

We suggested to the General Services Administration that it give consideration to adopting the formal advertising method of contracting for the bulk of the Government's tire and tube requirements.

The Administrator of General Services, in commenting on the matters discussed in this report, has advised that the administration plans to procure through formal advertising 87 high-volume tire and tube items to be stocked and to give continuing attention to the use of formal advertising where that method is determined to be feasible. We believe that these proposed actions constitute essential agreement with our suggestions.

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REVIEW OF THE PRICING METHODS USED BY THE VARIOUS STATES
IN THE PURCHASE OF PRESCRIBED DRUGS UNDER FEDERALLY
AIDED PUBLIC ASSISTANCE PROGRAMS, WELFARE ADMINISTRATION,
DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

On the basis of our review, we concluded that, if the Department of Health, Education, and Welfare would provide the States with appropriate guidance and requirements pertaining to the establishment or revision of the pricing methods for drugs purchased for use by welfare recipients, the drug programs in many States would be significantly improved with resulting economies to both the States and the Federal Government.

Although prescription drug programs under which payments are made directly to vendors have been in existence in many States for several years, the Department has not provided the States with guidance in the establishment or revision of pricing methods for welfare prescriptions. In fiscal year 1966 these programs involved expenditures of about \$144 million of which the Federal share was estimated at about \$81 million.

We believe that this lack of guidance has been a significant factor contributing to a diversity of welfare prescription drug pricing methods in use and to the use in many States of pricing methods which do not result in equitable prescription drug pricing. Also, many of the pricing methods are not conducive to economical prescription drug procurement because they include features which provide an incentive to pharmacies to dispense higher cost drug products where suitable lower cost products meeting the prescription requirements are available.

We proposed that the Secretary of Health, Education, and Welfare establish a policy governing methods of pricing welfare prescription drugs, which would prohibit the use of methods based on cost plus a percentage of cost or methods otherwise providing an incentive for the dispensing of higher cost products where suitable lower cost products meeting the prescription requirements are available. We proposed also that the Department's policy encourage the use of methods based on the cost of the product dispensed plus a fixed professional fee.

Concerning these proposals, the Department stated that it was in general agreement that it should develop a policy for pricing pharmaceutical products obtained under prescription, which would prohibit a cost-plus-a-percentage-of-cost basis of reimbursement but which, in contrast to our view that the use of a cost-plus-a-fixed-