The regulations for Medicare state that in order for a drug to be covered under Part A 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 specified drug reference volumes or approved by a P&T Committee (or equivalent) for use in the participating hospital. In order to be covered under Part B, costs of eligible drugs--like those of other medical services--must be accepted by the carrier as reasonable and necessary.

Under this system, SSA generally is not provided detailed information concerning the specific drugs that are being prescribed under Medicare. We were informed by an SSA official that there are currently no SSA regulations which encourage the use of generic drug products.

Under the Medicaid program, which is administered by State agencies with Federal guidance and reimbursed, in part, by the Social and Rehabilitation Service (SRS), the use of formularies and generic products is optional. The applicable Federal policy states that "where either is employed, there must be standards for quality, safety, and effectiveness under the supervision of professional personnel." Although SRS discusses the use of a formulary system as a means of reducing overall drug costs, the use of formularies is not