

We have established definite criteria for central procurement and distribution. The first, and cardinal rule, is that an item will not be procured centrally unless the savings through large volume prices will more than offset the overhead costs of maintaining a central procurement system. Many drug items do not meet this requirement. We do not measure the costs of central purchasing on the basis of purchase price alone. Since the costs of maintaining central purchase and distribution systems are borne by the taxpayer, we feel that comparison of costs on this basis alone is improper and constitutes unfair competition with private enterprise, especially small business wholesalers and distributors. In the VA, we add to the purchase price all expenses related to procurement of the item, including inspections, testing, quality control, freight charges as well as storage and distribution costs. These additional costs are included in the price of the item charged to users of our central procurement and distribution system, including our VA field stations. This practice is somewhat unique to our agency. By statute (Title 38 USC 5011), we add the total cost of operating the VA Marketing Center and Supply Depots and related Central Office costs to the purchase price of the items sold. In this we include the salaries of all personnel employed in the program, costs of operation of the physical facilities, transportation and costs of all administrative support. The purpose of this statute was to assure a business-type operation, and to make certain that overhead costs of the central system did not dissipate any savings realized in purchase costs. This also assures that we do not maintain government programs in competition with private enterprise. Incidentally, we apply this technique not only to drugs but to all medical and hospital supplies in our system.