the add on of surcharges by DPSC and the VA Marketing Center for drugs supplied to VA field stations. DPSC charges the VA Marketing Center its standard price (cost plus 7 percent) plus a 3½-percent surcharge for packing, handling, and crating costs for medical items shipped from DPSC depots; a total add on of 10½ percent. For items shipped directly from a vendor to the VA depot, DPSC adds a 1-percent surcharge, for administration, to the cost of the items. The VA Marketing Center adds an 8-percent surcharge on all items bought from DPSC to recover its operating costs.

VA field stations do not order directly from DPSC because the VA requisitioning system requires the stations to submit requisitions, other than for local procurements, via the VA Marketing Center. As a result, certain drug items are purchased by the field stations from either the Federal Supply Schedule contractors or local vendors at substantially higher prices than they could obtain them from DPSC. The flow of drug items from DPSC depots or manufacturers to VA depots and then to VA field stations is cumbersome and results in extra handling and added transportation costs.

Even though the addition of surcharges discourages procurement from, or through DPSC, we found many cases where ultimate prices to the VA stations would have been significantly lower than the prices paid by these stations. For example, if VA field stations had purchased Aristocort (8-ounce jar) directly from DPSC the cost would have been $39.85 per jar, with all surcharges, instead of $46.07 paid on the Federal price list. Total savings for this drug item alone during calendar year 1970 would have amounted to over $4,600. Further, even with the 8-percent surcharge of the VA Marketing Center a savings of $3.03 per jar would have been realized.

The military has made no formal arrangements to allow its activities to purchase from VA depots drug items which are not centrally managed by DPSC. During the period July 1, 1970, to December 31, 1971, military hospitals purchased about $550,000 of the drug Macrodatin from the Federal Supply Schedule at about $275,000 more than it would have cost to buy from VA at the contract price. This item has now been approved for inclusion in the DOD central supply system and a contract has been awarded by DPSC at prices comparable to those negotiated by the VA. But, until delivery is received under the DPSC contract, military hospitals will continue to purchase the item at the higher Federal Supply Schedule price.

Our examination of invoices and sales records for purchases totaling about $6.2 million from four manufacturers during a recent 2-year period showed that the Government incurred excess costs of about $721,000 because (1) many drugs were purchased by local installations at prices which ranged as much as 100 percent higher than prices available to DPSC and VA Marketing Center, (2) prices paid for the same drugs differed between DSPC and VA Marketing Center, and (3) there were purchasing weaknesses at VA and DPSC field stations.

Our review of DPSC and VA procurement records for 43 identical drug items purchased by both agencies within 30 days of each other during fiscal years 1970 and 1971 showed excess costs of at least $246,000—split approximately equally between the VA and DPSC—resulted from the differences in prices paid for these items.