



DEPARTMENT OF VETERANS AFFAIRS
OFFICE OF INSPECTOR GENERAL

Office of Audits and Evaluations

VETERANS HEALTH ADMINISTRATION

Medical Facilities Forfeited
Drug Return Credits through
Inadequate Monitoring of
Vendor Invoices

MANAGEMENT ADVISORY
MEMORANDUM

MEMO # 20-00418-190

AUGUST 12, 2021

The Office of Inspector General (OIG) has released this management advisory memorandum to provide information on matters of concern that the OIG has gathered as part of its oversight mission. The OIG conducted this review in accordance with the Council of the Inspectors General on Integrity and Efficiency's Quality Standards for Inspection and Evaluation, except for the standard of reporting as to follow-up and performance measurement.

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DEPARTMENT OF VETERANS AFFAIRS
OFFICE OF INSPECTOR GENERAL
WASHINGTON, DC 20001



June 24, 2021¹

MANAGEMENT ADVISORY MEMORANDUM

TO: Steven L. Lieberman, MD, Deputy to the Deputy Under Secretary for Health Performing the Delegable Duties of Under Secretary for Health Veterans Health Administration (10)

FROM: Larry Reinkemeyer, Assistant Inspector General
VA Office of Inspector General's Office of Audits and Evaluations (52)

SUBJECT: Medical Facilities Forfeited Drug Return Credits through Inadequate Monitoring of Vendor Invoices

While auditing the Veterans Health Administration's (VHA) prescription drug return program from November 2019 through April 2021, the VA Office of Inspector General (OIG) determined that VHA is at increased risk for not receiving all drug return credits due before the national drug return vendor—Pharma Logistics—issues final invoices to VA medical facilities. Although VA ended its contract with Pharma Logistics for national drug return services in October 2020, the vendor continues to process and issue final invoices to facilities as the drugs they returned become eligible for and receive manufacturer credit. In fact, medical facilities will continue to regularly receive final invoices from Pharma Logistics for drug return credits through at least April 2022. According to Pharma Logistics, medical facilities must take purposeful action and notify the vendor to keep final invoices open that do not fully account for the facility's drug returns in renewable 30-day increments. If medical facilities do not make sure that Pharma Logistics' monthly final invoices fully account for their drug returns and that incomplete invoices are kept open, they lose the opportunity to obtain reimbursement on any outstanding credits.

Because this information is time-sensitive, the OIG is issuing this Management Advisory Memorandum to ensure VHA leaders are aware of the need for medical facilities to fully account for and receive all drug return credits before Pharma Logistics' credit processing requirement expires. This process is discussed starting on page 2 of this memorandum. Additionally, this advisory is also meant to help contracting officers make sure a clearly defined drug return credit reimbursement structure is established in the statement of work for any new drug return

¹ This memorandum was sent to the Veterans Health Administration (VHA) on June 24, 2021, to provide the opportunity to review and comment. Following that period, VHA's comments were given full consideration and any requests for change supported by sufficient evidence were addressed before the publication process was completed. This memorandum was addressed to the individual acting as the under secretary for health at the time of final issue.

contracts. The OIG is not planning to take additional steps now but may conduct follow-up work in this risk area in the future.

Prescription Drug Return Program

In fiscal year (FY) 2020, VHA spent about \$7 billion on prescription drugs. Most of this spending was on drugs dispensed to veterans. When VHA cannot use the drugs it purchases because they are damaged or expired, the prescription drug return program allows medical facilities to return these drugs to the manufacturer through a reverse distributor, such as Pharma Logistics, for credit or destruction. During this same year, VHA expected to receive about \$27 million from drug returns for credit.² The reverse distributor uses a proprietary database to assign an estimated value to each drug based on manufacturer credit values when VHA makes the returns.³

In October 2018, VA's National Contract Service awarded Pharma Logistics a national contract for prescription drug returns. Under the contract, Pharma Logistics was responsible for collecting and sorting medical facilities' damaged, expired, or unused drugs, and returning them to drug manufacturers for credit. Drug manufacturers reimburse medical facilities for a portion of the value of an expired medication as defined by the individual manufacturer's drug return credit policy. According to Pharmacy Benefits Management, medical facilities receive drug return credits in one of two ways: 1) through McKesson, the VA's Pharmaceutical Prime Vendor, or 2) directly from the manufacturer via check. Medical facilities can apply these credits to future drug purchases.

In May 2021, the OIG issued a draft report to VA for comment that detailed the ineffective governance of the drug return program, which increased the risk of undetected loss, theft, or misuse of drugs waiting to be returned.⁴ The OIG also found that Pharma Logistics did not have a process in place to issue invoices to medical facilities that detailed expected drug return credits. Therefore, the OIG's ability to assess the final invoice process at the time of that audit was hindered.

In June 2020, final invoices started to be issued to medical facilities, according to a Pharma Logistics representative. Figure 1 on page 5 illustrates how the final invoicing process occurred in practice during the review period.

² The review team extracted data on the total value expected for drugs that medical facilities returned in FY 2020 from Pharma Logistics' dashboard.

³ The estimated return value is not necessarily equal to or less than what VHA paid to purchase the drugs. In fact, in some cases VHA may receive more in return credits for some drugs than it paid for the drugs initially. Drug manufacturers are not required to participate in a return credit program. Each drug manufacturer that participates in the return credit program has the authority to set its own return credit terms and values.

⁴ The draft report, *Veterans Health Administration: Ineffective Governance of Prescription Drug Return Program Creates Risk of Diversion and Limits Value to VA*, Report No. 20-00418-166, was published in August 2021.

Pharma Logistics is responsible for providing three pieces of information to facilities in the following order:

1. A preliminary invoice detailing the drugs' estimated return value for manufacturer credit
2. A line-by-line reconciliation of the expected value of the drugs the facility returned compared to the actual return value. In practice, this information is called a job settlement statement and Pharma Logistics posts this data in an excel file on the electronic dashboard accessible to VA.
3. A final invoice detailing the actual drug return credits and any corrections for overcharges or undercharges from the initial invoice

According to VA's contract with Pharma Logistics, the vendor is required to issue a line-by-line reconciliation of the expected return value versus the actual return value to the medical facilities at the time of the final invoice. However, in practice, this does not happen. The job settlement statement, which includes this information, remains on a web-based dashboard and is accessible to medical facilities even after the final invoice is issued.

Pharma Logistics provides medical facilities final invoices once all credits are received from the manufacturer or a period of 18 months has elapsed, at which point the job is considered closed and the final credit amount will not change. A facility forfeits any credits that were not received when the job closes. Chiefs of pharmacy can track drug returns submitted for credit through Pharma Logistics' web-based dashboard at any point during the 18 months. According to the national contract, VA medical facilities should use this dashboard to manage and track drug returns.

VA decided not to continue its contractual relationship with Pharma Logistics for drug returns after October 8, 2020. However, some drugs that Pharma Logistics picked up from medical facilities before October 2020 were still going through the drug return process by February 2021, and VHA will not receive its final drug return credits for some of these drugs until at least April 2022. In June 2021, VA officials reported to the OIG they were assessing the feasibility of awarding a new national drug return contract. The risks identified in this memorandum should inform VA's requirements for future drug return contracts.

The Prescription Drug Return Program Process Provided Pharmacy Chiefs Opportunities to Maximize Drug Return Credits

Pharma Logistics established a web-based dashboard that provides pharmacy chiefs or their designees with a real-time view of the expected value of their medical facility's drug return credits, the total dollar value of credits received, and the date when the job was opened. In addition, pharmacy chiefs have the option to extend the drug credit process if credits from the manufacturer remain open after the 18-month window elapses to allow more time for

outstanding credits to process. Pharmacy chiefs waive the ability to recoup any additional credits that Pharma Logistics receives after the job closes if they take no action to review the job settlement statement and keep it open if credits are outstanding. Medical facilities can continue to use this dashboard to track drug return credits from Pharma Logistics through April 2022. Figure 1 illustrates the drug return credit process from the start of the preliminary invoice to the closing of the final invoice. This figure details how the drug return program credit process worked in practice during the review period. It should be noted that these practices are not fully reflected in the terms of VA's drug return contract with Pharma Logistics.

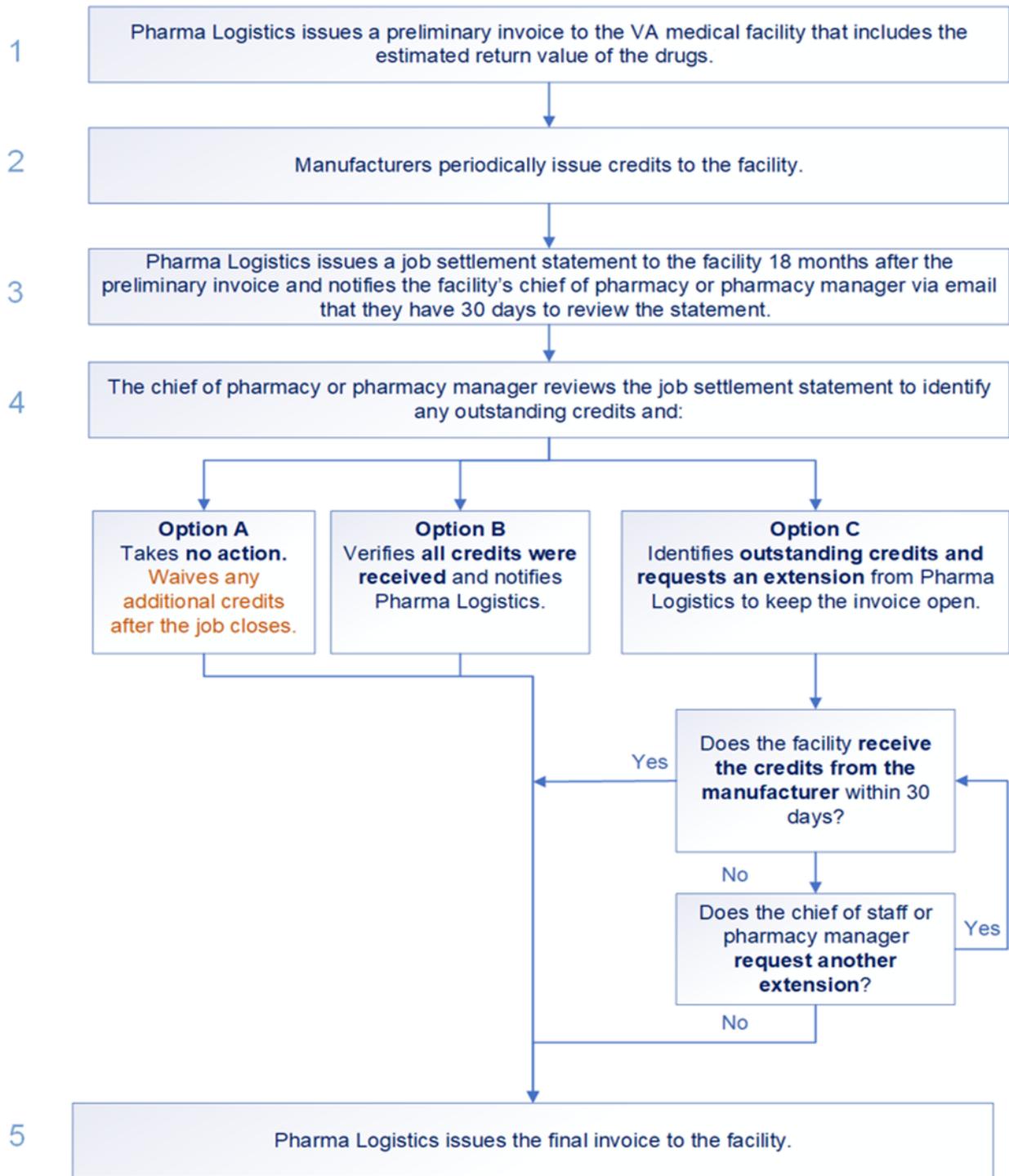


Figure 1. Drug return program credit process.

Source: VA OIG analysis of the drug return program process in practice.

Pharmacy Chiefs Did Not Routinely Monitor Credits or Request Extensions, Forfeiting Drug Return Credits

Though pharmacy chiefs should continually use the dashboard to monitor any outstanding credits and request extensions on the final invoices if necessary, it appears they are not consistently doing so. The review team's analysis of a limited number of job settlement statements indicated some pharmacy chiefs are not routinely using the dashboard to monitor their facility's return credits and are not requesting extensions from Pharma Logistics when there are discrepancies. The review team estimated in FY 2020 and FY 2021, VHA forfeited at least \$2.1 million of outstanding drug return credits at 10 medical facilities.

This occurred because pharmacy chiefs did not always review their facility's drug return data to identify missing credits and request extensions when appropriate before Pharma Logistics issued its final invoices. In addition, according to email exchanges between VA and Pharma Logistics officials from July 2020, Pharma Logistics did not provide training materials on the job close out process to medical facilities. As reported by the National Contract Service and Pharmacy Benefits Management Office, VA last requested these training materials from the vendor in July 2020. National Contract Service officials subsequently reached out to Pharma Logistics in April 2021 after a briefing from the OIG outlining the contents of this memorandum. Nevertheless, facility pharmacy chiefs are required to monitor credits received to maximize their facility's drug return revenues.⁵

The OIG review team judgmentally selected one job settlement statement for each of the 10 judgmentally selected medical facilities that experienced a significant reduction in the actual credits received when compared to the estimated return value of the drugs between March 2020 and March 2021. The review team did so because the Pharma Logistics portal does not include functionality to run a national job settlement statement report.

The team identified drugs with a positive estimated return value on the job settlement statement and an associated zero-dollar credit for the actual return value to calculate the amount of lost credits. Table 1 details the total expected return value, total credits received, and total credits forfeited for each of the 10 medical facilities reviewed. The national total of forfeited credits has the potential to be significantly higher.

⁵ In accordance with VHA Directive 1087, *Monitoring of Expired or Soon-to-Expire Medication Returns*, August 2019, which was in effect from the date of the contract award until it was rescinded on March 24, 2021, the chief of pharmacy is responsible for monitoring and reconciling credits received through the drug return program. This same requirement for pharmacy chiefs was incorporated into a guidance document titled *Pharmacy Benefits Management (PBM) Guidance Document on Monitoring of Reverse Distribution Contract with Pharma Logistics*. According to VHA, this guidance document was distributed to the field on April 20, 2021.

Table 1. Review Results of Final Invoices Closed in FY 2020 and FY 2021 for Selected VA Medical Facilities

Medical facility and location	Total expected return value*	Total credits received*	Estimated total credits forfeited*
VA Puget Sound Health Care System, Seattle, WA	\$1,300,000	\$81,900	\$1,200,000
Gulf Coast Veterans Health Care System, Biloxi, MS	\$408,000	\$222,000	\$185,000
Hampton VA Medical Center, Hampton, VA	\$239,000	\$64,200	\$175,000
Wilkes-Barre VA Medical Center, Wilkes-Barre, PA	\$264,000	\$98,900	\$165,000
John D. Dingell VA Medical Center, Detroit, MI	\$120,000	\$1,500	\$119,000
Manchester VA Medical Center, Manchester, NH	\$82,200	\$6,500	\$75,700
VA Palo Alto Health Care System, Palo Alto, CA	\$250,000	\$179,000	\$71,000
VA Caribbean Healthcare System, San Juan, PR	\$91,500	\$40,500	\$50,900
Edith Nourse Rogers Memorial Veterans Hospital, Bedford, MA	\$128,000	\$87,700	\$40,200
Coatesville VA Medical Center, Coatesville, PA	\$164,000	\$125,000	\$39,300
Total	\$3,046,700	\$907,200	\$2,121,100

Source: VA OIG analysis of one job settlement statement for each selected medical facility documented on the Pharma Logistics dashboard.

**Note: This analysis does not include drugs that went through the Rapid Credit Program. All values are rounded.*

A Pharma Logistics representative reported that no medical facility personnel had requested to extend the time their job settlement statement remained open beyond the 18 months from the date of the initial invoice to allow for the recovery of more drug return credits. According to VA's drug return contract with Pharma Logistics, medical facilities can request to keep jobs open to allow for additional drug return credits to process. Medical facility personnel at one facility reported that they were not aware that they did not receive the credits identified by the review team. They also told the team they do not monitor drug return credits or review job settlement statements posted on the dashboard. The OIG believes medical facility personnel should review the job settlement statements and consider the potential for receiving additional drug return credits for the drugs that have zero-dollar credits and high expected return values before accepting the final invoice.

The review team also analyzed the specific drugs that did not have a credit to determine whether the medical facility would have received a credit had the pharmacy chief requested an extension. The team compared the drugs with a zero-dollar credit on each job settlement statement to the same drugs that had a credit value documented on other job settlement statements. Based on this review, the team determined that the medical facility most likely would have received credits had pharmacy chiefs monitored the preliminary invoices, reviewed job settlement statements, and requested extensions to keep their facilities' invoices open.

Furthermore, according to a report provided by Pharma Logistics, pharmacy representatives never logged into the dashboard for 215 of 457 pharmacy accounts indicating that they were not monitoring credits as required. According to a representative, Pharma Logistics was only able to provide login information through March 2020; however, the data captured pharmacy chiefs' windows of opportunity to monitor their credits for about 17 months from when the contract began in October 2018. The review team used this report to measure the frequency of drug return credit monitoring by pharmacy chiefs. The team observed that one of the medical facilities whose pharmacy representatives never logged into the dashboard experienced a higher dollar value of forfeited credits when compared to medical facilities whose pharmacy representatives accessed the Pharma Logistics dashboard at least sometimes. While these accounts may have been accessed since, pharmacy personnel missed opportunities to verify the accuracy of credits for pickups that occurred from October 2018 to March 2020.

As previously mentioned, Pharma Logistics will continue to invoice facilities for their returned drugs through April 2022. If pharmacy chiefs do not monitor preliminary invoices, reconcile job settlement statements to identify outstanding credits, and request extensions for final invoices when missing credits are identified, VHA will continue to be unable to ensure it receives all credits due for drugs that medical facilities returned.

Lack of National Reporting Weakened VHA's Ability to Identify Outstanding Drug Return Credits

VA's contract with Pharma Logistics required that the dashboard generate national-level data to facilitate managing and tracking drug returns across all medical facilities. Although the dashboard provides some national-level data (such as the job line detail report), it does not provide a report to view job settlement statements at the national level, which would be helpful for Pharmacy Benefits Management Services to meet its requirements to review data nationally for unusual reimbursement patterns and to identify potential improvements for revenue recovery. Without this data, the service's deputy chief consultant for formulary management is hindered from identifying potential improvements to the drug return process and VHA is at risk of not accruing all potential credits. A national report that details the dollar value of outstanding credits and the final invoice deadline would have better positioned Pharmacy Benefits Management Services to increase drug return revenue recovery.

Conclusion

VHA medical facility pharmacies lost, at least, an estimated \$2.1 million of drug return credits because pharmacy chiefs did not always effectively monitor or review job settlement statements before Pharma Logistics issued final invoices. In addition, VA's unsuccessful attempts to get Pharma Logistics to provide facility pharmacy chiefs with training on the job close out process may have been a contributing factor. Furthermore, Pharma Logistics established a dashboard that provided information on the status of drug return credits at the facility level but does not provide a national report on all outstanding credits as required by its national contract with VA. This hurt VHA's ability to maximize potential drug return credits from Pharma Logistics and minimize the risk of lost credits. VHA will continue to be unable to ensure it is receiving all credits for drugs returned by medical facilities from April 2021 through April 2022 if pharmacy chiefs do not routinely monitor preliminary invoices, reconcile job settlement statements to identify outstanding credits, and request extensions to final invoices to allow additional time for credit processing. This risk will persist for any future drug return contracts—whether awarded nationally or locally—if the reimbursement structure remains the same.

The information in this management advisory is intended to help VA leaders determine if actions are warranted to address identified issues. The OIG may conduct follow-up work in this risk area as VA works to finalize any new drug return program contracts.

Requested Action

The OIG requests that VHA inform the OIG what action, if any, VHA takes to mitigate the potential risks identified in this memorandum and the outcome of those actions.

Management Comments

The acting under secretary for health indicated that VHA's Pharmacy Benefits Management plans to work with the National Acquisition Center to have the vendor open all previously closed jobs so that medical facilities can determine whether or not they were closed appropriately and, if not, then allow the jobs to remain open and maximize the credits received. The response also reiterated the OIG's discovery of the vendor's noncompliance with the terms and conditions of the contract that resulted in overcharges to the VA for unauthorized services, detailed in the August 2021 OIG report titled *Veterans Health Administration: Ineffective Governance of Prescription Drug Return Program Creates Risk of Diversion and Limits Value to VA*. Appendix A provides the full text of the acting under secretary's comments.

Appendix A: Management Comments—Acting Under Secretary for Health

Department of Veterans Affairs

Memorandum

Date: July 15, 2021

From: Acting Under Secretary for Health (10)

Subj: OIG Management Advisory Memorandum: Medical Facilities Forfeited Drug Return Credits through Inadequate Monitoring of Vendor Invoices (VIEWS 5379514)

To: Assistant Inspector General for Audits and Evaluations (52)

Thank you for the opportunity to review and comment on the Office Inspector General (OIG) Management Advisory Memorandum: Medical Facilities Forfeited Drug Return Credits through Inadequate Monitoring of Vendor Invoices. We appreciate the time and attention OIG committed to meeting with Veterans Health Administration (VHA) subject matter experts to discuss findings in this memorandum.

We appreciate OIG's discovery of the returned-goods vendor's non-compliance with the terms and conditions of the contract that resulted in overcharges to the Department of Veterans Affairs (VA) for unauthorized services. OIG's alert to contracting staff regarding the vendor's performance issues allowed VA to work with the returned goods contractor to rectify those issues. OIG's work is directly related to VA's decision against exercising an additional performance period under the contract due to vendor performance concerns. This will help VA determine the best way to handle expired or unusable medications in the future.

VHA's Pharmacy Benefits Management is working with the National Acquisition Center to attempt to have the vendor open all jobs that have been previously closed so that sites can determine whether or not they were closed appropriately, and if not, then allow the jobs to remain open and maximize the credits received since the vendor closed without VHA's permission or knowledge.

The OIG removed point of contact information prior to publication.

(Original signed by)

Richard A. Stone, M.D.

OIG Contact and Staff Acknowledgments

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