

law to examine all negotiated contracts for drugs and medicines, and to require price and cost information from the suppliers who are supplying these medicines.

Then I raised the question of whether you intended to use the authority in this law. The answer by Mr. Ahart was: "As the Comptroller General mentioned, we are continuing our work in examining drug procurement systems; and as a part of that work, we will be giving consideration to utilizing the authority which we have under the provisions of the 1951 act which Mr. Shnitzer mentioned, and actually, examine the costs of certain of the drug manufacturers. We have not decided how far we are going to go on this and the final plans are indefinite. But this will be given consideration as part of this continuing work, and I am sure some of it will be done."

I commented: "I realize it would be a very complicated matter, but it would seem to me that all companies ought to be served notice that the GAO is going to utilize this statute. I think we ought to take a look at some of these costs. I think it would be a service to the taxpayer to take a look at that, and I am glad that you have it under consideration."

Now, my understanding is that you, in fact, pursuant to authority under the statute, did go to some manufacturers and seek to get their production costs respecting drugs they supplied on negotiated contracts. Is that correct?

Mr. STAATS. We have had discussions with some manufacturers with respect to the costs of their drugs. The main difficulty that we have encountered is that there are indications that the manufacturers with whom we have had discussions do not allocate major overhead costs on a product basis. In other words, it would be impossible to develop from their internal accounts what their costs are with respect to an individual drug. They just do not keep them this way.

I do not think there would be any problem of looking at their total costs, at how they allocate these costs with respect to the costs of drugs sold. That is, I am thinking here about research and development, with respect to merchandising, marketing, with respect to professional services, and things of this type. The only problem so far that has been presented is in connection with inquiries that relate to costs for an individual drug. And they have just never made allocations of all overhead costs on this basis. So this is the problem that we have encountered.

Now, I do not think we would have much difficulty, and as I have indicated, if we were to approach them in terms of a cost allocation system, I think it may be possible to develop some comparisons as to how much goes into advertising, R. & D., and various costs of this type.

We would have to more or less have our own definition as to cost allocation methods here.

Senator NELSON. So you tell me that these great——

Mr. STAATS. But by individual product, I do not know quite how you would go about it. We would have to draw, again, our own guidelines. We would have to go in and examine every voucher and related charges and determine their proper allocation.

Now, the other side of this question——

Senator NELSON. Well, I just want to raise a question. That puzzles me because we have been told so often about the great sophistication