



AUG 23 2007

Dear Tribal Leader:

In fiscal year (FY) 2006, the Indian Health Service (IHS) and Tribes and Tribal Organizations (Tribes) spent approximately \$250 million on pharmaceuticals under the Department of Veterans Affairs (VA) Pharmaceutical Prime Vendor (PPV) contract, related National VA/IHS contracts, and Incentive Purchase Agreements. The management of these contracts, purchase agreements, and related activities is referred to as the pharmaceutical procurement management function (PPMF).

The IHS and Tribes began using the PPV in FY 1996 and according to our analysis, during FY 2006, PPV users benefited from over \$60 million of annual cost avoidance generated through this activity. PPMF costs have historically been charged to IHS and Tribal facilities using the PPV as a full cost recovery fee (FCRF). To ensure that the cost of PPV contract administration is assessed in an appropriate and equitable manner in the future, all users of the PPV program are being notified that they will need to begin to pay their share of the PPMF costs, effective October 1, 2007.

The FCRF application process has been under discussion for several years among the IHS and Tribal officials. A February 21, 2003, Tribal Leader Letter, "Proposed Modifications To The Department of Veterans Affairs Pharmaceutical Prime Vendor Contract," first shared this approach with IHS Areas and Tribes. On February 20, 2004, after almost a year of discussions with Federal and Tribal partners, the IHS "Implementation of the Indian Health Service National Core Drug Formulary" went into effect including provisions for a FCRF.

The IHS National Supply Service Center (NSSC) in Oklahoma City, Oklahoma, serves as the IHS coordination and central point of contact for the VA on IHS PPV activities. The IHS NSSC also performs most of the IHS-related PPMF. In FY 2008, the NSSC will initiate FCRF collection. To ensure that the fee percentage assessed will cover expected costs for FY 2008, the NSSC needs information on which facilities will be accessing the PPV. Tribes planning on starting or stopping use of the PPV in FY 2008 are asked to notify the NSSC in writing of any expected changes within 30 days of the date of this letter.

All Federal and Tribal facilities accessing the PPV through the IHS will have two options for participation.

Option Number 1 – NSSC Customer Option

Facilities may access the PPV by ordering through the IHS NSSC. Effective October 1, 2007, the NSSC will charge its customers a FCRF of 1.75 percent on all expenditures through the

PPV; a reduction of 0.95 percent over the current rate. The 1.75 percent FCRF consists of a 1.0 percent fee to fund NSSC payment intermediary functions (payment processing) and a 0.75 percent fee to cover costs associated with administering the PPMF.

Option Number 2 – Area IHS Intermediary Option

Tribes and Tribal Organization facilities, *at the concurrence of their Area IHS Director*, may access the PPV through their IHS intermediary (usually the Area IHS). Starting on October 1, 2007, the NSSC will assess a FCRF of 0.75 percent to all orders to the PPV. Using current NSSC billing procedures, the FCRF will be collected through each Area IHS (for sites using the Area IHS as an intermediary) by the NSSC via a monthly Bill-For-Collection. The fee will be assessed on the total expenditures on products purchased through the PPV during the cycle for each participating facility. An additional FCRF may be assessed to sites by the Area IHS, if functioning as the payment intermediary, or for other pharmaceutical procurement activities. The total amount of additional FCRF *will* vary from Area to Area. Please contact your Area IHS Office for additional information.

Fee Evaluation

The FCRF will be evaluated at least annually, but may change more frequently if there is a significant change in the number of PPV users and/or funds spent on PPV medications. By March 31 of each year, proposed changes to the FCRF for the following fiscal year will be developed based on the expected cost of providing PPMF services. These projected costs will be available for review and comment through all IHS Areas. No later than July 1 of each year, all Areas and Tribes accessing the PPV will be notified of changes to the FCRF effective October 1st.

If ongoing review of current FCRF income versus FCRF expenditures reveals a projected over-recovery of fees, the NSSC will notify participants that the FCRF is being reduced for the remainder of the current fiscal year to avoid an over-recovery, or will notify participants of the process for crediting over-recovery in future years.

Participation

All Federal sites can continue purchasing on the PPV contract via their current payment intermediary (NSSC or Area IHS), or sites using their Area IHS as a payment intermediary can switch to Option Number 1 (the NSSC processes payments rather than the Area IHS) by giving the NSSC no less than 30 days of notice in writing.

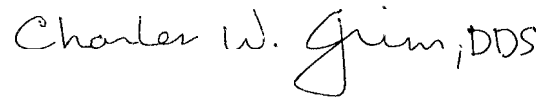
All eligible Tribes are encouraged to continue to use the PPV to access high quality medications and avoid many of the costs associated with other pharmaceutical acquisition and distribution systems.

Closing

For additional information about the NSSC and its functions, please go to the NSSC website at <http://www.ihs.gov/NonMedicalPrograms/NSSC/>. For information about the IHS National Pharmacy and Therapeutics Committee, please review the April 2005 issue of *The IHS Primary Care Provider* at <http://www.ihs.gov/PublicInfo/Publications/HealthProvider/issues/PROV0405.pdf>

If you have questions about the FCRF, please contact CDR Robert Hayes, NSSC, by phone at (888) 948-1415 or (405) 951-6079, by fax at (405) 951-6057, or by e-mail at robert.hayes@ihs.gov. I look forward to working with you as we continue to build a strong pharmaceutical procurement program to meet the needs of American Indians and Alaska Natives.

Sincerely yours,

Handwritten signature of Charles W. Grim, DDS in black ink.

Charles W. Grim, D.D.S., M.H.S.A.
Assistant Surgeon General
Acting Director

Enclosure:
Need for A Pharmaceutical Prime Vendor Full Cost Recovery Fee