Regulations for part A of medicare set forth two basic requirements that must be met in order for a drug or biological to be included as a covered hospital service. It must (1) represent a cost to the institution in rendering services to the beneficiary, and (2) either be included, or approved for inclusion, in the USP, the NF, the U.S. Homeopathic Pharmacopoeia, or New Drugs or Accepted Dental Remedies (except for those unfavorably evaluated), or approved by the Pharmacy and Drug Therapeutics Committee (or equivalent) of the medical staff of the hospital for use in the hospital. There are no medicare regulations concerning the use of generic versus brand name drugs.

Payments for drugs under part A are made on the basis of reasonable cost. Payments are audited by fiscal intermediaries under contract to the Social Security Administration in accordance with the "prudent buyer concept." Under this concept, the Government pays the amount a prudent and cost-conscious buyer would pay for a given item or service.

Under part B of medicare, coverage of drugs and biologicals is limited to those drugs and biologists (except for insulin) commonly furnished in physicians' offices which cannot, as determined by regulations, be self-administered. Thus, a drug or biological is reimbursable under part B of medicare only if it is of a type which is normally not self-administered.

Medicare carriers are responsible for determining whether the services in a given case are reasonable and necessary. In making its evaluation, the carrier is expected to take into account accepted standards of medical practice in its service area. Because accepted standards of medical practice vary from one area to another, the Social Security Administration has issued general guidelines leaving it to the carrier to develop more detailed guidelines which reflect accepted patterns of care in its service area.

This concludes my statement, Mr. Chairman. I have attached several appendixes to my statement. If agreeable, I would like to suggest that these be included as part of our statement.[1]

Senator NELSON. Has the GAO attempted to make any estimate of the amount of money wasted by poor purchasing practices? I am not talking so much about buying drugs they ought not to buy, but the varying prices that are paid by the different agencies for the same drug? No attempt has been made to estimate that?

Mr. STAATS. Not on a Governmentwide basis. We have made these comparisons of the type we have referred to in our statement. On a Government-wide basis, we do not have anything that we can describe as a total amount of money wasted or which could have been saved if there had been proper coordination and use of VA's facilities by DPSC or vice versa.

Senator NELSON. I would like to pursue the question I raised previously about the authority of the Government in negotiated contracts to examine the cost figures of the suppliers after the purchase, which is what I understand to be the law. This applies not before, but after, the purchase; is that correct?

Again, in January and February hearings of 1971, part 20 of these hearings, on page 8018, I raised the question with you about this authority. It was agreed—I do not want to read all this material—that the General Accounting Office has authority under the present

[1] See pp. 8822–8831.