. However, the estimate reflects CHAMPVA's present regulatory authority, which will continue until report recommendations are implemented.

Appendix D: Management Comments

Memorandum

Department of Veterans Affairs

Date: March 10, 2020

From: Executive In Charge, Office of the Under Secretary for Health (10)

Subj: OIG Draft Report, VA Should Examine Options to Expand Retail Pharmacy Drug Discounts (VIEWS 02480226)

To: Assistant Inspector General for Audits and Evaluations (52)

Thank you for the opportunity to review and comment on the Office Inspector General (OIG) draft report, VA Should Examine Options to Expand Retail Pharmacy Drug Discounts

I concur with OIG's report and provide a reply to recommendations 1 and 2.

The OIG removed point of contact information prior to publication.

(Original signed by)

Richard A. Stone, M.D.

Attachment

Attachment

VETERANS HEALTH ADMINISTRATION (VHA)

Action Plan

OIG Draft Report: VA Should Examine Options to Expand Retail Pharmacy Drug Discounts

Date of Draft Report: February 18, 2020

The OIG recommends the Under Secretary for Health:

Recommendation 1: Conduct a formal analysis of VHA's Office of Community Care prescription drug programs to determine what steps VA would need to take to require drug manufacturers to provide Big 4 prices for covered prescription drugs purchased for CHAMPVA and any other VA Community Care programs which use a retail pharmacy.

VHA Comments: Concur.

VHA's Office of Community Care will establish a workgroup of subject matter experts to analyze feasibility, and identify the actions needed for drug manufacturers to provide Big 4 discounted prices for covered prescription drugs purchased by CHAMPVA and other Community Care programs through retail pharmacies. The workgroup will make recommendations and produce a report on the findings from the analysis.

Status: In process

Target Completion Date: July 2020

Recommendation 2: Collaborate with the Office of Regulatory and Administrative Affairs and, if determined appropriate, pursue any proposed statutory or other changes needed to provide VA with the appropriate legal authority to purchase all prescription drugs through retail pharmacies at the Big 4 prices.

VHA Comments: Concur.

VHA's Office of Community Care is collaborating with VHA's Office of Legislative Affairs to pursue the legislative changes needed to provide VHA with the appropriate legal authority to purchase prescription drugs through retail pharmacies at the Big 4 discounted prices. VHA is developing a legislative proposal to submit to VA leadership. VHA has a target date to submit the legislative proposal March 2020 for the fiscal year (FY) 22 annual legislative call. If VHA cannot submit the proposal by the March 2020 target date, the legislative proposal will be submitted in January 2021 for the FY23 annual legislative call.

Status: In process

Target Completion Date: April 2020

For accessibility, the original format of this appendix has been modified to comply with Section 508 of the Rehabilitation Act of 1973, as amended.

OIG Contact and Staff Acknowledgments

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