

bid; then buying the same drug off the Federal Supply Schedule from the same supplier, they did not pay \$13.89 unit price, they paid \$47.64.

Is there any reasonable explanation for a differential that huge?

Mr. AHART. Such examples are certainly well documented in these series of hearings. And as you know, Mr. Chairman, there are a lot of differentials in prices given to different hospitals. And in our review, certainly we found differences in prices given to the Veterans Administration vis-a-vis the Department of Defense for like quantities of the same item in relatively the same time frame.

I think the explanation for this in the hospital situation that you mentioned just a moment ago and the DOD situation is partly attributable to just a different degree of aggressiveness in negotiating prices on the part of the various hospitals and on the part of the Veterans Administration and DOD.

A certain amount of it is certainly due to the use of competitive contracting by one agency and non-competitive procurements by another agency for the same items.

We did make a comparison of 13 sets of purchases between the Veterans Administration and DOD, where one of them had gone competitively and the other had gone negotiated with the sole source, and in 11 of those cases there were significant differences in the prices paid—favoring, of course, lower prices when competition was obtained in the procurement.

But I do not think we are in a position to explain all of the differences which you have put on the record, particularly between one hospital and another hospital when the buys were made from the same manufacturer. I think part of that is explained by a different degree of effectiveness in negotiating with the manufacturer to get the best price that they can.

Now, we did include in our report, on page 37 of our report, the comparison that we made of purchases under the Federal Supply Schedule, with those that were purchased on a central basis. And the range we found is in some cases a very slight difference between the price paid centrally versus the Federal Supply Schedule; but the range went all the way up to about 360 percent higher on the Federal Supply Schedule for certain items, with an overall average, I believe, of about 74 percent differential.

Senator NELSON. Well, I am looking at another DOD example: for nitrofurantoin 100 milligram tablets ordered from the same company in bottles of 1,000, the same product from different companies. On bid the unit price for these tablets, 100 milligram—a bottle of 1,000 was \$11.65. For exactly the same compound, brought from the Federal Supply Schedule, the unit price was \$170.

Well, it is just inconceivable that you could have that much difference in the unit price accounted for by packaging, shipping, and individual handling. It is a differential of almost \$160.

Now, would you not suppose that a substantial purchaser, such as the DOD's Defense Supply Agency, when they had a successful bidder, could also make an agreement right then that if they needed some supplementary supplies, that it could be purchased at some reasonable markup?