



G A O

Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

ERRATA

Drug Prices Paid by DOD and VA Are, on Average, Lower Than Those Certified to HCFA as Best Price

GAO-01-175R

October 31, 2000

This correspondence has been modified to include technical clarifications.

Robert H. Hast
Managing Director
Office of Special Investigations



GAO

Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

October 31, 2000

The Honorable Henry Waxman
Ranking Minority Member
Committee on Government Reform
U.S. House of Representatives

Subject: Drug Prices Paid by DOD and VA Are, on Average, Lower Than Those Certified to HCFA as Best Price

Dear Mr. Waxman:

The Health Care Financing Administration (HCFA) administers the Medicaid “best price” provisions, which require drug manufacturers to report their lowest drug prices to HCFA. The best price data are used to calculate rebates to state Medicaid programs. As agreed to with your office, we analyzed certain drug prices paid by the Department of Defense (DOD) and the Department of Veterans Affairs (VA)¹ and compared them with the prices of drugs certified to HCFA by manufacturers as the best price.² Both DOD and VA can access the Federal Supply Schedule for the prices they pay.

As discussed with your office, we selected a judgmental sample of 21 brand-name drugs that have no current generic equivalents. These 21 products are from 6 major therapeutic classes of maintenance drugs and encompass 193 different National Drug Codes (NDC). Each NDC is priced individually. We examined prices that were in effect as of August 2000, as provided by DOD, VA, and HCFA.

For this sample in the aggregate,³ the average DOD price was 27 percent lower than the manufacturers’ best price; and the average VA price was 30 percent lower than the manufacturers’ best price.

On average, for 85 percent of the price comparisons we made, the manufacturers’ best price was higher than those of either DOD or VA. Among this group, the price differences ranged up to 92 percent. As summarized in table 1, we separated the overall price differences for these NDCs into four ranges—0-24, 25-50, 51-75, and

¹ DOD and VA drug purchase prices were derived from either the Federal Supply Schedule or individual contractual agreements with the drug manufacturer for each National Drug Code.

² Section 1927 of the Social Security Act defines “best price.”

³ As agreed with your office, because of the proprietary nature of the pricing data, we are not providing the individual drug price comparisons.

76-100 percent differences—between either DOD or VA and the manufacturers’ best price and computed the average difference.

Table 1: Number and Average Percentage of NDCs in Cases Where the Manufacturers’ “Best Price” Exceeded DOD’s or VA’s

Price differential ranges in percent	Number of NDCs where the manufacturers’ best price was greater than		Average percentage ^a
	DOD’s	VA’s	
0 to 24	63	52	30
25 to 50	55	66	31
51 to 75	35	50	22
76 to 100	4	2	2
Total	157	170	85

^aSince there were 193 NDCs for each agency, we divided the total number of DOD and VA NDCs in each range where the manufacturers’ best price was greater than the agencies’ price by 386 (193 x 2) to obtain the average percentage rounded to the next whole number.

For 15 percent of the price comparisons we made, the manufacturers’ best price was lower than that of either DOD or VA. We found that for one drug representing 24 NDCs, the manufacturers’ best price was lower than DOD’s price but not lower than VA’s. In addition, for seven NDCs covering three products, the manufacturers’ best price was lower than that of either VA or DOD. In these instances, the manufacturers’ best price was on average about 29 percent lower than DOD’s or VA’s.

During our work, we also identified one instance in which DOD had contracted to purchase a particular drug NDC at a price higher than that available from the Federal Supply Schedule. We presented this finding to DOD, which took action to recover the difference from the manufacturer.

As arranged with your office, unless you announce its contents earlier, we plan no further distribution of this letter until 30 days after the date of the letter. At that time, we will make copies of the letter available to interested congressional committees and others on request. If you have any questions or need additional information, please call me at (202) 512-7455 or Assistant Director William Hamel at (202) 512-6722.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Robert H. Hast". The signature is fluid and cursive, with the first name "Robert" being the most prominent.

Robert H. Hast
Managing Director
Office of Special Investigations

(600747)