

know of any better way to proceed than to read the statement. I hope, particularly in view of the length of it, that you will feel free to interrupt me at any point to ask questions.

Senator NELSON. Fine. Go ahead.

Mr. STAATS. We are going to comment today, as I indicated, on seven different subjects.

1. First, actions taken to assure that only effective and low-cost equivalent drugs, when available, are procured by the Government or paid for under Government sponsored medical programs.
2. Information sources used by physicians in selecting drugs.
3. Use of Government specifications in the procurement of drugs.
4. Quality assurance and inspection procedures of Federal agencies.
5. Coordination and cooperation between and among Federal agencies which buy drugs.
6. Procurement of drugs of foreign origin.
7. Policies and practices pertaining to furnishing drugs under the Medicare and Medicaid programs.

Estimates indicate that direct Federal procurements of prescription drugs amounted to about \$240 million for fiscal year 1971. Most of these procurements were made by the Defense Supply Agency, through the Defense Personnel Support Center, DPSC, and the Veterans' Administration, VA.

DPSC manages about 1,100 drug items on a centralized basis and spent about \$95.5 million for drugs in fiscal year 1971. The VA manages about 450 drug items on a centralized basis and procured for central stock drugs valued at \$27.4 million in fiscal year 1971. The VA also administers Federal Supply Schedule contracts under which Federal agencies can satisfy their drug requirements by direct purchases from drug manufacturers. Purchases under these contracts by all Government agencies for fiscal year 1971 amounted to about \$64 million. The Public Health Service centrally manages about 600 drug items and spent an estimated \$14.2 million for drugs in fiscal year 1971. About 50 percent of this amount was spent under contractual arrangements made by VA.

A substantial portion of Federal expenditures for prescription drugs are indirect, consisting principally of the Federal share of the cost of drugs provided to beneficiaries under the Medicare and Medicaid programs. The Department of Health, Education, and Welfare (HEW) estimates that medicaid expenditures for prescribed drugs for fiscal year 1971 amounted to about \$485 million, of which about \$246 million represented the Federal share and the remaining \$239 million the State and local share. Expenditures for prescription drugs under part A, hospital services, of medicare for fiscal year 1971 were estimated at \$541 million. No information is available on expenditures under part B, physician services, of Medicare.

Although we have not completed our work with respect to examining into the effectiveness of administration and management of Federal programs for procurement and distribution of drugs, it is already clear that standardized procedures and improved cooperation and coordination among the Federal procurement agencies currently involved in (1) procuring and distributing drugs, (2) financing the supply of drugs to beneficiaries under the Government's social programs, and