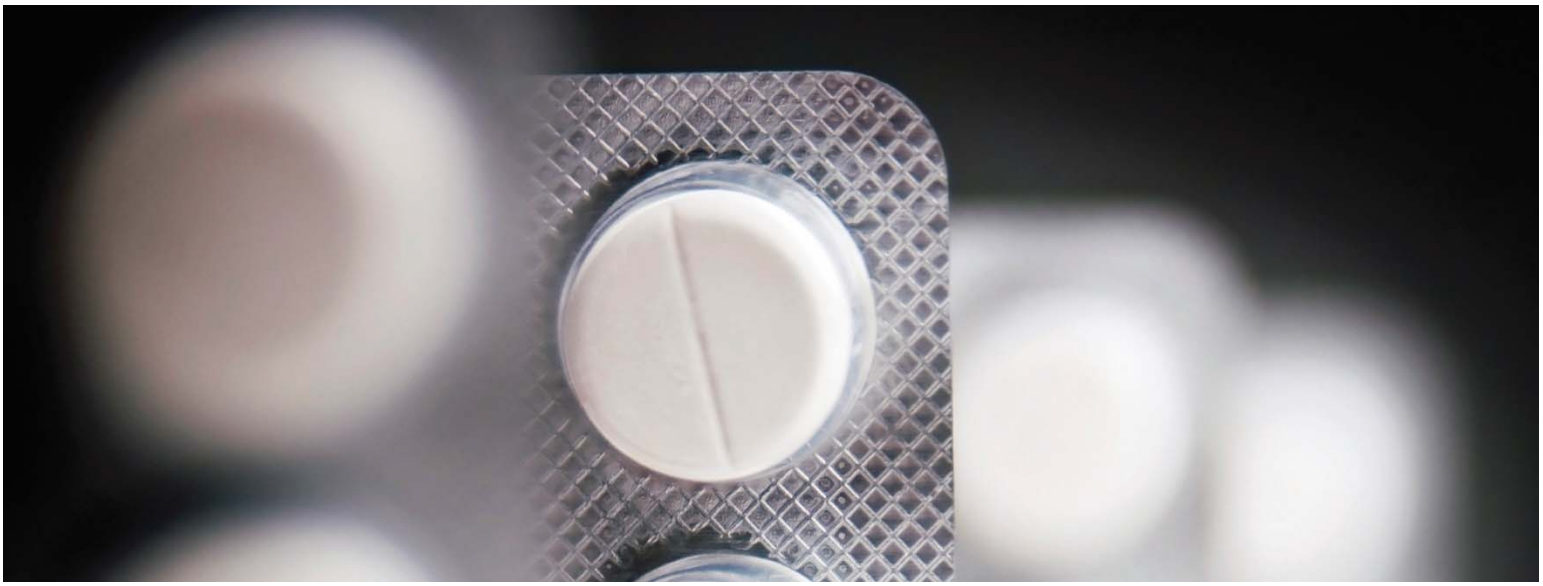
MYERS AND STAUFFER LC
CERTIFIED PUBLIC ACCOUNTANTS

Virginia Department of Medical Assistance Services

Survey of the Average Cost of Dispensing a Medicaid Prescription in the Commonwealth of Virginia

December 2019



DEDICATED TO GOVERNMENT HEALTH PROGRAMS

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Chapter 1: Executive Summary

Introduction

Under contract to the Virginia Department of Medical Assistance Services (DMAS), Myers and Stauffer LC performed a study of pharmacy dispensing cost. The cost of dispensing study followed the methodology and used a survey instrument similar to those used by Myers and Stauffer in a previous survey for DMAS and in surveys for Medicaid pharmacy engagements in several other states. The methodology was consistent with guidelines from the Centers for Medicare and Medicaid Services (CMS) regarding the components of pharmacy cost that are appropriately reimbursed by the pharmacy dispensing fee of a state Medicaid program.

Myers and Stauffer obtained from DMAS a list of pharmacy providers currently enrolled in the Virginia Medicaid pharmacy program. According to the provider list, there were 1,919 providers enrolled in the Virginia Medicaid pharmacy program. Of these providers, there were 1,457 pharmacy providers located within the Commonwealth of Virginia that were actively participating in the Virginia Medicaid program for calendar year 2018. These 1,457 pharmacies were requested to submit survey information for this study.

Myers and Stauffer performed comprehensive desk review procedures to test completeness and accuracy of all dispensing cost surveys submitted. There were 744 pharmacies that filed cost surveys that could be included in this analysis. Data from these surveys, in conjunction with pharmacy-specific cost-finding algorithms, were used to calculate the average cost of dispensing at each pharmacy and results from these pharmacies were subjected to statistical analysis.

Summary of Findings

Per the cost of dispensing survey for pharmacies participating in the Virginia Medicaid program, the mean cost of dispensing, weighted by Medicaid volume, was $10.63 per prescription for all pharmacies including specialty pharmacies[1]. For non-specialty pharmacies only, the mean cost of dispensing, weighted by Medicaid volume, was $9.95 per prescription. Table 1.1 includes additional measures of the average cost of dispensing.

[1] For purposes of this report, “specialty” pharmacies are those pharmacies that reported sales for intravenous, home infusion, clotting factor and/or other specialty services of 10% or more of total prescription sales.

Table 1.1 Dispensing Cost for Virginia Medicaid Pharmacies

	All Pharmacies Inclusive of Specialty	Non-specialty Pharmacies Only
Pharmacies Included in Analysis	744	716
Unweighted Mean (Average) [A]	$12.70	$11.76
Weighted Mean (Average) [A,B]	$10.63	$9.95
Unweighted Median [A]	$11.10	$10.99
Weighted Median [A, B]	$9.89	$9.34

[A] Inflated to common point of June 30, 2019 (midpoint of year ending December 31, 2019).
[B] Weighted by Medicaid volume.

There are several statistical measurements that may be used to express the central tendency, or "average", of a distribution, the most common of which are the mean and the median. Weighted means and medians are often preferable to their unweighted counterparts. The weighted mean is the average cost for all prescriptions, rather than the average for all pharmacies as in the unweighted mean. This implies that low volume pharmacies have a smaller impact on the weighted average than high volume pharmacies. The weighting factor can be either total prescription volume or Medicaid prescription volume. The weighted median is determined by finding the pharmacy observation that encompasses the middle value prescription. The implication is that half of the prescriptions were dispensed at a cost of the weighted median or less, and half were dispensed at the cost of the weighted median or more. As with the weighted mean, the weighting factor can be either total prescription volume or Medicaid prescription volume.

For both weighted means and weighted medians, the use of Medicaid prescription volume as the weighting factor is particularly meaningful for consideration in determining appropriate reimbursement since it emphasizes the cost of dispensing from those pharmacies that dispense more significant volumes of Medicaid prescriptions.

Conclusions

Cost of Dispensing Trends

The study findings represent a slight decrease in the measurement of the average cost of dispensing as compared to the previous study performed by Myers and Stauffer for DMAS in 2014. While recognizing that most input costs for pharmacies, including pharmacist and other staff labor costs, are subject to inflationary factors, Myers and Stauffer has observed over the course of many cost of dispensing surveys in recent years that the overall average cost of dispensing has not followed the same trajectory with year over year patterns of very little increase or even slight decreases in average cost. Increases in pharmacy efficiency associated with increased prescription volume and more efficient business practices including e-prescribing, central fill dispensing and the use of automated dispensing have had a tempering impact on those inflationary factors. This phenomenon has been observed by other parties as well. For

example, national studies of the pharmacy cost of dispensing were sponsored by the National Community Pharmacists Association (NCPA) and the National Association of Chain Drug Stores (NACDS) and conducted in both 2006[2] and 2015[3]. The study performed in 2006 reported a national average cost of dispensing of $10.50 and the study performed in 2015 cited a national average cost of dispensing of $10.55, or a $0.05 increase in the average cost of dispensing over a nine year period.

Professional Dispensing Fee Options

Federal regulations at 42 CFR § 447.518(d) require that when states propose changes to either the ingredient portion of pharmacy reimbursement or the professional dispensing fee, states must consider both to ensure that total reimbursement to the pharmacy provider is in accordance with requirements of section 1902(a)(30)(A) of the Social Security Act. Furthermore, states must provide adequate data, such as an in-state or other survey of retail pharmacy providers, to support any proposed changes to either the professional dispensing fee or ingredient component of the pharmacy reimbursement methodology.

There are several options which DMAS can consider for the professional dispensing fee portion of reimbursement for the fee-for-service pharmacy program. The use of a single professional dispensing fee for all pharmacies represents the simplest reimbursement option and is the most widely used methodology for pharmacy dispensing fees among state Medicaid programs.

Based on the results of the survey of pharmacy dispensing cost, a single dispensing fee of $10.63 would reimburse the weighted average cost of dispensing prescriptions to Virginia Medicaid members inclusive of both specialty and non-specialty pharmacies. A single dispensing fee of $9.95 would reimburse the weighted average cost of dispensing prescriptions to Virginia Medicaid members for non-specialty pharmacies but would not account for the cost of dispensing prescriptions by specialty pharmacies.

Despite indications that the cost of dispensing in specialty pharmacies varies from the cost of dispensing in non-specialty pharmacies, the use of a differential dispensing fee for specialty pharmacies is not consistent among state Medicaid programs. Several states have set dispensing fees based on the cost of dispensing observed at non-specialty pharmacies. This report also includes average cost of dispensing measurements for specialty pharmacies which can be considered in the process of evaluating professional dispensing fees for the Virginia Medicaid program.

The current professional dispensing fee for Virginia Medicaid fee-for-service pharmacy claims is $10.65. This fee is relatively close to various measures of central tendency for dispensing cost as measured by the current survey. Accordingly, based on the results of the most recent survey, while a minor adjustment to the current professional dispensing fee could be justified, it is also a reasonable conclusion that the current professional dispensing fee of $10.65 provides reasonable

[2] See “National Cost of Dispensing (COD) Study.” Grant Thornton LLP, (26 January 2006) p 3.

[3] See “National Cost of Dispensing (COD) Study.” MPI Group, (September 2015) p 3.

cost coverage for Virginia Medicaid pharmacy providers. Continuation of the current professional dispensing fee amount could be supported by the survey results.

Chapter 2: Dispensing Cost Survey and Analysis

The Virginia Department of Medical Assistance Services (DMAS) engaged Myers and Stauffer LC to perform a study of costs incurred by pharmacies participating in the Virginia Medicaid pharmacy program to dispense prescription medications. There are two primary components related to the provision of prescription medications: dispensing cost and drug ingredient cost. Dispensing cost consists of the overhead and labor costs incurred by a pharmacy to fill prescription medications.

Dispensing Fees in Medicaid Programs and Private Insurance Plans

The Centers for Medicare and Medicaid Services (CMS) has provided some basic guidelines for appropriate costs to be reimbursed via a Medicaid pharmacy dispensing fee. CMS guidelines state:

> *"Professional dispensing fee means the fee which—*
>
> *(1) Is incurred at the point of sale or service and pays for costs in excess of the ingredient cost of a covered outpatient drug each time a covered outpatient drug is dispensed;*
>
> *(2) Includes only pharmacy costs associated with ensuring that possession of the appropriate covered outpatient drug is transferred to a Medicaid recipient. Pharmacy costs include, but are not limited to, reasonable costs associated with a pharmacist's time in checking the computer for information about an individual's coverage, performing drug utilization review and preferred drug list review activities, measurement or mixing of the covered outpatient drug, filling the container, beneficiary counseling, physically providing the completed prescription to the Medicaid beneficiary, delivery, special packaging, and overhead associated with maintaining the facility and equipment necessary to operate the pharmacy; and*
>
> *(3) Does not include administrative costs incurred by the State in the operation of the covered outpatient drug benefit including systems costs for interfacing with pharmacies."* [4]

The majority of Medicaid programs are in compliance with the Final Rule for Covered Outpatient Drugs (CMS-2345-FC) published by CMS in February 2016 and have implemented professional dispensing fees that are based on the results of survey data. For states in compliance with the Final Rule, there are 32 states that have a single state-wide dispensing fee. These single state-wide dispensing fees range from $8.96 (Rhode Island) to $12.46 (North Dakota). There are eight states which have adopted a tiered professional dispensing fee which is based on pharmacy total

[4] See 42 CFR § 447.502 and "Medicaid Program; Covered Outpatient Drugs." (CMS-2345-FC) Federal Register, 81: 20 (1 February 2016) p 5349.

prescription volume. In these states with volume-based tiers, there are between two and four tiers. Seven states have adopted differential professional dispensing fees that are based on other criteria. For example, in Alaska professional dispensing fees vary based on whether a pharmacy is located on or off of the state's road system. Professional dispensing fees in some states have been linked to the preferred or non-preferred status of a drug or to the generic dispensing rate of a pharmacy.

In contrast, private third party payers generally reimburse for dispensing fees at rates less than those paid by most Medicaid programs and use ingredient reimbursement methodologies that are based on benchmarks other than average acquisition cost (AAC). On average, dispensing fees paid by private third party payers through their pharmacy benefits managers (PBMs) are less than the dispensing cost of most pharmacies. One recent survey of pharmacy reimbursement rates from third-party payers reported average dispensing fees to retail pharmacies for brand name drugs at $1.87 for prescriptions with a 30 day supply and $1.52 for prescriptions with a 90 day supply.[5] National studies also indicate that in recent years, private payer pharmacy dispensing fees have declined.

Methodology of the Dispensing Cost Survey

In order to determine costs incurred to dispense pharmaceuticals to members of the Virginia Medicaid pharmacy program, Myers and Stauffer utilized a survey method consistent with federal regulations for the components of a pharmacy dispensing fee (42 CFR § 447.502) and the methodology of previous surveys conducted by Myers and Stauffer in several other states. Myers and Stauffer collaborated with DMAS to refine the survey tool to meet their objectives. A meeting with stakeholders representing the pharmacy industry in Virginia was held on May 21, 2019 to answer questions about the survey tool and consider further refinements to the survey tool and survey methodology.

Survey Distribution

Myers and Stauffer obtained from DMAS a list of pharmacy providers enrolled in the Virginia Medicaid pharmacy program. According to the provider list, there were 1,457 pharmacy providers located in the Commonwealth of Virginia that actively participated in the Medicaid program during calendar year 2018. Surveys were mailed and emailed to these 1,457 pharmacy providers on July 23, 2019. Each surveyed pharmacy received a copy of the cost survey (Exhibit 1), a letter of introduction from DMAS (Exhibit 2), an instructional letter from Myers and Stauffer (Exhibits 3a and 3b), and an invitation to participate in a webinar hosted by Myers and Stauffer (Exhibit 4).

Concerted efforts to encourage participation were made to enhance the survey response rate. A toll-free telephone number and email address were listed on the survey form and pharmacists were instructed to call or email a survey help desk to resolve any questions they had concerning completion of the survey form. For convenience in completing the cost of dispensing survey, the survey forms were made available in both a printed format and in an electronic format (Microsoft Excel). The survey instructions offered pharmacy owners the option of having Myers and Stauffer

[5] See *2014-2015 Prescription Drug Benefit Cost and Plan Design Report,* Pharmacy Benefits Management Institute, LP and Takeda Pharmaceuticals North America, Inc.

complete certain sections of the survey for those that were willing to submit copies of financial statements and/or tax returns.

Myers and Stauffer hosted informational webinars on August 6, 2019 and August 8, 2019. Providers were invited to attend via a web application and a conference call. A brief presentation was given to assist pharmacies in completing the cost of dispensing survey and additional time was allowed to ask questions. A reminder email was sent to all pharmacies on August 5, 2019 to encourage pharmacy providers to participate in the webinars.

Reminder letters were sent to pharmacies on August 16, 2018 (Exhibit 5) and September 6, 2019 (Exhibit 6). The second letter announced an extension of the original due date from September 6, 2019 to September 20, 2019. Email reminders were also sent on September 6, 2019 and September 17, 2019 to all non-respondent pharmacies for which email addresses were available.

Providers were given instructions to report themselves as ineligible for the survey if they met certain criteria. Pharmacies were to be deemed ineligible if they had closed their pharmacy, had a change of ownership, or had less than six months of cost data available (e.g., due to a pharmacy that recently opened or changed ownership). Of the 1,457 surveyed pharmacies, 72 pharmacies were determined to be ineligible to participate based on the returned surveys.

Surveys were accepted through October 18, 2019. As indicated in Table 2.1, there were 744 surveyed pharmacies that submitted a usable cost survey for this study resulting in a response rate of 53.7%.

Some of the submitted cost surveys contained errors or did not include complete information necessary for full evaluation. For cost surveys with such errors or omissions, the pharmacy was contacted for clarification. There were some instances in which issues on the cost survey were not resolved in time for inclusion in the final analysis. [6]

Table 2.1, on the following page, summarizes the dispensing cost survey response rate.

[6] There were 4 incomplete surveys received on or before October 18, 2019 that were eventually determined to be unusable because they were substantially incomplete or missing essential information. These issues could not be resolved in a timely manner with the submitting pharmacy. These incomplete surveys were not included in the count of 744 usable surveys received.

Table 2.1 Dispensing Cost Survey Response Rate

Pharmacy Category	Medicaid Enrolled Pharmacies	Pharmacies Exempt or Ineligible from Filing	Eligible Pharmacies	Usable Cost Surveys Received	Response Rate
Chain[7]	1,089	70	1019	683	67.0%
Non-chain	368	2	366	61	16.7%
TOTAL	**1,457**	**72**	**1,385**	**744**	**53.7%**
Urban[8]	1,191	47	1,144	656	57.3%
Rural	266	25	241	88	36.5%
TOTAL	**1,457**	**72**	**1,385**	**744**	**53.7%**

Tests for Reporting Bias

For the pharmacy traits of affiliation (i.e., chain or independent) and location (i.e., urban or rural), the response rates of the submitted surveys were tested to determine if they were representative of the population of Medicaid provider pharmacies. Since the overall response rate of the surveyed pharmacies was less than 100 percent, the possibility of bias in the response rate should be considered. To measure the likelihood of this possible bias, chi-square (χ^2) tests were performed. A χ^2 test evaluates differences between proportions for two or more groups in a data set.

Of the 744 usable cost surveys, 683 were from chain pharmacies and 61 were from non-chain pharmacies. There was a response rate of 67.0% for chain pharmacies compared to a response rate of 16.7% for independent pharmacies. The results of the χ^2 test indicated that the difference in response rate between chain and independent pharmacies was statistically significant at the 5% confidence level. This implies that non-chain pharmacies were underrepresented in the sample of usable surveys received. No adjustments to the cost of dispensing data were made as a result of this observation.

A χ^2 test was also performed with respect to the urban versus rural location for responding pharmacies that were located in Virginia. Of the 1,385 non-exempt pharmacies located in Virginia, 1,144 pharmacies (or 82.6%) were located in an urban area. The remaining 241 pharmacies (or 17.4%) were located in a rural area. There were 656 usable surveys submitted by pharmacies in an urban location (a response rate of 57.3%). There were 88 usable surveys submitted by pharmacies in a rural location (a response rate of 36.5%). The results of the χ^2 test indicated that the difference in response rate between urban and rural pharmacy locations within the state was statistically significant at the 5% confidence level. This implies that rural pharmacies

[7] For purposes of this survey, a chain was defined as an organization having four or more pharmacies under common ownership or control on a national level.
[8] For measurements that refer to the urban or rural location of a pharmacy, Myers and Stauffer used the pharmacies zip code and the "Zip Code to Carrier Locality File" from the Centers for Medicare & Medicaid Services to determine if the pharmacy was located in an urban or rural area.

were underrepresented in the sample of usable surveys received. No adjustments to the cost of dispensing data were made as a result of this observation.

Desk Review Procedures

A desk review was performed for 100% of surveys received. This review identified incomplete cost surveys; pharmacies submitting these incomplete cost surveys were contacted by telephone and/or email to obtain information necessary for completion. The desk review process also incorporated a number of tests to determine the reasonableness of the reported data. In many instances, pharmacies were contacted to correct or provide confirmation of reported survey data that was flagged for review as a result of these tests for reasonableness.

Cost Finding Procedures

For all pharmacies, the basic formula used to determine the average dispensing cost per prescription was to calculate the total dispensing-related cost and divide it by the total number of prescriptions dispensed:

$$\text{Average Dispensing Cost} = \frac{\text{Total (Allowable) Dispensing Related Cost}}{\text{Total Number of Prescriptions Dispensed}}$$

Although the denominator of the cost of dispensing formula (i.e., the “total number of prescriptions dispensed”) is relatively straight-forward, the calculation of the numerator of the formula (i.e., “total (allowable) dispensing related cost”) can be complex. “Cost finding” principles must be applied since not all reported costs were strictly related to the prescription dispensing function of the pharmacy. Most pharmacies are also engaged in lines of business other than the dispensing of prescription drugs. For example, many pharmacies have a retail business with sales of over-the-counter (OTC) drugs and other non-medical items such as groceries or other goods. Some pharmacies are involved in the sale of durable medical equipment and other medical supplies. The existence of these other lines of business necessitates that procedures be taken to isolate the costs involved in the prescription dispensing function of the pharmacy.

“Cost finding” is the process of recasting cost data using rules or formulas in order to accomplish an objective. In this study, the objective is to estimate the cost of dispensing prescriptions to Medicaid members. To accomplish this objective, some pharmacy costs must be allocated between the prescription dispensing function and other business activities. This process identified the reasonable and allowable costs necessary for prescription dispensing to Medicaid members.

Dispensing cost consists of two main components: overhead and labor. The cost finding rules employed to determine the cost of dispensing associated with each of these components are described in the following sections.

Overhead Costs

Overhead cost per prescription was calculated by summing the allocated overhead of each pharmacy and dividing this sum by the number of prescriptions dispensed. Overhead expenses that were reported for the entire pharmacy were allocated to the prescription department based on one of the following methods:

- All, or 100% – overhead costs that are entirely related to prescription functions.
- None, or 0% – overhead costs that are entirely related to non-prescription functions.
- Sales ratio – calculated as prescription sales divided by total sales.
- Area ratio – calculated as prescription department floor space (in square feet) divided by total floor space. The area ratio was increased by a factor of 2.0 from the square footage values reported on the cost survey. The use of this factor creates an allowance for waiting and counseling areas for patients, a prescription department office area and store area needed to access the prescription department. The resulting ratio was adjusted downward, when necessary, not to exceed the sales ratio (in order to avoid allocating 100% of these costs in the instance where the prescription department occupies the majority of the area of the store).

Overhead costs that were considered entirely prescription-related include:

- Prescription department licenses.
- Prescription delivery expense.
- Prescription computer expense.
- Prescription containers and labels. (For many pharmacies the costs associated with prescription containers and labels are captured in their cost of goods sold. Subsequently, it was often the case that a pharmacy was unable to report expenses for prescription containers and labels. In order to maintain consistency, a minimum allowance for prescription containers and labels was determined to use for pharmacies that did not report an expense amount for containers and labels. The allowance was set at the 95th percentile of prescription containers and labels expense per prescription for pharmacies that did report prescription containers and labels expense: $0.212 per prescription).
- Certain other expenses that were separately identified on Lines (32a) to (32t) of Page 7 of the cost survey (Exhibit 1).[9]

Overhead costs that were not allocated as a prescription expense include:

- Income taxes [10]

[9] "Other" expenses were individually analyzed to determine the appropriate basis for allocation of each expense: sales ratio, area ratio, 100% related to dispensing cost or 0% (not allocated).

[10] Income taxes are not considered an operational cost because they are based upon the profit of the pharmacy operation.

- Bad debts [11]
- Advertising [12]
- Charitable Contributions [13]
- Credit Card Processing Fees [14]
- Certain costs reported on Lines (32a) through (32t) of Page 7 of the cost survey (Exhibit 1) were excluded if the expense was not related to the dispensing of prescription drugs.

The remaining expenses were assumed to be related to both prescription and nonprescription sales and were allocated using either an area ratio or a sales ratio. Joint cost allocation is necessary to avoid understating or overstating the cost of filling a prescription.

Overhead costs allocated using the sales ratio include:

- Personal property taxes
- Other taxes
- Insurance
- Interest

[11] Bad debt expense is not referenced in CMS guidelines for professional dispensing fees at 42 CFR § 447.502. Furthermore, the exclusion of bad debts from the calculation of dispensing costs is consistent with Medicare cost reporting principles. See Provider Reimbursement Manual, CMS Pub.15-1, Section 304:

> *"The allowance of unrecovered costs attributable to such bad debts in the calculation of reimbursement by the Program results from the expressed intent of Congress that the costs of services covered by the Program will not be borne by individuals not covered, and the costs of services not covered by the Program will not be borne by the Program."*

It is recognized that some bad debts may be the result of Medicaid co-payments that were not collected. However, it was not possible to isolate the amount of bad debts attributable to uncollected Medicaid co-payments from the survey data. Additionally, there may be programmatic policy reasons to exclude uncollected Medicaid co-payments from the calculation of the cost of dispensing. Inclusion of cost for uncollected co-payments in the dispensing fee might serve to remove incentives for pharmacies to collect Medicaid co-payments when applicable. Given that co-payments were established to bring about some measure of cost containment, it may not be in the best interest of a Medicaid pharmacy program to allow uncollected co-payments to essentially be recaptured in a pharmacy professional dispensing fee.

[12] Advertising expense is not referenced in CMS guidelines for professional dispensing fees at 42 CFR § 447.502. Furthermore, the exclusion of most types of advertising expense is consistent with Medicare cost reporting principles. See Provider Reimbursement Manual, CMS Pub. 15.1, Section 2136.2:

> *"Costs of advertising to the general public which seeks to increase patient utilization of the provider's facilities are not allowable."*

[13] Charitable contributions are not referenced in CMS guidelines for professional dispensing fees at 42 CFR § 447.502. Individual proprietors and partners are not allowed to deduct charitable contributions as a business expense for federal income tax purposes. Any contributions made by their business are deducted along with personal contributions as itemized deductions. However, corporations are allowed to deduct contributions as a business expense for federal income tax purposes. Thus, while Line 13 on the cost report recorded the business contributions of a corporation, none of these costs were allocated as a prescription expense. This provides equal treatment for each type of ownership.

[14] Credit card processing fees were not allowed on the basis that prescriptions for Medicaid members are not predominantly paid through credit or debit card payments.

- Accounting and legal fees
- Telephone and supplies
- Dues and publications

Those overhead costs allocated on the area ratio include: [15]

- Depreciation
- Real estate taxes
- Rent [16]
- Repairs
- Utilities

Labor Costs

Labor costs are calculated by allocating total salaries, payroll taxes, and benefits based on the percent of time spent in the prescription department. The allocations for each labor category were summed and then divided by the number of prescriptions dispensed to calculate labor cost per prescription. There are various classifications of salaries and wages requested on the cost survey (Lines (1) to (12) of Page 5 of the cost survey – Exhibit 1) due to the different cost treatment given to each labor classification.

Although some employee pharmacists spent a portion of their time performing nonprescription duties, it was assumed in this study that their economic productivity when performing nonprescription functions was less than their productivity when performing prescription duties. The total salaries, payroll taxes, and benefits of employee pharmacists were multiplied by a factor based upon the percent of prescription time. Therefore, a higher percentage of salaries, payroll taxes, and benefits was allocated to prescription labor costs than would have been allocated if a simple percent of time allocation were utilized. Specifically, the percent of prescription time indicated was adjusted by the following formula: [17]

[15] Allocation of certain expenses using a ratio based on square footage is consistent with Medicare cost reporting principles. See Provider Reimbursement Manual, CMS Pub. 15-2, Section 3617.

[16] The survey instrument included special instructions for reporting rent and requested that pharmacies report "ownership expenses of interest, taxes, insurance and maintenance if building is leased from a related party". This treatment of related-party expenses is consistent with Medicare cost reporting principles. See Provider Reimbursement Manual, CMS Pub. 15-2, Section 3614:

> *"Cost applicable to home office costs, services, facilities, and supplies furnished to you by organizations related to you by common ownership or control are includable in your allowable cost at the cost to the related organizations. However, such cost must not exceed the amount a prudent and cost conscious buyer pays for comparable services, facilities, or supplies that are purchased elsewhere."*

[17] Example: An employee pharmacist spends 90 percent of his/her time in the prescription department. The 90 percent factor would be modified to 95 percent:

(2)(0.9)/(1+0.9) = 0.95

$$\frac{(2)(\%Rx\ Time)}{(1+(\%Rx\ Time))}$$

The allocation of salaries, payroll taxes, and benefits for all other prescription employees (Line (2) and Lines (4) to (12) of Page 5 of the cost survey – Exhibit 1) was based directly upon the percentage of time spent in the prescription department as indicated on the individual cost survey. For example, if the reported percentage of prescription time was 75 percent and total salaries were $10,000, then the allocated prescription cost would be $7,500.

Owner Compensation Issues

Since compensation reported for owners are not costs that have arisen from arm's length negotiations, they are not similar to other costs. Accordingly, limitations were placed upon the allocated salaries, payroll taxes, and benefits of owners. A pharmacy owner may have a different approach toward other expenses than toward his/her own salary. Owners may pay themselves above the market costs of securing the services of an employee. In this case, paying themselves above market cost effectively represents a withdrawal of business profits, not a cost of dispensing. In contrast, owners who pay themselves below market cost for business reasons also misrepresent the true dispensing cost.

To estimate the cost that would have been incurred had an employee been hired to perform the prescription-related functions actually performed by the owner, upper and lower limits were imposed on owner salaries and benefits. For purposes of setting owner's compensation limits, owners who are pharmacists were considered separately from owners who are not pharmacists. Constraints for owners were set using upper and lower thresholds for hourly compensation that represented approximately the 95th and 40th percentiles of employee salaries and benefits for pharmacists and non-pharmacists (adjusted by reported FTEs to estimate hourly wages). These upper and lower constraints are shown in Table 2.2. No adjustments were made to owner salaries and benefits unless they were in below the lower limit or in excess of the upper limit in which case the amount was adjusted up or down to the respective limit.

Table 2.2 Hourly Wage and Benefit Limits for Owners

Owner Type	Lower Limit (Hourly)	Upper Limit (Hourly)
Pharmacist	$59.03	$97.99
Non-Pharmacist	$12.88	$35.07

A sensitivity analysis of the owner labor limits was performed in order to determine the impact of the limits on the overall analysis of pharmacy dispensing cost. Of the 744 pharmacies in the cost analysis, owner limits impacted 22 pharmacies, or approximately 3.0%. Of these, 9 pharmacies had costs reduced as a result of application of these limits (on the basis that a portion of owner salary "cost" appeared to represent a withdrawal of profits from the business), and 13 pharmacies

Thus, 95 percent of the reported salaries, payroll taxes, and benefits would be allocated to the prescription department. It should be noted that most employee pharmacists spent 100 percent of their time in the prescription department.

had costs increased as a result of the limits (on the basis that owner salaries appeared to be below their market value). In total, the final estimate of average pharmacy dispensing cost per prescription was decreased by approximately $0.002 as a result of the owner salary limits.

Overall Labor Cost Constraints

An overall constraint was placed on the proportion of total reported labor that could be allocated as prescription labor. The constraint assumes that a functional relationship exists between the proportion of allocated prescription labor to total labor and the proportion of prescription sales to total sales. It is also assumed that a higher input of labor costs is necessary to generate prescription sales than nonprescription sales, within limits.

The parameters of the applied labor constraint are based upon an examination of data submitted by all pharmacies. These parameters are set in such a way that any resulting adjustment affects only those pharmacies with a percentage of prescription labor deemed unreasonable. For example, the constraint would come into play for an operation that reported 75 percent pharmacy sales but 100 percent pharmacy labor since, some labor must be devoted to generating the 25 percent nonprescription sales.

To determine the maximum percentage of total labor allowed, the following calculation was made:

$$\frac{0.3(Sales\ Ratio)}{0.1 + (0.2)(Sales\ Ratio)}$$

A sensitivity analysis of the labor cost restraint was performed in order to determine the impact of the limit on the overall analysis of pharmacy cost. The analysis indicates that of the 744 pharmacies included in the dispensing cost analysis, this limit was applied to 346 pharmacies. In total, the final estimate of average pharmacy dispensing cost per prescription was decreased by approximately $0.38 as a result of the labor cost restraint.[18]

Inflation Factors

All allocated costs for overhead and labor were totaled and multiplied by an inflation factor. Inflation factors are intended to reflect cost changes from the middle of the reporting period of a particular pharmacy to a common fiscal period ending December 31, 2019 (specifically from the midpoint of the pharmacy's fiscal year to June 30, 2019 which is the midpoint of the fiscal period ending December 31, 2019). The midpoint and terminal month indices used were taken from the Employment Cost Index, (all civilian, all workers; seasonally adjusted) published by the Bureau of Labor Statistics (BLS) (Exhibit 7). The use of inflation factors is typically preferred in order for pharmacy cost data from various fiscal years to be compared uniformly. The majority of submitted

[18] The vast majority of pharmacies that were impacted by the labor cost restraint were from a single chain which provided insufficient data to manually break out labor costs associated with staff with time spent in the pharmacy department versus staff that did not have time spent in the pharmacy department.

cost surveys were based on a fiscal year which ended on or within four months of December 31, 2018.

Dispensing Cost Analysis and Findings

The dispensing costs for surveyed pharmacies are summarized in the following tables and paragraphs. Findings for pharmacies are presented collectively and additionally are presented for subsets of the surveyed population based on pharmacy characteristics.

There are several statistical measurements that may be used to express the central tendency of a distribution, the most common of which are the mean and the median. Findings are presented in the forms of means and medians, both weighted and unweighted.

The measures of central tendency used in this report include the following:

Unweighted mean: the arithmetic average cost for all pharmacies.

Weighted mean: the average cost of all prescriptions dispensed by surveyed pharmacies, weighted by prescription volume. The resulting number is the average cost for all prescriptions, rather than the average for all pharmacies as in the unweighted mean. This implies that low volume pharmacies have a smaller impact on the weighted average than high volume pharmacies. This approach, in effect, sums all costs from surveyed pharmacies and divides that sum by the total of all prescriptions from surveyed pharmacies. The weighting factor can be either total prescription volume or Medicaid prescription volume.

Median: the value that divides a set of observations (such as dispensing cost) in half. In the case of this survey, the median is the dispensing cost such that the cost of one half of the pharmacies in the set are less than or equal to the median and the dispensing costs of the other half are greater than or equal to the median.

Weighted Median: this is determined by finding the pharmacy observation that encompasses the middle value prescription. The implication is that one half of the prescriptions were dispensed at a cost of the weighted median or less, and one half were dispensed at the cost of the weighted median or more. Suppose, for example, that one wanted to calculate the median weighted by Medicaid volume and that there were 1,000,000 Medicaid prescriptions dispensed by the surveyed pharmacies. If the dispensing cost of each of these prescriptions were arrayed in order of the dispensing cost, the median weighted by Medicaid volume, is the dispensing cost of the pharmacy that dispensed the middle, or 500,000th prescription.

As is typically the case with dispensing cost surveys, statistical “outliers” are a common occurrence. These outlier pharmacies have dispensing costs that are not typical of the majority of pharmacies. Medians are sometimes preferred to averages (i.e., the arithmetic mean) in situations where the magnitude of outlier values results in an average that does not represent

what is thought of as “average” or normal in the common sense. The use of weighting factors also tends to mitigate the impact of many outlier values.

For all pharmacies, the cost of dispensing findings are presented in Table 2.3.

Table 2.3 Dispensing Cost per Prescription – All Pharmacies

	Dispensing Cost
Unweighted Mean	$12.70
Mean Weighted by Medicaid Volume	$10.63
Unweighted Median	$11.10
Median Weighted by Medicaid Volume	$9.89

n=744 pharmacies
Dispensing costs have been inflated to the common point of June 30, 2019 (midpoint of year ending December 31, 2019).

See Exhibit 8 for a histogram of the dispensing cost for all pharmacies. There was a large range between the highest and the lowest dispensing cost observed. However, the majority of pharmacies (approximately 87%) had average dispensing costs between $7 and $16.

Exhibit 9 includes a statistical summary with a wide variety of measures of pharmacy dispensing cost with breakdowns for many pharmacy attributes potentially of interest. For measurements that refer to the urban or rural location of a pharmacy, Myers and Stauffer used the pharmacies’ zip code and the “Zip Code to Carrier Locality File” from the Centers for Medicare & Medicaid Services to determine if the pharmacy was located in an urban or rural area.

Specialty Pharmacies

Several pharmacies included in the cost analysis were identified as specialty pharmacies. For purposes of this report, “specialty pharmacies" are pharmacies that that reported sales for intravenous, home infusion, clotting factor and/or other specialty services of 10% or more of total prescription sales. The analysis revealed significantly higher cost of dispensing associated with pharmacies these criteria.[19]

The difference in dispensing costs that were observed for providers of specialty services compared to those pharmacies that did not offer these specialty services is summarized in Table 2.4.

[19] In every pharmacy cost of dispensing study in which information on clotting factor, intravenous solution, home infusion and other specialty dispensing activity has been collected by Myers and Stauffer, such activity has been found to be associated with higher dispensing costs. Discussions with pharmacists providing these services indicate that the activities and costs involved for these types of prescriptions are significantly different from the costs incurred by other pharmacies. The reasons for this difference include:

- Costs of special equipment for mixing and storage of clotting factor, intravenous, infusion and other specialty products.
- Costs of additional services relating to patient education, compliance programs, monitoring, reporting and other support for specialty products.
- Higher direct labor costs due to more intensive activities to prepare certain specialty prescriptions in the pharmacy.

Table 2.4 Dispensing Cost per Prescription - Specialty versus Other Pharmacies

Type of Pharmacy	Number of Pharmacies	Average Total Annual Prescription Volume (mean and median)	Average Medicaid Prescription Volume (mean and median)	Unweighted Mean	Mean Weighted by Medicaid Volume
Specialty Pharmacies	28	Mean: 70,866 Median: 31,662	Mean: 2,662 Median: 918	$36.65	$14.99
Other Pharmacies	716	Mean: 85,549 Median: 73,689	Mean: 660 Median: 406	$11.76	$9.95

n= 744 pharmacies

Dispensing costs have been inflated to the common point of June 30, 2019 (midpoint of year ending December 31, 2019).

Pharmacies that dispense specialty prescriptions as a significant part of their business often have dispensing costs in excess of those found in a traditional pharmacy. As part of the survey, pharmacies that dispense specialty drugs were requested to provide a breakdown of sales and prescriptions dispensed for categories of specialty products dispensed. Based on the data obtained on the survey, Myers and Stauffer categorized specialty pharmacies into three primary categories:

- Pharmacies that dispense clotting factor products.
- Pharmacies that provide compounded infusion and other custom-prepared intravenous products.
- Pharmacies that provide other specialty products (e.g., prefilled injectable products, oral specialty medications).

Of the 28 pharmacies that were identified as specialty based on their submitted surveys, one was classified as compounded infusion and none were classified as a pharmacy that dispenses a significant amount of clotting factor products. Given the limited data sets associated with different types of specialty pharmacies, a further cost of dispensing breakdown is not provided.

Non-specialty Pharmacies

The analyses summarized in Tables 2.5 through 2.9 below exclude the specialty pharmacy providers. In making this exclusion, no representation is made that the cost structure of specialty pharmacies is not important to understand. However, it is reasonable to address issues relevant to those pharmacies separately from the cost structure of the vast majority of pharmacy providers that provide “traditional” pharmacy services. Table 2.5 restates the measurements noted in Table 2.3 excluding pharmacies that dispensed significant volumes of specialty prescriptions.

Table 2.5 Dispensing Cost per Prescription – Excluding Specialty Pharmacies

	Dispensing Cost
Unweighted Mean	$11.76
Mean Weighted by Medicaid Volume	$9.95
Unweighted Median	$10.99
Median Weighted by Medicaid Volume	$9.34

n=716 pharmacies

Dispensing costs have been inflated to the common point of June 30, 2019 (midpoint of year ending December 31, 2019).

Relationship of Dispensing Cost with Prescription Volume

There is a significant correlation between a pharmacy's total prescription volume and the dispensing cost per prescription. This result is not surprising because many of the costs associated with a business operation, including the dispensing of prescriptions, have a fixed component that does not vary significantly with increased volume. For stores with a higher total prescription volume, these fixed costs are spread over a greater number of prescriptions resulting in lower costs per prescription. A number of relatively low volume pharmacies in the survey skew the distribution of dispensing cost and increase the measurement of the unweighted average (mean) cost of dispensing. Means and medians weighted by either Medicaid volume or total prescription volume may provide a more realistic measurement of typical dispensing cost.

Pharmacies were classified into meaningful groups based upon their differences in total prescription volume. Dispensing costs were then analyzed based upon these volume classifications. Table 2.6 displays the calculated cost of dispensing for non-specialty pharmacies arrayed into tiers based on total annual prescription volume. The volume-based tiers used in Table 2.6 are aligned with the volume-based tiers currently used by DMAS to determine professional dispensing fees for non-compounded drugs.

Table 2.6 Dispensing Cost by Pharmacy Total Annual Prescription Volume

Total Annual Prescription Volume of Pharmacy	Number of Pharmacies [A]	Unweighted Mean	Mean Weighted by Medicaid Volume
0 to 56,699	225	$15.16	$14.04
56,700 to 91,799	244	$11.02	$10.71
91,800 or greater	247	$9.40	$8.71

n= 716 pharmacies

[A] *Excludes specialty pharmacies, which for purposes of this report are those pharmacies that reported sales for intravenous, home infusion, clotting factor and/or other specialty services of 10% or more of total prescription sales.*

Dispensing costs have been inflated to the common point of June 30, 2019 (midpoint of year ending December 31, 2019).

Table 2.7 provides statistics for the distribution of pharmacy annual prescription volume.

Table 2.7 Statistics for Pharmacy Total Annual Prescription Volume

Statistic	Value [A]
Mean	85,549
Standard Deviation	118,365
10th Percentile	31,436
25th Percentile	49,796
Median	73,689
75th Percentile	103,034
90th Percentile	137,968

n= 716 pharmacies

[A] *Excludes specialty pharmacies, which for purposes of this report are those pharmacies that reported sales for intravenous, home infusion, clotting factor and/or other specialty services of 10% or more of total prescription sales.*

A histogram of pharmacy total annual prescription volume and a scatter-plot of the relationship between dispensing cost per prescription and total prescription volume are included in Exhibit 10.

Other Observations Associated with Dispensing Cost and Pharmacy Attributes

The dispensing cost of the surveyed pharmacies was broken down into the various components of overhead and labor related costs. Table 2.8 displays the mean for various components of cost for non-specialty pharmacies. Labor-related expenses accounted for approximately 70% of overall prescription dispensing costs.

Expenses in Table 2.8 are classified as follows:

- Owner professional labor – owner's labor costs were subject to constraints in recognition of its special circumstances as previously noted.
- Employee professional labor consists of employee pharmacists. Other labor includes the cost of delivery persons, interns, technicians, clerks and any other employee with time spent performing the prescription dispensing function of the pharmacy.
- Building and equipment expense includes depreciation, rent, building ownership costs, repairs, utilities and any other expenses related to building and equipment.
- Prescription-specific expense includes pharmacist-related dues and subscriptions, prescription containers and labels, prescription-specific computer expenses, prescription-specific delivery expenses (other than direct labor costs) and any other expenses that are specific to the prescription dispensing function of the pharmacy.
- Other overhead expenses consist of all other expenses that were allocated to the prescription dispensing function of the pharmacy including interest, insurance, telephone, and legal and professional fees.

Table 2.8 Components of Prescription Dispensing Cost

Type of Expense	Mean Weighted by Medicaid Volume [A]
Owner Professional Labor	$0.165
Employee Professional and Other Labor	$6.900
Building and Equipment	$0.934
Prescription Specific Expenses (including delivery)	$0.551
Other Overhead Expenses	$1.395
Total	**$9.946**

n= 716 pharmacies

[A] Excludes specialty pharmacies, which for purposes of this report are those pharmacies that reported sales for intravenous, home infusion, clotting factor and/or other specialty services of 10% or more of total prescription sales.

Dispensing costs have been inflated to the common point of June 30, 2019 (midpoint of year ending December 31, 2019).

A chart of the components of prescription dispensing cost is provided in Exhibit 11.

In addition to pharmacy dispensing cost data, several pharmacy attributes were collected on the cost survey. A summary of those attributes is provided at Exhibit 12.

Expenses Not Allocated to the Cost of Dispensing

In the following Table 2.9, measurements are provided for certain expenses that were not included in the cost of dispensing. Reasons for not including these costs were discussed previously in the report. For all of the expenses below, average cost per prescription was calculated using a sales ratio as the basis for allocation.

Table 2.9 Non-Allocated Expenses per Prescription

Expense Category	Mean Weighted by Medicaid Volume [A]
Bad Debts	$0.082
Charitable Contributions	$0.001
Advertising	$0.214

n= 716 pharmacies

[A] Excludes specialty pharmacies, which for purposes of this report are those pharmacies that reported sales for intravenous, home infusion, clotting factor and/or other specialty services of 10% or more of total prescription sales.

Dispensing costs have been inflated to the common point of June 30, 2019 (midpoint of year ending December 31, 2019).

Exhibit 1
Virginia Medicaid Pharmacy Cost of Dispensing Survey

Virginia Medicaid Pharmacy Cost of Dispensing Survey

Survey forms by Myers and Stauffer LC under contract with the Virginia Department of Medical Assistance Services

M&S Use Only

Return Completed Forms to:
Myers and Stauffer LC
700 W. 47th Street, Suite 1100
Kansas City, Missouri 64112

ROUND ALL AMOUNTS TO NEAREST DOLLAR OR WHOLE NUMBER

Complete and return by **July 31, 2019**

Call toll free (800) 374-6858 or email disp_survey@mslc.com if you have any questions.

An electronic version of the Virginia Medicaid Pharmacy Cost of Dispensing Survey is available. The electronic version is in Excel format. The electronic version aids the user by calculating totals and transferring information to the reconciliation to help ensure the accuracy of the data. Please send an email to disp_survey@mslc.com to request the electronic version of the survey. Completed surveys can be returned via email to disp_survey@mslc.com.

Name of Pharmacy _____ Prov. No. (NPI) _____

Street Address _____ Telephone No. (____) _____

City _____ County _____ State _____ Zip Code _____

DECLARATION BY OWNER AND PREPARER

I declare that I have examined this cost survey including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, complete, and in agreement with the related financial statements or federal income tax return, except as explained in the reconciliation. Declaration of preparer (other than owner) is based on all information of which preparer has any knowledge.

_____	_____	_____	_____
Signature of Owner	Printed Name	Title/Position	Date
_____	_____	_____	_____
Preparer's Signature (if other than owner)	Printed Name	Title/Position	Date

_____	_____	_____
Preparer's Street Address	City and State	Zip
(_____)_____	_____	
Phone Number	Email Address	

DECLARATION OF EXEMPTION

All Virginia Medicaid pharmacies are requested to complete all pages of this survey unless you meet the following criteria:

1. □ New pharmacies that were in business less than **six months** during the most recently completed reporting period.

   Enter date the pharmacy opened: _____

2. □ Pharmacies with a change in ownership that resulted in less than **six months** in business during the reporting period.

   Enter the date pharmacy changed ownership: _____

If your pharmacy meets either of the above criteria, check the box next to the explanation describing your situation and report the relevant date. Pharmacies which are considered "exempt" do not need to complete the remaining portions of the survey. If you have any questions as to the status of your pharmacy please call Myers and Stauffer at (800)374-6858 or email disp_survey@mslc.com for assistance.

Submitted surveys will be kept confidential by Myers and Stauffer

Virginia Medicaid Pharmacy Cost of Dispensing Survey

SECTION IA -- PHARMACY ATTRIBUTES

The following information is from fiscal / tax year ending _____

Complete these forms using your most recently completed fiscal year for which financial records are available and complete (e.g., December 31, 2018, or December 31, 2017, if 2018 records are not yet complete). **(Include month/day/year).**

All Pharmacies should complete lines (a) through (n).

List the total number of all prescriptions dispensed during your most recently completed fiscal year as follows:

(a) **1. New** _____ **2. Refill** _____ **3. Total** _____

"Prescriptions Dispensed." Report the total number of all prescriptions filled during the fiscal year being reported on this cost survey. This information may be kept on a daily or monthly log or on your computer.

(b) **Sales and Floor Space**

	Pharmacy Department Only	Total Store (Retail and Pharmacy Department)
Sales (Excluding Sales Tax)		
Cost of Goods Sold		
Floor Space (see instructions below)	Sq. Ft.	Sq. Ft.

Store sales excluding sales tax. Total store sales and cost of goods sold can usually be obtained from a financial statement or a federal income tax return (if the tax return only includes the store being surveyed). "Pharmacy Department" sales should only include sales of prescription drugs and should not include non-prescription over the counter drugs, durable medical equipment or other nonprescription items.

Cost of Goods Sold. If pharmacy department cost of goods sold is not readily available, leave that line blank.

Floor Space. Provide square footage for pharmacy department dispensing area and total store square footage (pharmacy department + retail area). Since floor space will be used in allocating certain expenses, accuracy is important.

For simplicity, when measuring the pharmacy department exclude all of the following:

> Patient waiting area > Counseling area > Pharmacy department office space > Pharmacy department storage

The before mentioned areas should be included in total store area, but not pharmacy department square footage. A factor will be added to the pharmacy department to account for waiting area, counseling area, pharmacy department office space and pharmacy department storage. When measuring the total store square footage exclude any storage area (e.g., basement, attic, off-the-premises areas or freight in-out areas).

(c) Amount of State Sales Tax collected during fiscal year used for survey (round to nearest whole dollar) **$** _____

(d) What is the approximate percentage of **prescriptions dispensed** for the following classifications?

1. Medicaid (fee for service) _____ % 2. Medicaid Managed Care _____ %

3. Other Third Party _____ % 4. Cash _____ %

(e) What is the approximate percentage of **payments received** from the following classifications?

1. Medicaid (fee for service) _____ % 2. Medicaid Managed Care _____ %

3. Other Third Party _____ % 4. Cash _____ %

(f) Ownership Affiliation

1. □ Independent (1 to 3 units) 2. □ Chain (4 or more units)
3. □ Institutional (service to LTC facilities only) 4. □ Other (specify) _____

(g) Type of Ownership

1. ☐ Individual 2. ☐ Corporation 3. ☐ Partnership 4. ☐ Other (specify) _____

(h) Location of Pharmacy (please check one)

1. □ Medical Office Building 2. □ Shopping Center
3. □ Stand Alone Building 4. □ Grocery Store / Mass Merchant
5. □ Outpatient Hospital 6. □ Other (specify) _____

(i) Does your pharmacy purchase drugs through the 340B Drug Pricing Program?

1. □ Yes 2. □ No

If yes, are prescriptions dispensed to Virginia Medicaid members provided from 340B inventory?

1. □ Yes 2. □ No

(j) Do you own your building or lease from a related party (i.e., yourself, family member, or related corporation)? If so, mark yes and refer to page 6, line 5 for special instructions for reporting building rent.

1. □ Yes 2. □ No

Submitted surveys will be kept confidential by Myers and Stauffer

Virginia Medicaid Pharmacy Cost of Dispensing Survey

SECTION IA -- PHARMACY ATTRIBUTES, CONTINUED

(k)	How many hours per week is your pharmacy open? _____ Hours
(l)	How many years has a pharmacy operated at this location? _____ Years
(m)	Do you provide 24-hour emergency services for pharmaceuticals? 1. □ Yes 2. □ No
(n)	What percentage of prescriptions dispensed were generic products? _____%

If your pharmacy dispenses prescriptions to long-term care facilities, complete lines (o) through (q).

(o)	What is the approximate percent of your prescriptions dispensed to long-term care facilities or assisted living homes?_____%
(p)	Do you dispense in unit dose packaging to long-term care facilities (e.g., medisets, blister packs, etc.)? 1. □ Yes 2. □ No What is the approximate percent of all prescriptions dispensed in unit dose packaging? _____%
(q)	If you provide unit dose packaging, what percent of unit dose packaging is: 1. Purchased from manufacturers _____% 2. Prepared in the pharmacy _____%

If your pharmacy provides delivery, mail order, specialty or compounding services, complete lines (r) through (v) as applicable.

(r)	What percent of total prescriptions filled are delivered? _____%
(s)	What percent of Virginia Medicaid prescriptions filled are delivered? _____%
(t)	Does your pharmacy deliver prescriptions by mail (U.S. Postal Service, FedEx, UPS, etc.)? 1. □ Yes 2. □ No If yes, what is the approximate percentage of the total number of prescriptions that are delivered by mail? _____%
(u)	Are you presently providing specialty products or services (e.g., intravenous, infusion, enteral nutrition, clotting factors or derivatives, other pre-filled injectable or oral specialty products)? 1. □ Yes 2. □ No **If yes, you must complete the product breakdown in section IC on page 4.**
(v)	What is the approximate percent of your prescriptions dispensed that are compounded? _____% What is the approximate percent of your prescriptions dispensed that are compounded in a sterile environment? _____% For prescriptions that are compounded, what is the average number of minutes spent preparing a prescription by pharmacists and technicians? Pharmacist: _____ Technician: _____

SECTION IB -- OTHER INFORMATION

List any additional information you feel contributes significantly to your cost of filling a prescription. Attach additional pages if needed.

Submitted surveys will be kept confidential by Myers and Stauffer

Virginia Medicaid Pharmacy Cost of Dispensing Survey

SECTION IC -- PHARMACEUTICAL PRODUCT BREAKDOWN FOR PHARMACIES DISPENSING SPECIALTY PRODUCTS

If you answered yes to question (u) in Section IA, provide a breakdown of the specialty and non-specialty products dispensed in your pharmacy using the categories described below. Please report the number of prescriptions and dollar amount of sales in one category only, for example some clotting factors can be prefilled, however place it in "clotting factors or derivatives" only and not in "prefilled or ready to inject products". Number of prescriptions dispensed and sales should match your fiscal reporting period for the cost survey and reconcile to prescriptions and sales reported on Page 2 lines (a) and (b) in Section IA. You should also respond to the questions below the product breakdown regarding services provided in association with the dispensing of specialty products.

Product Category	Number of Prescriptions	Dollar Amount of Sales	Line No.
Infusion Products			
Compounded infusion products			(1a)
Total Parenteral Nutrition (TPN) products			(1b)
Clotting factors or derivatives			(1c)
Infusion supplies (e.g., tubing, needles, catheter flushes, IV site dressings, etc.)			(1d)
Total for Infusion Products			(1e)
Specialty			
Prefilled or ready to inject products			(2a)
Orals			(2b)
Total for Specialty			(2c)
Non-specialty			
Orals			(3a)
Topicals			(3b)
Injectables			(3c)
Compounded (non-infusion)			(3d)
Enteral nutrition			(3e)
All Other (including opthalmic, otic, etc.)			(3f)
Total for Non-specialty			
Total (Should reconcile to prescriptions and Pharmacy Department sales reported in Section IA)			(4)

Additional Pharmacy Attribute Questions for Pharmacies Dispensing Specialty Products

(a) What percentage of prescriptions dispensed were for products with REMS (Risk Evaluation and Mitigation Strategy) reporting requirements?	
(b) What percentage of prescriptions dispensed were for products that had patient monitoring and compliance activities in place?	
(c) What percentage of prescriptions dispensed were for products that had special storage requirements (e.g., refrigeration, etc.)?	

SECTION ID -- OTHER INFORMATION

Use the section below to provide additional narrative description of the specialty products and services that are provided by your pharmacy. Use this section to describe any patient monitoring programs, patient compliance programs, case management services or disease management services provided by your pharmacy. Describe any specialized equipment used in your pharmacy. Attach additional pages if needed.

Submitted surveys will be kept confidential by Myers and Stauffer

Virginia Medicaid Pharmacy Cost of Dispensing Survey

SECTION IIA -- PERSONNEL COSTS

Complete each employee classification line in aggregate. If there are no employees in a specific category, please leave blank. Provide your best estimate of the percentage of time spent working in each category, the rows must equal 100%. Complete these forms using the **same fiscal year as listed on page 2** and used for reporting overhead expenses.

			Percent of Time Spent				
Employee Classification	Estimate of FTEs[1]	Total Salaries (including bonuses and draws for owners)[2]	Dispensing Activities[3]	Other RX Related Duties[4]	Non Rx Related Duties[5]	Total[6]	Line No.
Owner: **Registered Pharmacist** (if applicable)							(1)
Owner: **Non-Pharmacist** (if applicable)							(2)
Pharmacist							(3)
Technician							(4)
Delivery							(5)
Nurses							(6)
Customer service representatives							(7)
Billing							(8)
Other Admin							(9)
Contract Labor (Pharmacist)							(10)
Contract Labor (other)							(11)
Staff not related to RX dispensing			0.0%	0.0%	100.0%	100.0%	(12)

Total Salaries		(13)
Pension and Profit Sharing		(14)
Other Employee Benefits[7]		(15)
Total Labor Expenses		(16)

[1] FTE: Full-time Equivalent. Take the total number of weekly hours worked by job category and divide by 40 hours to determine the total number of full time equivalent positions. Answer can be a decimal. Round answer to nearest tenth. Ex. 3 pharmacists, pharmacist 1 = 38 hours per week, Pharmacist 2 = 22 hours per week, Pharmacist 3 = 16 hours per week. Calculation = 38 + 22 + 16 = 76 ÷ 40 = 1.90 FTE.

[2] Total Salaries should include any bonuses and/or draws from the owners.

[3] Dispensing Activities should include any direct prescription dispensing activities. Direct prescription dispensing activities as defined in the Centers for Medicare & Medicaid Services final rule (2/1/2016) at §447.502 include the pharmacist time associated with ensuring that possession of the appropriate covered outpatient drug is transferred to a Medicaid beneficiary. This category includes, but is not limited to, a pharmacist's time in checking the computer for information about an individual's coverage, performing drug utilization review and preferred drug list review activities, measurement or mixing of the covered outpatient drug, filling the container, beneficiary counseling, physically providing the completed prescription to the Medicaid beneficiary, delivery, and special packaging. **We understand that most pharmacies will not have a specific report that tracks the percent of time spent in each activity. Please provide an estimate based on the personnel position and their normal job description/activities.**

[4] Other Rx Related Duties include, but are not limited to, time spent maintaining the facility and equipment necessary to operate the pharmacy, third party reimbursement claims management, ordering and stocking prescription ingredients, taking inventory and maintaining prescription files.

[5] Non Rx Related Duties should include any duties that are not related to the pharmacy department.

[6] Totals for the Percent of Time Spent Breakdown. Columns must total 100%.

[7] Other Employee Benefits includes employee medical insurance, disability insurance, education assistance, etc.

Submitted surveys will be kept confidential by Myers and Stauffer

Virginia Medicaid Pharmacy Cost of Dispensing Survey

SECTION IIB -- OVERHEAD EXPENSES

Complete this section using your internal financial statement or tax return for the **same fiscal year as listed on Page 2**. You should only use a tax return if the only store reported on the return is the store being surveyed. If you are using a tax return, the line numbers in the left columns correspond to federal income tax return lines. Use your most recently completed fiscal year for which financial records are available and completed (e.g., December 31, 2018, or December 31, 2017, if 2018 records are not yet complete). **If you prefer, you may submit a copy of your financial statement and/or tax return (including all applicable schedules) and Myers and Stauffer can complete Sections IIB and III (pages 6, 7, and 8).**

*** Notes about tax return line references**

Form 1040, Sched C, line 27a is for "other expenses" and a detailed breakdown of this category is typically reported on page 2, Part V of the form. Form 1065 (line 20), Form 1120 (line 26) and Form 1120S (line 19) are for "other deductions" and there are typically detailed breakdowns of the expenses in this category in the "Statements" attached to the returns.

2018 Tax Form				Round all amounts to nearest dollar or whole number.	Expense Amount Reported	Myers and Stauffer Use Only	Line No.
1040 Schedule C	1065	1120	1120S				
13	16a	20	14	Depreciation (this fiscal year only - not accumulated)			(1)
23	14	17	12	Taxes (a) Personal Property Taxes Paid			(2)
23	14	17	12	(b) Real Estate Taxes			(3)
23	14	17	12	(c) Payroll Taxes			(4)
				Any other taxes should be itemized separately on page 7.			
20b	13	16	11	Rent - Building (if building is leased from a related party then report ownership expenses of interest, taxes, insurance and maintenance)			(5)
20a	13	16	11	Rent - Equipment and Other			(6)
21	11	14	9	Repairs & maintenance			(7)
15	20*	26*	19*	Insurance (other than employee medical)			(8)
16a&b	15	18	13	Interest			(9)
17	20*	26*	19*	Legal and Professional Fees			(10)
27a*	20*	26*	19*	Dues, Publications, and Subscriptions			(11)
27a*	12	15	10	Bad Debts (this fiscal year only - not accumulated)			(12)
n/a	n/a	19	n/a	Charitable Contributions			(13)
25	20*	26*	19*	Utilities (a) Telephone			(14)
25	20*	26*	19*	(b) Heat, Water, Lights, Sewer, Trash and other Utilities			(15)
18&22	20*	26*	19*	Operating and Office Supplies (exclude prescription containers and labels)			(16)
8	20*	22	16	Advertising/Marketing			(17)
27a*	20*	26*	19*	Computer Expenses (systems, software, maintenance, etc.)			(18)
9,27a*	20*	26*	19*	Prescription Delivery Expenses (wages to a driver should only be reported on pg. 5)			(19)
27a*	20*	26*	19*	Prescription Containers and Labels			(20)
24a&b	20*	26*	19*	Travel, Meals and Entertainment			(21)
27a*	20*	26*	19*	Switching / E-Prescribing Fees			(22)
27a*	20*	26*	19*	Security / Alarm			(23)
27a*	20*	26*	19*	Bank Charges			(24)
27a*	20*	26*	19*	Credit Card Processing Fees			(25)
27a*	20*	26*	19*	Interior Maintenance (housekeeping, janitorial, etc.)			(26)
27a*	20*	26*	19*	Exterior Maintenance (lawn care, snow removal etc.)			(27)
27a*	20*	26*	19*	Pharmacy Licenses / Permits			(28)
27a*	20*	26*	19*	Employee Training and Certification			(29)
27a*	20*	26*	19*	Continuing Education			(30)
				Total Page 6 overhead expenses (lines 1 to 30)			(31)

Submitted surveys will be kept confidential by Myers and Stauffer

Virginia Medicaid Pharmacy Cost of Dispensing Survey

SECTION IIB -- OVERHEAD EXPENSES, CONTINUED

(Round all amounts to nearest dollar or whole number.)

Other non-labor expenses not included on lines (1) through (30)

Examples: Franchise fees, other taxes not reported in Section IIB (a) (page 6), accreditation and/or certification fees, restocking fees, postage, administrative expenses, amortization, etc. Specify each item and the corresponding amount. **Note that labor expenses are reported in Section IIA (page 5).** For corporate overhead expenses allocated to the individual store, please attach documentation to establish the expenses included in the allocation and describe the allocation basis.

	Expense Amount Reported	Myers and Stauffer Use Only	Line No.
			(32a)
			(32b)
			(32c)
			(32d)
			(32e)
			(32f)
			(32g)
			(32h)
			(32i)
			(32j)
			(32k)
			(32l)
			(32m)
			(32n)
			(32o)
			(32p)
			(32q)
			(32r)
			(32s)
			(32t)
Total page 7 overhead expenses (lines 32a to 32t)			(33)

Submitted surveys will be kept confidential by Myers and Stauffer

Virginia Medicaid Pharmacy Cost of Dispensing Survey

SECTION III -- RECONCILIATION WITH FINANCIAL STATEMENT OR TAX RETURN

The purpose of this reconciliation is to ensure that all expenses have been included and that none have been duplicated. Complete these forms using the same fiscal year which was used to report overhead and labor expenses.

		Cost Survey Amounts	Financial Statement or Tax Return Amounts
(1)	Total Expenses per Financial Statement or Tax Return[1]		
(2)	Total Labor Expenses (total from page 5, line 16)		
(3)	Overhead Expenses (total from page 6, line 31)		
(4)	Overhead Expenses, Continued (total from page 7, line 33)		
(5)	Total Expenses per Cost Survey [add Lines (2), (3), and (4)]		
	Specify Items with Amounts that are on Cost Survey but not on Financial Statement or Tax Return		
(6a)			
(6b)			
(6c)			
(6d)			
(6e)			
	Specify Items with Amounts that are on Financial Statement or Tax Return but not on this Cost Survey		
(7a)			
(7b)			
(7c)			
(7d)			
(7e)			
(8)	Total [add Lines (1) to (7e)] Column Totals Must be Equal		

[1] If you used a tax form to complete the cost of dispensing survey, the total expenses per tax return will be found on the following lines for 2018 tax forms:

1040C - Line 28
1065 - line 21
1120 - line 27
1120S - line 20

Exhibit 2
Informational Letter from the Virginia Department of Medical Assistance Services Regarding Pharmacy Dispensing Cost Survey

JENNIFER S. LEE, M.D.
DIRECTOR

COMMONWEALTH of VIRGINIA

Department of Medical Assistance Services

SUITE 1300
600 EAST BROAD STREET
RICHMOND, VA 23219
804/786-7933
800/343-0634 (TDD)
www.dmas.virginia.gov

Date: July 17, 2019

To: Pharmacy Providers Enrolled with the Department of Medical Assistance Services

Subject: 2019 Pharmacy Cost of Dispensing Survey

The Virginia Department of Medical Assistance Services (DMAS) is conducting a cost of pharmacy dispensing survey as required by Virginia Administrative Code 12VAC30-80. DMAS requests all pharmacy providers enrolled with DMAS to participate in the survey and provide all necessary documentation to the designated vendor.

Background:
DMAS has contracted with the firm of Myers and Stauffer, LC, Certified Public Accountants, a reputable firm with extensive experience in developing and conducting pharmacy cost of dispensing surveys, to conduct a comprehensive study to determine the cost of dispensing prescriptions to Virginia Medicaid fee-for-service members.

Survey:
To accomplish the amount of work which must be performed and to ensure an accurate and valid measurement of dispensing costs, all forms must be completed as quickly and accurately as possible. Both DMAS and Myers and Stauffer guarantee confidentiality of your survey responses.

Please return the completed survey, in the prepaid envelope going directly to Myers and Stauffer, no later than **September 4, 2019.** If you would prefer to complete the survey electronically, please contact Myers and Stauffer to request an Excel spreadsheet.

Contacts:
The enclosed instructions include a toll-free number to assist you in completing the survey. If you have questions or concerns that Myers and Stauffer is unable to answer, call Donna Proffitt, Pharmacy Manager at (804)371-0428 or email donna.proffitt@dmas.virginia.gov.

Thank you for your cooperation and continued support of the Virginia Medicaid Pharmacy Program.

Sincerely,

Jennifer Lee, MD

Jennifer Lee, M.D.

Exhibit 3a
Letter from Myers and Stauffer LC Regarding Pharmacy Dispensing Cost Survey (Independent Pharmacies)

MYERS AND STAUFFER LC
CERTIFIED PUBLIC ACCOUNTANTS

July 23, 2019

Re: Virginia Department of Medical Assistance Services- Pharmacy Cost of Dispensing Survey

Dear Pharmacy Owner/Manager:

The Virginia Department of Medical Assistance Services (DMAS) has contracted with Myers and Stauffer LC, a national Certified Public Accounting firm, to conduct a pharmacy cost of dispensing survey as part of the process to evaluate the costs associated with dispensing medications in the Commonwealth of Virginia. All pharmacies enrolled in the Virginia Medicaid Pharmacy Program are requested to participate in the survey according to the following instructions:

1. Complete the enclosed "Virginia Medicaid Pharmacy Cost of Dispensing Survey".
2. For your convenience, Myers and Stauffer will complete Section IIB "Overhead Expenses" and Section III "Reconciliation with Financial Statement or Tax Return" for you if you submit a copy of your store financial statements or your business federal income tax return (Forms 1065, 1120, 1120S or Schedule C of Form 1040 and accompanying schedules). The financial statements or federal income tax form must include information for only a single store/location. You will still need to complete the other sections of the survey.
3. If your financial statements or tax return have not been completed for your most recent fiscal year, complete the survey using your prior year's financial statements (or tax return) and the corresponding prescription data for that year. Myers and Stauffer will apply an appropriate inflation factor.
4. Retain a copy of the completed survey forms for your records.

Responding in an electronic format is preferred: We strongly encourage pharmacies to respond in an electronic format. You may obtain an Excel spreadsheet version of the survey by contacting Myers and Stauffer at (800) 374-6858 or by email at disp_survey@mslc.com. The electronic version of the survey collects the same information as the paper version and will automatically complete certain calculations. Surveys that are completed electronically may be returned via email to the same email address with the Excel survey file and other supporting documentation attached.

If you prefer to respond in a paper format: Please send completed forms to:

700 W 47th Street, Suite 1100 | Kansas City, MO 64112
PH 816.945.5300 | PH 800.374.6858 | FX 816.945.5301
www.mslc.com

Myers and Stauffer LC
Certified Public Accountants
Attn: Virginia Medicaid Pharmacy Cost of Dispensing Survey
700 W. 47th Street, Suite 1100
Kansas City, MO 64112

You may return the survey using the enclosed Business Reply Label with any envelope. Postage will be paid by Myers and Stauffer.

Pharmacies are encouraged to return the requested information as soon as possible, **but forms must be returned no later than September 6, 2019.**

It is very important that pharmacies respond with accurate information. All submitted surveys will be reviewed and validated by staff at Myers and Stauffer. If the review yields the need for additional inquiries, Myers and Stauffer staff will contact you.

Cost of dispensing surveys and supporting documentation submitted to Myers and Stauffer for this project will remain strictly confidential.

Myers and Stauffer will be conducting informational meetings via telephonic/internet-based webinars to further explain the survey. At these meetings, Myers and Stauffer will present more details about the survey process, discuss what information is being requested and answer any questions regarding the survey form. Please refer to the enclosed information meeting flyer for further information on the dates and times of these webinar meetings and instructions for registration.

If you have any questions, please call toll free at 1-800-374-6858 or send an email to disp_survey@mslc.com.

Your cooperation in providing the information for this survey is greatly appreciated.

Sincerely,

Matt Hill, CPA, CPhT
Manager
Myers and Stauffer, LC
Email: mhill@mslc.com

Enclosures: Memorandum from the Virginia Department of Medical Assistance Services
Virginia Medicaid Pharmacy Cost of Dispensing Survey Form
Myers and Stauffer LC Business Reply Label
Informational Meeting Invitation

Exhibit 3b
Letter from Myers and Stauffer LC Regarding Pharmacy Dispensing Cost Survey (Chain Pharmacies)

MYERS AND STAUFFER LC
CERTIFIED PUBLIC ACCOUNTANTS

July 23, 2019

Re: Virginia Department of Medical Assistance Services- Pharmacy Cost of Dispensing Survey

Dear Pharmacy Owner/Manager:

The Virginia Department of Medical Assistance Services (DMAS) has contracted with Myers and Stauffer LC, a national Certified Public Accounting firm, to conduct a pharmacy cost of dispensing survey as part of the process to evaluate the costs associated with dispensing medications in the Commonwealth of Virginia. All pharmacies enrolled in the Virginia Medicaid Pharmacy Program are requested to participate in the survey.

Enclosed is the "Virginia Medicaid Pharmacy Cost of Dispensing Survey" form. You may respond to the survey using either a paper or electronic format. You will need to submit survey information for each pharmacy that participates in the Virginia Medicaid Pharmacy Program. In past surveys performed by Myers and Stauffer, many pharmacy chains have preferred to respond to the survey in electronic format.

Enclosed with this letter is a list of your pharmacies which participate in the Virginia Medicaid program. Pharmacy information is presented as shown in records from DMAS. If this list is inaccurate, please notify Myers and Stauffer LC.

If you prefer to respond in a paper format: You must submit a completed survey for each store on the attached list and **any additional stores/locations** that participate in the Virginia Medicaid program. You may make copies of the enclosed survey form as needed or contact Myers and Stauffer and request additional copies of the survey form. Please send completed forms to:

Myers and Stauffer LC
Certified Public Accountants
Attn: Virginia Medicaid Pharmacy Cost of Dispensing Survey
700 W. 47th Street, Suite 1100
Kansas City, MO 64112

You may return the surveys using the enclosed Business Reply Label with an envelope. Postage will be paid by Myers and Stauffer LC.

If you prefer to respond in an electronic format: You will still be required to submit survey data for each store on the attached list and any additional stores/locations that participate in the Virginia Medicaid program using an Excel spreadsheet template provided by Myers and Stauffer. To obtain the Excel spreadsheet, send a request by email to disp_survey@mslc.com or contact Myers and Stauffer staff directly (contact information below). Surveys that are completed

700 W 47th Street, Suite 1100 | Kansas City, MO 64112
PH 816.945.5300 | PH 800.374.6858 | FX 816.945.5301
www.mslc.com

electronically may be submitted via email or contact Myers and Stauffer for access to our Secure File Transfer Protocol portal.

Whether you complete the survey in paper or electronic format, we recommend that you retain a copy of the completed survey forms for your records. Also, please describe any cost allocations used in preparing the income statement such as administrative expense, etc. Warehousing and distribution costs should be shown in cost of goods sold or listed separately.

Pharmacies are encouraged to return the required information as soon as possible, **but forms must be returned no later than September 6, 2019.**

It is very important that pharmacies respond with accurate information. All submitted surveys will be reviewed and validated by staff at Myers and Stauffer. If the review yields the need for additional inquiries, Myers and Stauffer staff will contact you.

Cost of dispensing surveys and supporting documentation submitted to Myers and Stauffer for this project will remain strictly confidential.

Myers and Stauffer will be conducting informational meetings via telephonic/internet-based webinars to further explain the survey. At these meetings, Myers and Stauffer will present more details about the survey process, discuss what information is being requested and answer any questions regarding the survey form. Please refer to the enclosed information meeting flyer for further information on the dates and times of these webinar meetings and instructions for registration.

If you have any questions, please call toll free at 1-800-374-6858 or send an email to disp_survey@mslc.com. Your cooperation in providing the information for this survey is greatly appreciated.

Sincerely,

Matt Hill, CPA, CPhT
Manager
Myers and Stauffer LC
Email: mhill@mslc.com

Enclosures:
Memorandum from the Virginia Department of Medical Assistance Services
Virginia Medicaid Pharmacy Cost of Dispensing Survey Form
List of Pharmacies that participate in the Virginia Medicaid program
Myers and Stauffer LC Business Reply Label
Informational Meeting Invitation

Exhibit 4
Informational Meeting Flyer

Informational Meetings
Virginia Department of Medical Assistance Services
Pharmacy Cost of Dispensing Survey

The Virginia Department of Medical Assistance Services (DMAS) is conducting a pharmacy cost of dispensing survey. The survey results will be used to evaluate the costs associated with dispensing medications in the Commonwealth of Virginia.

DMAS has engaged Myers and Stauffer LC to perform the pharmacy cost of dispensing study. To help prepare pharmacy owners and managers to participate in the survey, Myers and Stauffer, will be conducting informational meetings via telephonic/internet-based webinars. At these meetings, Myers and Stauffer will present more details about the survey process, discuss what information is being requested and answer questions regarding the survey form.

Pharmacies are invited to attend one of the informational meetings. **Attendance at one of the webinar sessions requires a reservation.** Please call or email Myers and Stauffer for a reservation and further meeting details.

If you are unable to attend a webinar or have questions about the survey, Myers and Stauffer offers a help desk to answer survey questions.

To reach Myers and Stauffer:

1-800-374-6858

-or-

disp_survey@mslc.com

Schedule of Informational Meetings (via telephone and Internet)

Date	Time (Eastern)
Tuesday August 6, 2019	3:00 PM – 4:00 PM
Thursday August 8, 2019	8:00 AM – 9:00 AM

MYERS AND STAUFFER LC
CERTIFIED PUBLIC ACCOUNTANTS

Exhibit 5
First Survey Reminder Letter

MYERS AND STAUFFER LC
CERTIFIED PUBLIC ACCOUNTANTS

REMINDER

August 16, 2019

Re: Virginia Department of Medical Assistance Services - Pharmacy Cost of Dispensing Survey

Dear Pharmacy Owner/Manager:

The Virginia Department of Medical Assistance Services (DMAS) has contracted with Myers and Stauffer, LC to conduct a pharmacy cost of dispensing survey as part of the process to evaluate the costs associated with dispensing medications in the Commonwealth of Virginia. All Virginia Medicaid Pharmacy Program providers are requested to participate in the survey.

Several weeks ago you should have received a copy of the dispensing cost survey form and corresponding instructions. Surveys were sent with a due date of September 6, 2019. This letter serves as a reminder that the survey due date is approaching, and you are encouraged to submit a completed survey as soon as possible.

If you have not received a survey form, have misplaced your survey form, or need the Excel version of the survey form, you can contact Myers and Stauffer. If you have any questions regarding the survey, please contact Myers and Stauffer at 1-800-374-6858 or via e-mail to disp_survey@mslc.com.

If you have recently mailed your survey to Myers and Stauffer, we thank you for your participation.

Your cooperation with this survey process is greatly appreciated.

Sincerely,

Matt Hill, CPA, CPhT
Manager
Myers and Stauffer, LC
Email: mhill@mslc.com

Exhibit 6
Second Survey Reminder / Extension Letter

MYERS AND STAUFFER LC
CERTIFIED PUBLIC ACCOUNTANTS

REMINDER

September 6, 2019

Re: Virginia Department of Medical Assistance Services- Pharmacy Cost of Dispensing Survey

Dear Pharmacy Owner/Manager:

The Virginia Department of Medical Assistance Services (DMAS) has contracted with Myers and Stauffer, LC to conduct a pharmacy cost of dispensing survey as part of the process to evaluate the costs associated with dispensing medications in the Commonwealth of Virginia. All Virginia Medicaid Pharmacy Program providers are requested to participate in the survey.

Several weeks ago you should have received a copy of the dispensing cost survey form and corresponding instructions. Surveys were sent with a due date of September 6, 2019. **In order to allow pharmacies more time to respond to the dispensing cost survey, Myers and Stauffer has been instructed by DMAS to continue to accept surveys through September 20, 2019.** Your participation in the dispensing cost survey is very important. This survey is being used by DMAS to evaluate future reimbursement rates.

If you have not received a survey form, have misplaced your survey form, or need the Excel version of the survey form, you can contact Myers and Stauffer. If you have any questions regarding the survey, please contact Myers and Stauffer at 1-800-374-6858 or via e-mail to disp_survey@mslc.com.

If you have recently mailed your survey to Myers and Stauffer, we thank you for your participation.

Your cooperation with this survey process is greatly appreciated.

Sincerely,

Matt Hill, CPA, CPhT
Manager
Myers and Stauffer, LC
Email: mhill@mslc.com

Exhibit 7
Table of Inflation Factors for Dispensing Cost Survey

Table of Inflation Factors for Dispensing Cost Survey

Virginia Department of Medical Assistance Services

Fiscal Year End Date	Midpoint Date	Midpoint Index [1]	Terminal Month Index (12/31/2019) [1]	Inflation Factor	Number of Stores with Year End Date
12/31/2017	6/30/2017	129.7	137.0	1.056	1
1/31/2018	7/31/2017	130.0	137.0	1.054	45
2/28/2018	8/31/2017	130.3	137.0	1.051	0
3/31/2018	9/30/2017	130.6	137.0	1.049	0
4/30/2018	10/31/2017	130.9	137.0	1.047	0
5/31/2018	11/30/2017	131.1	137.0	1.045	1
6/30/2018	12/31/2017	131.4	137.0	1.043	4
7/31/2018	1/31/2018	131.8	137.0	1.039	0
8/31/2018	2/28/2018	132.1	137.0	1.037	141
9/30/2018	3/31/2018	132.5	137.0	1.034	2
10/31/2018	4/30/2018	132.8	137.0	1.032	0
11/30/2018	5/31/2018	133.0	137.0	1.03	0
12/31/2018	6/30/2018	133.3	137.0	1.028	405
1/31/2019	7/31/2018	133.6	137.0	1.025	69
2/28/2019	8/31/2018	134.0	137.0	1.022	69
3/31/2019	9/30/2018	134.3	137.0	1.02	1
4/30/2019	10/31/2018	134.6	137.0	1.018	0
5/31/2019	11/30/2018	134.9	137.0	1.016	2
6/30/2019	12/31/2018	135.2	137.0	1.013	4

Total Number of Stores	**744**

[1] Midpoint and terminal month indices were obtained from the Employment Cost Index, (all civilian; seasonally adjusted) as published by the Bureau of Labor Statistics (BLS). Quarterly indices published by BLS were applied to last month in each quarter; indices for other months are estimated by linear interpolation.

Inflation factors are intended to reflect cost changes from the middle of the reporting period of a particular pharmacy to a common fiscal period ending December 31, 2019 (specifically from the midpoint of the pharmacy's fiscal year to June 30, 2019 which is the midpoint of the fiscal period ending December 31, 2019).

Exhibit 8
Histogram of Pharmacy Dispensing Cost

Histogram of Pharmacy Dispensing Cost

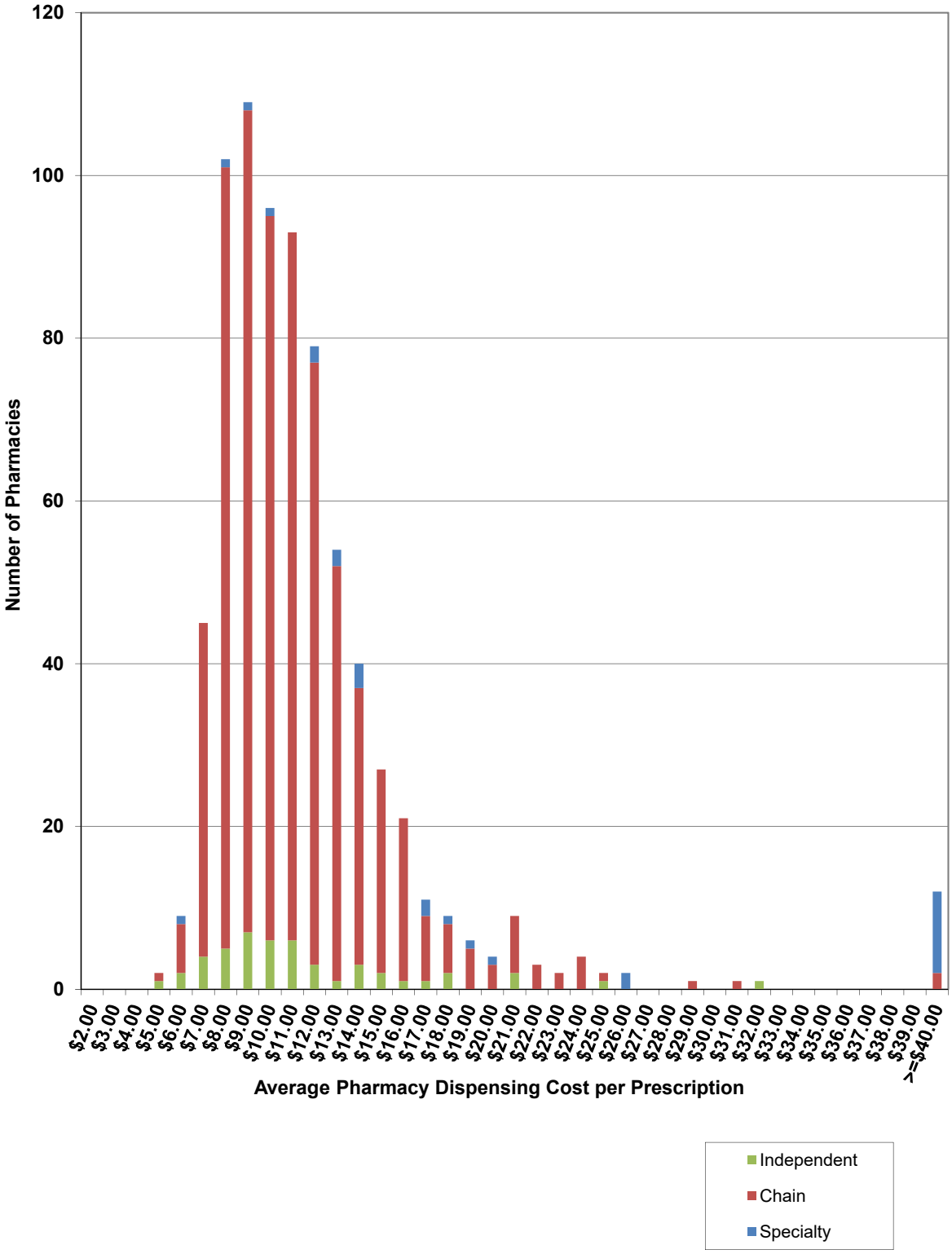


Exhibit 9
Pharmacy Cost of Dispensing Survey
Data - Statistical Summary

Pharmacy Cost of Dispensing Survey
Statistical Summary
Virginia Department of Medical Assistance Services

Characteristic	n: Number of Pharmacies	Average Total Prescription Volume	Average Medicaid Prescription Volume	Pharmacy Dispensing Cost per Prescription [1] — Measurements of Central Tendency — Means — Mean	Means — Weighted by Total Rx Volume	Means — Weighted by Medicaid Rx Volume	Medians — Median	Medians — Weighted by Total Rx Volume	Medians — Weighted by Medicaid Rx Volume	Other Statistics — Standard Deviation	95% Confidence Interval for Mean (based on Student t) — Lower Bound	Upper Bound	*t* Value (with n-1 degrees of freedom)
All Pharmacies in Sample	744	84,997	736	$12.70	$10.55	$10.63	$11.10	$9.87	$9.89	$10.33	$11.96	$13.44	1.96
Non Specialty Pharmacies [2]	716	85,549	660	$11.76	$10.32	$9.95	$10.99	$9.74	$9.34	$3.93	$11.47	$12.05	1.96
Specialty Pharmacies [2]	28	70,886	2,662	$36.65	$17.66	$14.99	$18.67	$14.10	$14.10	$43.67	$19.72	$53.59	2.05
Non Specialty Pharmacies Only													
Affiliation:													
Chain	668	87,368	618	$11.73	$10.30	$9.86	$11.00	$9.73	$9.31	$3.83	$11.44	$12.02	1.96
Independent	48	60,229	1,248	$12.23	$10.63	$10.51	$10.63	$10.23	$9.62	$5.21	$10.71	$13.74	2.01
Location (Urban vs. Rural): [4]													
In State Urban	633	84,337	599	$12.01	$10.46	$10.02	$11.24	$9.97	$9.48	$4.00	$11.70	$12.33	1.96
In State Rural	83	94,794	1,130	$9.85	$9.36	$9.64	$9.23	$8.81	$9.17	$2.74	$9.26	$10.45	1.99
Annual Rx Volume:													
0 to 56,699	225	37,447	275	$15.16	$14.29	$14.04	$14.09	$13.64	$13.62	$4.87	$14.52	$15.80	1.97
56,700 to 91,799	244	72,769	525	$11.02	$10.96	$10.71	$10.87	$10.83	$10.58	$1.96	$10.77	$11.27	1.97
91,800 and Higher	247	141,991	1,144	$9.40	$9.04	$8.71	$9.06	$8.82	$8.61	$1.69	$9.19	$9.61	1.97
Annual Medicaid Rx Volume: [5]													
0 to 249	239	52,893	119	$14.14	$12.68	$12.90	$12.99	$11.99	$12.30	$4.96	$13.51	$14.77	1.97
250 to 639	241	77,347	413	$11.36	$10.80	$11.20	$10.85	$10.32	$10.72	$2.69	$11.02	$11.71	1.97
640 and Higher	236	126,995	1,461	$9.76	$9.02	$9.34	$9.26	$8.76	$8.84	$2.19	$9.48	$10.05	1.97
Medicaid Utilization Ratio: [5]													
0.0% to 0.39%	289	71,928	185	$12.94	$11.46	$11.10	$11.96	$10.98	$10.53	$4.74	$12.40	$13.49	1.97
0.4% to 0.79%	227	87,278	556	$11.00	$10.12	$10.07	$10.46	$9.50	$9.45	$2.90	$10.62	$11.38	1.97
0.8% and Higher	200	103,269	1,466	$10.93	$9.36	$9.68	$10.21	$9.05	$9.20	$3.17	$10.48	$11.37	1.97

Pharmacy Cost of Dispensing Survey
Statistical Summary
Virginia Department of Medical Assistance Services

Characteristic	n: Number of Pharmacies	Average Total Prescription Volume	Average Medicaid Prescription Volume	Pharmacy Dispensing Cost per Prescription [1] — Measurements of Central Tendency — Means — Mean	Means — Weighted by Total Rx Volume	Means — Weighted by Medicaid Rx Volume	Medians — Median	Medians — Weighted by Total Rx Volume	Medians — Weighted by Medicaid Rx Volume	Other Statistics — Standard Deviation	95% Confidence Interval for Mean (based on Student t) — Lower Bound	Upper Bound	*t* Value (with n-1 degrees of freedom)
Non Specialty Pharmacies Only													
Institutional:													
LTC Institutional Pharmacies [6]	11	502,033	5,877	$9.94	$7.50	$7.33	$8.77	$5.67	$5.89	$3.18	$7.80	$12.07	2.23
Non-LTC Institutional Pharmacies [6]	705	79,050	579	$11.79	$10.60	$10.36	$11.01	$9.97	$9.69	$3.94	$11.50	$12.08	1.96
Unit Dose:													
Does dispense unit dose	12	464,682	5,652	$9.75	$7.51	$7.34	$8.74	$5.67	$5.89	$3.10	$7.78	$11.71	2.20
Does not dispense unit dose	704	79,086	575	$11.80	$10.60	$10.38	$11.02	$9.97	$9.71	$3.94	$11.51	$12.09	1.96
Provision of Compounding Services													
Provides compounding (>=10% of Rxs)	2	69,535	608	$15.32	$12.86	$12.10	$15.32	$11.93	$11.93	$4.79	($27.70)	$58.33	12.71
Compounding <10% of Rxs	714	85,594	660	$11.75	$10.31	$9.94	$10.98	$9.74	$9.32	$3.93	$11.46	$12.04	1.96
340B Pharmacy Status													
Participates in 340B and provides 340B pricing to Medicaid	10	50,989	1,374	$15.24	$13.79	$15.15	$14.52	$10.87	$15.96	$5.36	$11.41	$19.07	2.26
Does not participate in 340B or does not provide 340B pricing to Medicaid	706	86,038	650	$11.71	$10.29	$9.79	$10.98	$9.73	$9.26	$3.89	$11.43	$12.00	1.96

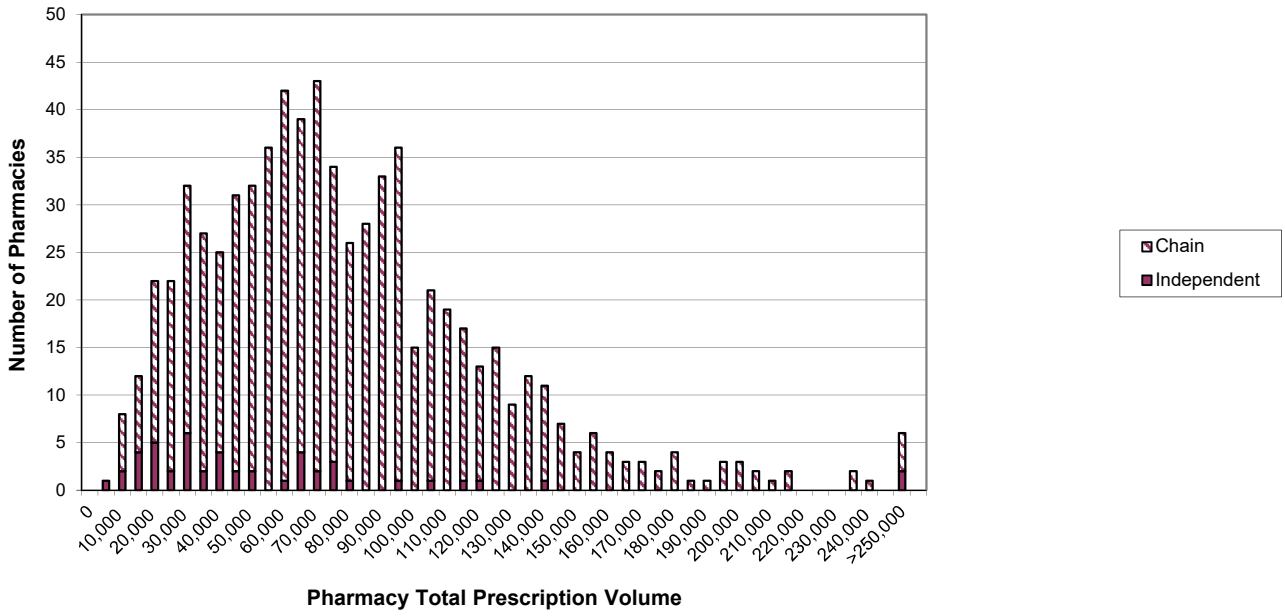
Notes:
1) All pharmacy dispensing costs are inflated to the common point of 6/30/2019 (i.e., midpoint of a fiscal year ending 12/31/2019).
2) For purposes of this report a "specialty pharmacy" is one that reported sales for intravenous, home infusion, clotting factor and/or other specialty services of 10% or more of total prescription sales.
3) For the purposes of this report, specialty pharmacies were divided into three categories: clotting factor, infusion specialty, and other specialty. Separate results for these categories of specialty pharmacies are not displayed on this report due to categories that only included a single pharmacy that submitted a survey.
4) Myers and Stauffer used the pharmacies' zip code and the Zip Code to Carrier Locality File from the Centers for Medicare & Medicaid Services to determine if the pharmacy was located in an urban or rural area.
5) Medicaid volume is based on Virginia fee-for-service Medicaid volume for the time period of January 1, 2018 to December 31, 2018.
6) For purposes of this report an "LTC Institutional Pharmacy" is one that reported dispensing 25% or more of prescriptions to long-term care facilities.
7) This excludes pharmacies classified as specialty pharmacies.

Exhibit 10
Charts Relating to Pharmacy Total Prescription Volume:

A: Histogram of Pharmacy Total Prescription Volume

B: Scatter-Plot of Relationship between Dispensing Cost per Prescription and Total Prescription Volume

Histogram of Pharmacy Total Prescription Volume



Scatter Plot of Relationship Between Dispensing Cost per Prescription and Total Prescription Volume

(Non-Specialty Pharmacies, Total Prescription Volume < 300,000)

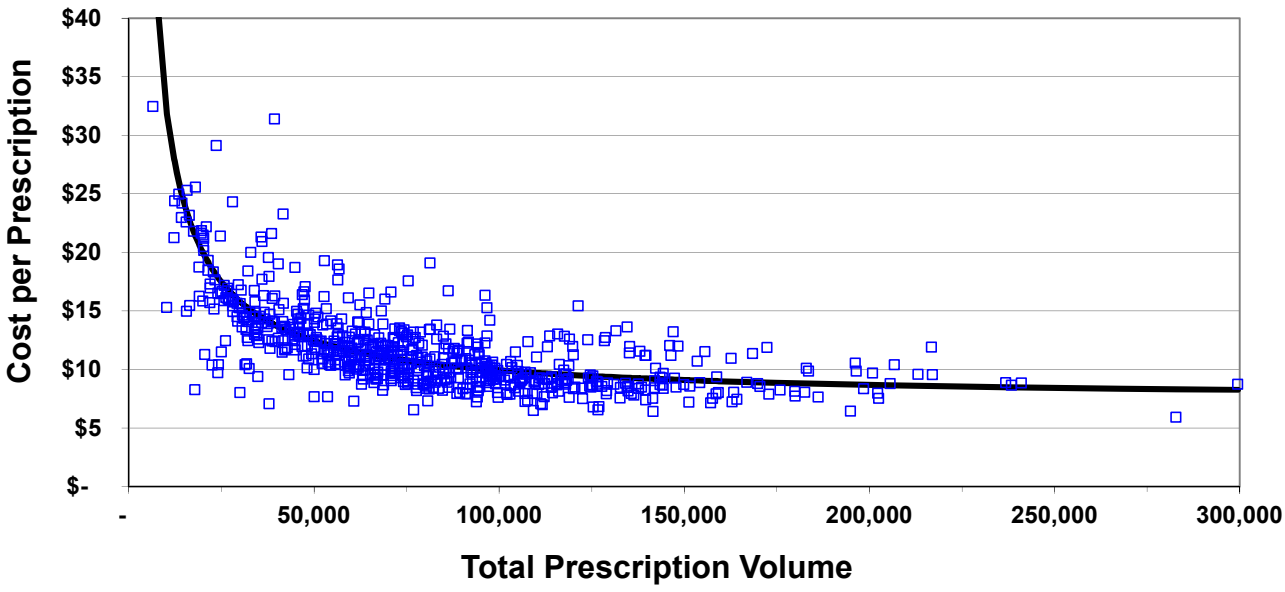


Exhibit 11
Chart of Components of Cost of Dispensing per Prescription

Chart of Components of Dispensing Cost per Prescription

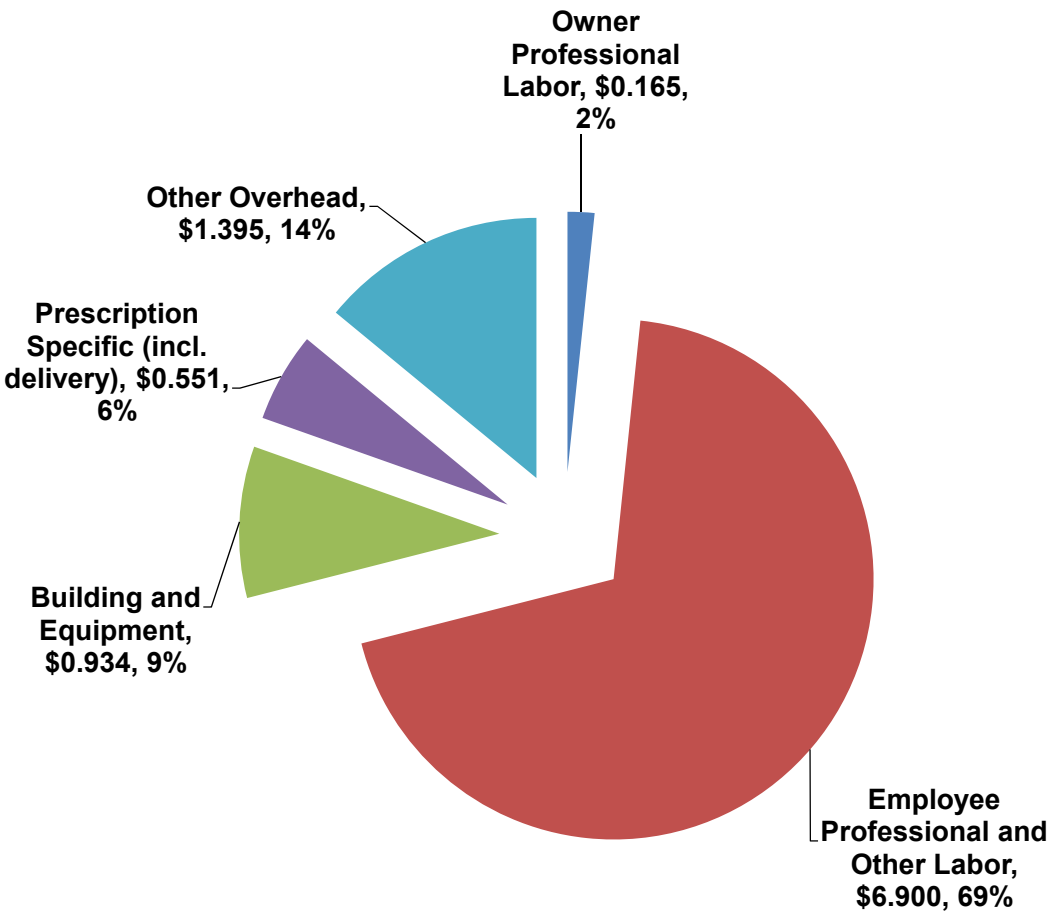


Exhibit 12
Summary of Pharmacy Attributes

Summary of Pharmacy Attributes
Virginia Department of Medical Assistance Services

Attribute	Number of Pharmacies Responding	Statistics for Responding Pharmacies		
		Response	Count	Percent
Payer Type: percent of prescriptions (averages)	628	Medicaid fee for service	N/A	1.2%
		Medicaid managed care	N/A	9.1%
		Other third party	N/A	86.1%
		Cash	N/A	3.6%
		Total	N/A	*100.0%*
Payer Type: percent of payments (averages)	625	Medicaid fee for service	N/A	1.1%
		Medicaid managed care	N/A	8.0%
		Other third party	N/A	89.0%
		Cash	N/A	2.0%
		Total	N/A	*100.0%*
Type of ownership	744	Individual	4	0.5%
		Corporation	732	98.4%
		Partnership	4	0.5%
		Other	4	0.5%
		Total	*744*	*100.0%*
Location	744	Medical office building	28	3.8%
		Shopping center	116	15.6%
		Stand alone building	416	55.9%
		Grocery store / mass merchant	173	23.3%
		Outpatient Hospital	3	0.4%
		Other	8	1.1%
		Total	*744*	*100.0%*
Purchase drugs through 340B pricing	744	Yes	50	6.7%
		No	694	93.3%
		Total	*744*	*100.0%*
Provision of 340B inventory to Medicaid (for those that indicated they purchase drugs through 340B pricing)	50	Yes	10	20.0%
		No	40	80.0%
		Total	*50*	*100.0%*
Building ownership (or rented from related party)	744	Yes, (own building or rent from related party)	60	8.1%
		No	684	91.9%
		Total	*744*	*100.0%*
Hours open per week	404	80.09 hours	N/A	N/A
Years pharmacy has operated at current location	406	12.32 years	N/A	N/A
Provision of 24 hour emergency services	744	Yes	50	6.7%
		No	694	93.3%
		Total	*744*	*100.0%*
Percent of prescriptions to generic products	599	Percent of prescriptions dispensed that were generic products	599	86.2%
Percent of prescriptions to long-term care facilities	744	2.57% for all pharmacies; (18.92% for 101 pharmacies reporting > 0%)	N/A	N/A
Provision of unit dose services	744	Yes (average of 70.42% of prescriptions for pharmacies indicating provision of unit dose prescriptions. Approximately 80.7% of unit dose prescriptions were reported as prepared in the pharmacy with 19.3% reported as purchased already prepared from a manufacturer)	31	4.2%
		No	713	95.8%
		Total	*744*	*100.0%*
Percent of total prescriptions delivered	744	2.90% for all pharmacies; (34.27% for 63 pharmacies reporting > 0%)	N/A	N/A
Percent of Medicaid prescriptions delivered	744	2.42% for all pharmacies; (31.03% for 58 pharmacies reporting > 0%)	N/A	N/A
Percent of prescriptions dispensed by mail	744	0.33% for all pharmacies; (7.29% for 34 pharmacies reporting >0% percent of prescriptions dispensed by mail)	N/A	N/A
Provision of specialty products or service (e.g., intravenous or home infusion, enteral nutrition, clotting factor or derivatives prescriptions)	744	Yes	28	3.8%
		No	716	96.2%
		Total	*744*	*100.0%*
Percent of prescriptions compounded	744	0.40% for all pharmacies; (0.52% for 576 pharmacies reporting >0 compounded Rxs)	N/A	N/A

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