



Department of Veterans Affairs
Veterans Health Administration
Pharmacy Benefits Management
PO Box 126
Hines, IL 60141

October 16, 1997

765/119D

Dear Manufacturer:

The following information is provided to assist your company in reporting the annual data mandated by Section 603 of Public Law 102-585 (Veterans Health Care Act of 1992). Annual Non-Federal Average Manufacturers Price (NFAMP) calculations with 1998 Federal Ceiling Prices (FCP) for covered drugs are to be reported to Associate Chief Consultant, Pharmacy Benefits Management (PBM) (formerly Chief, Drug & Pharmaceutical Product Management (DPPM)), on or before November 15, 1997. (Any anticipated changes in your company's method of accounting for chargebacks, etc., must be implemented in accordance with Generally Accepted Accounting Principles (G.A.A.P.) and explained to the above office prior to submission of annual data.)

For purposes of P.L. 102-585 compliance, 1998 will be considered to be the first year of a multi-year contract. The second contract year will begin on January 1, 1999. Hence there will be no "dual calculation" comparison for 1998 FCP's, since 1998 is the first year of a new five-year contract period.

The one-half percent industrial finding fee (IFF) being incorporated into FSS contracts will not be used in calculations of non-FAMP or reporting of FCP, but will be included in the FSS selling price. Please see instructions from your contracting officer. Additionally, please note the enclosed Office of General Counsel letter referencing helpful recordkeeping guidelines contained in "Lessons Learned from Inspector General Reviews".

Each covered drug's mandated FCP for 1998 will be determined as described in 38 U.S.C. 8126 (a) (2) & (c). The percent change in Consumer Price Index - Urban (CPIU) that will be utilized in performing these calculations is identified as the percent change from September 1996 to September 1997. The Bureau of Labor Statistics data shows the percent change to be 2.15%, which will be used as the CPIU for the Federal Ceiling Price calculations due on November 15, 1997.

The Section 8126 (a)(2) & (c) calculations will begin with the 1997 annual non-FAMP computation; it will continue by multiplying that number by .76 and then subtracting any additional discount calculated based on a difference between "old" and "new" NFAMPs. The result will become the 1998 FCP. If there are "no sales" in a benchmark third quarter of a year that is used to derive the new NFAMP or old NFAMP, there can be no additional discount calculation for that particular item. In those cases, the additional discount will be entered as zero (0). If a covered drug had no reportable sales in 1997, its calculated 1998 FCP will be the 1997 FSS price plus an amount equal to that price times the percent change in CPIU.

If they meet the other VA criteria, nominal prices for exclusion from NFAMPs for 1998 calculations must be prices that do not exceed 10 percent of that particular item's NFAMP during the third quarter of 1997 (7/1/97 through 9/30/97). Where sales to end-users are required for calculation of NFAMP due to the absence of wholesale sales, you need not include purchases by PHS grantees or disproportionate share hospitals if the prices for these transactions were determined by PHS pursuant to Sect. 602 of the Veterans Health Care Act of 1992. Also, in figuring wholesale sales, you need not include the chargebacks required to satisfy end-user purchases by these entities at prices determined by PHS under Sect. 602. However, sales to these entities at prices lower than Sect. 602 prices must be included in NFAMP calculations.

2.

As an added service to streamline efficiency for the 1998 report, PBM is enclosing a diskette with all your company's covered line items in database form. The diskette contains a program that will display your company's covered items. All that you need to run the program is access to a personal computer that has Microsoft Windows (versions 3.x, 95 or NT), following the enclosed diskette instructions for use. The database contains certain pre-filled fields based on the Public Law data supplied last year by your company. For example: we have provided the 1997 NFAMP Old (1996 NFAMP New which is the time period of 7-1-96 through 9-30-96). The fields in the database are formatted with the necessary calculations. Therefore, all that is required of your company is that you furnish the 1997 Annual NFAMP and NFAMP New in the appropriate fields. The program will then automatically calculate Change in NFAMP, Additional Discount, and 1998 Federal Ceiling Price. After saving your work according to the enclosed instructions, the completed disk is to be returned to PBM. If there are changes to the data which PBM has provided in the pre-filled fields (e.g. Office of Inspector General audit recommendations), you have the option of changing the information on a separate electronic or hard copy submission. If your company elects to do so, you must submit a letter of explanation regarding all changes.

It is highly recommended and preferred that you submit your data in electronic format, using either the enclosed diskette or our electronic bulletin board service. You may submit the data as you have in the past on the form provided using the instructional packet as a guide to Public Law 102-585 compliance if you do not have access to a personal computer system.

All correspondence related to NFAMP calculations, FCP calculations, quarterly NFAMP reports, annual FCP reports, FCP reports for new products, FCP recalculations for new products, corrections to quarterly NFAMP reports and correction to annual FCP reports should be forwarded to:

Joel M. Gostomelsky, R.Ph.
Acting Associate Chief Consultant
Pharmacy Benefits Management (119D)
P.O. Box 126
Hines, Illinois 60141

Express Mail: 5th Ave. & Roosevelt Rd.
Building 1, Room A148

The quarterly NFAMP report for the third quarter of 1997 consists of the same data as the "new NFAMP" (7/1/97-9/30/97) reported on the annual calculation form for 1998 FCPs which is due by November 15, 1997. Consequently, it will not be necessary to submit the NFAMP Third Quarter 1997 Report separately. However, manufacturers that do not meet the November 15, 1997 annual reporting deadline will be subject to penalties as described in the Master Agreement for late data reporting. VA asks that you submit the required annual data as soon as possible after the CPI-U change is posted in October, preferably not later than November 1, 1997, rather than waiting for November 15. This will enable contracting officers to make timely awards of new FSS contracts.

Section 8126(e) of the Law states that quarterly NFAMP reports are due 30 days after the end of the quarter. These figures should be as accurate as possible, since they serve as an indicator of pricing trends and will be used during Inspector General (IG) audits. Nevertheless, to assist manufacturers in providing the most accurate quarterly NFAMP calculations possible, the Pharmacy Benefits Management Section (PBM) will not seek imposition of late penalties for unreported data until 45 days after the end of each quarter. Again, please note that each year the NFAMP third quarter data may be submitted as part of the Annual Report (which is due 45 days after the end of the third quarter).

3.

After your company reports its annual 1997 NFAMP data in the format on the enclosed diskette or sheets, the authorized official who signed your company's PPA addendum in 1997 (or an authorized successor) must prepare and sign a new PPA addendum, listing each covered drug and its 1998 FCP. This addendum should then be forwarded before December 1, 1997 to the VA National Acquisition Center (90N-P), Building 37, First Avenue, 1 block North of 22nd Street, P.O. Box 76, Hines, Illinois 60141.

If you have any questions about any of the above information, please call George Hill or John Weisman at (708) 216-2079, extension 4939 or 4930, respectively.

Sincerely,


for

Joel M. Gostemelsky, R.Ph.
Acting Associate Chief Consultant
Pharmacy Benefits Management Strategic Healthcare Group
VACO Pharmacy Service

Enclosures: 5
Instructions for 1998 Data Sheets Completion
Data Sheet
"Dear Manufacturer" Letter from VA Office of General Counsel
Diskettes (1 and 2)
Diskette Program Instructions