

What Mr. Shnitzer is talking about is after the contracts have been awarded, after the goods have been delivered, access to records post facto, you understand.

Senator NELSON. That was my understanding. That is the testimony that I read from a year ago, that it had to be after the negotiated contract had been settled; that at that stage, the GAO has the authority under the law, and it is agreed as part of the boilerplate in each contract, to go look at the books of the company to make a determination of what the cost of production of that drug is.

Is that correct?

Mr. SHNITZER. Yes, sir; directly relevant books, documents, paper, and records, I think it is.

Senator NELSON. If they tell the GAO that they do not keep product lines, maybe your accountants can teach them something by going in and breaking it down and improving their accounting system. Do you not think that would be worth while?

I think a good accounting system can do it. I just do not believe companies when they say, we are producing seven products, we are selling \$80 million of this and \$20 million of this and \$10 million of this, the compounds cost us this amount, our overhead is this amount, it takes this long to produce this product, and so forth and so on. I do not believe them. I just think they are lying when they tell you they cannot give product line costs.

But if they are not, if they are that incompetent, it seems to me that under the law, the GAO ought to go in and maybe you can help them become a little more efficient.

I think they are lying to the American public. I think it is as simple as that.

Mr. STAATS. I think a very important point—

Senator NELSON. Pardon?

Mr. STAATS. I do not see how we can go in and tell the contractor what kind of accounting system he is going to use.

Senator NELSON. You do not have to. But the law allows you to look at their costs. I think you can reach a conclusion yourself.

Mr. STAATS. We do have new legislation which will have a bearing here which has to do with cost accounting standards. I am a Chairman of a separate agency which is called the Cost Accounting Standards Board. This board has been in operation now for about a year. We have already promulgated standards, and we will be promulgating more standards.

Now, these will be relevant to what you are talking about. And I think it will have a significant bearing on your question.

But as of now, I do not know how we can go in and tell any drug manufacturer that he has to keep his accounts a certain way except under the cost accounting standard framework.

Senator NELSON. I did not suggest that you tell them how they keep their accounts. I suggest that you take an example of one of these and use the law. The law says you are entitled to look at the books. It seems to me you ought to send the team in and see if you cannot figure out and make a good judgment as to what the cost is. I do not quite believe that they cannot tell what they are making money on and what they are losing money on. I do not believe it.