US DEPARTMENT OF VETERANS AFFAIRS
OFFICE OF INSPECTOR GENERAL

Office of Audits and Evaluations

OFFICE OF ACQUISITION, LOGISTICS, AND CONSTRUCTION

Independent Audit Report of Pharma Logistics LLC's Billing Compliance

Audit | 23-02182-185 | December 16, 2025

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December 16, 2025

MEMORANDUM

TO: Contracting Officer
Office of Procurement, Acquisition, and Logistics

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

SUBJECT: Independent Audit Report of Pharma Logistics LLC's Billing Compliance

In February 2022, a VA contracting officer expressed concerns about contract billing from Pharma Logistics LLC. The contracting officer questioned whether VA received the full amounts of credits for returned drugs (called reverse distribution) and asked the VA Office of Inspector General (OIG) to determine whether the terms of the contract were followed, as claimed by the contractor. The OIG team conducted this attestation examination to determine whether Pharma Logistics officials complied, in all material respects, with the contract regarding drug return credits and billing from October 8, 2018, through October 8, 2020 (the contract period).[1]

Although this contract ended in 2020, this report is of current significance for three reasons. First, the contracting officer confirmed that returns were still being processed under the contract as of August 2024, and Pharma Logistics said in August 2025 that credits were still pending. Second, this contract is still open, and this report will help the contracting officer in closing the contract. And finally, the findings in this report not only identify potential savings from this contract, but they also inform VA of risks when considering future reverse distribution contracts. Turning to the potential savings, of about $114.4 million in manufacturer credits for drugs that VA facilities expected from reverse distribution services as of March 2024, VA received only about $110.3 million.

VA concurred with the OIG's revised recommendations and provided a responsive action plan.[2] The OIG also provided a summary of results to the contractor. The contractor asked the OIG to revise the text of the report for clarity and submitted additional documentation for consideration. The contractor asserted that (1) its job-closing process met the contract terms, (2) it had already remitted over $1.1 million to VA, (3) credits retained for processing fees were issued to VA customers, and (4) credits had been returned to manufacturers. However, the documentation

[1] The subject contract period included one base year with four and a half option years; however, only one option year was exercised. Pharma Logistics previously held a VA reverse distribution services contract from 2013 to 2018.

[2] The full list of recommendations can be found in the report, and VA's comments are presented in full in appendix C.

provided was insufficient to support the first three assertions. The fourth assertion was supported by evidence provided after audit work was completed. In response, the OIG revised sections of the report, as noted in the text and as described in appendix B.

Background

Some drugs purchased for VA pharmacies cannot be used because they are damaged or expired or will be expiring soon.[3] To address this issue and to recover some costs, VA established a national contract with Pharma Logistics to provide reverse distribution services, where manufacturers accept returned drugs in exchange for credits toward future purchases. Pharma Logistics employees collected returned drugs, sorted them, returned them to the manufacturers, disposed of nonreturnable products, and coordinated the application of credits from manufacturers to VA accounts.[4]

The OIG team reviewed the billing data for drug returns made from October 8, 2018, through October 8, 2020, and compared the data to the contract terms. According to the contractor, this included returns with credits still pending as of August 2025. The team identified jobs associated with the contract and reconciled drug return data to determine the value of credits received by Pharma Logistics and the amount applied to VA accounts.

The team conducted its examination in accordance with generally accepted government auditing standards for attestation engagements and assertion-based attestation standards established by the American Institute of Certified Public Accountants.[5] These standards are used when VA engages an independent party to conduct an audit of a contractor. The standards require that the team plan and perform the examination to obtain reasonable assurance about whether the company's assertion that it complied with the terms and conditions of the contract was fairly stated in all material respects. Appendix A provides more information about the team's methodology.

Results and Recommendations

In accordance with professional standards, the OIG team's responsibility is to express an opinion on Pharma Logistics officials' assertion that the contractor complied with its contract regarding drug return credits and abided by the terms and conditions for billing VA. The team believes the evidence obtained is sufficient and appropriate to provide a reasonable basis for the team's qualified opinion. In the team's opinion, except for the contract noncompliance resulting in the effects of the unapplied credits as described in this report, the company's assertion that it billed in accordance with the terms and conditions of the contract is fairly stated in all material

[3] This report uses the terms "pharmaceuticals" and "drugs" interchangeably.

[4] Credits are amounts that can be used to offset the cost of future drug purchases from a manufacturer.

[5] The standards identify three types of attestation engagements: examinations, reviews, and agreed-upon procedures engagements. This report is based on the results of an examination—referred to simply as an "audit" in this report. This audit included testing and other auditing procedures necessary to accomplish the objectives.

respects. Although the misstatements described in the finding were material, they were not pervasive, as only a portion of jobs during the contract were affected.[6] The purpose of this report is to evaluate the contractor's assertion that it complied with its contract terms regarding drug return credits and invoices; therefore, this report is not suitable for any other purpose.

The OIG team found VA facilities did not receive over $4.1 million in drug return credits to use for future drug purchases for veterans. Of that amount, more than $3.6 million was related to Pharma Logistics improperly closing jobs.[7] Pharma Logistics officials said jobs were automatically closed once all manufacturer credits were received or 18 months after the date that products were received and processed at the Pharma Logistics facility. However, the contract required VA and Pharma Logistics staff to work together to close the invoiced jobs, extend the time needed to process additional credits, or waive any future VA credits for those jobs. This issue was identified by VA's national contracting officer in an email dated July 8, 2021, which instructed Pharma Logistics to stop the job-closing process and work directly with facility contracting officers to close jobs, as required by the contract.

The contract also said no credits could be used to pay prime vendor credit processing fees.[8] However, the team identified—and Pharma Logistics officials acknowledged—nearly $527,000 in manufacturer credits were used for this purpose. Pharma Logistics officials asserted this problem was resolved by July 2019 and that the credits had been applied to VA accounts; however, the company was unable to provide sufficient evidence to support this claim. VA should follow up on this concern to verify the amounts credited to VA facilities.

The contract price schedule specified that Pharma Logistics would be paid a percentage of the actual manufacturer credits applied to facility accounts, which means the company may be owed additional fees if VA were to receive any of the credits identified above.

In response to these results, the OIG recommended the contracting officer confer with VA's Office of General Counsel regarding the potential recovery of credits.

LARRY M. REINKEMEYER
Assistant Inspector General
for Audits and Evaluations
Issued from Washington, DC

[6] According to professional standards, pervasive findings are those that are not confined to specific elements or items or that represent a substantial portion of the audit subject matter.

[7] A job consisted of the contents of one pickup or shipment from a VA pharmacy. The audit team made changes to this section of the report based on additional evidence provided by the contractor after audit work was completed.

[8] The prime vendor charged Pharma Logistics a fee to process credits.

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Abbreviations

OIG	Office of Inspector General
PBM	Pharmacy Benefits Management Services
VHA	Veterans Health Administration

Introduction

In 2018, VA contracted with Pharma Logistics LLC to return expired or soon-to-expire drugs to manufacturers for credit toward future purchases. The federal government anticipated over $61.1 million in estimated annual returns.[9] In February 2022, a VA contracting officer asked the VA Office of Inspector General (OIG) to determine whether Pharma Logistics provided VA the full amounts received for drugs it returned to the manufacturer on VA's behalf.[10] The contracting officer was concerned that the manner in which the company billed VA may not have been in compliance with the contract.

To address the request, the OIG team conducted an assertion-based attestation examination, which involved obtaining evidence about Pharma Logistics' assertion that it complied with the contract regarding drug return credits and with the billing terms and conditions.[11] The nature, timing, and extent of the procedures selected depended on the auditors' judgment, including an assessment of the risks of material misstatement of the assertion, whether due to fraud or error.[12]

Objectives and Responsibilities

The OIG's objective was to determine whether Pharma Logistics officials complied, in all material respects, with its contract regarding drug return credits and billing terms and conditions. Company management was responsible for disbursing credit amounts to VA facilities and billing for that service in compliance with the contract. Pharma Logistics officials were also responsible for designing, implementing, and maintaining internal controls to prevent, or detect and correct, misstatements of invoices due to fraud or error.

The OIG team is responsible for conducting an examination in accordance with generally accepted government auditing standards for attestation engagements and assertion-based attestation engagement standards, as well as with attestation examination standards established by the American Institute of Certified Public Accountants, and for expressing an opinion on Pharma Logistics officials' assertion that it complied with the contract regarding drug return credits and invoices.[13]

[9] The contract reflected returns made under multiple agencies.

[10] This report uses the terms "pharmaceuticals" and "drugs" interchangeably.

[11] Credits are amounts that can be used to offset the cost of future drug purchases from a manufacturer.

[12] See appendix A for more information about audit standards.

[13] The standards identify three types of attestation engagements: examinations, reviews, and agreed-upon procedures engagements. This report is based on the results of an examination—referred to simply as an "audit" in this report. This audit included testing and other auditing procedures necessary to accomplish the objectives.

Background

The annual budget submission for the Veterans Health Administration (VHA) included over $11 billion for pharmaceuticals for fiscal year 2025.[14] Therefore, the use of pharmaceutical funds is of interest to stakeholders.[15] VHA purchases drugs through a pharmaceutical prime vendor, which is a commercial distributor that provides pharmaceuticals to VHA and other government agencies.[16] Some drugs cannot be dispensed because they are damaged or expired or will be expiring soon. The return of such drugs back to the manufacturers in exchange for credit toward future purchases is known as reverse distribution.

The purpose of VA's national reverse distribution contract was to support an efficient way to process and return pharmaceuticals and reduce costs in the healthcare system. Pharma Logistics' role as the contractor was to maximize the manufacturer credits received for VA drug returns and process any waste from nonreturnable pharmaceuticals.[17] The contract period was October 8, 2018, through October 8, 2020.[18] Although the contract ended in 2020, this report remains relevant today. The contracting officer confirmed that returns were still being processed under the contract as of August 2024, and Pharma Logistics said in August 2025 that credits were still pending.[19] The contract has yet to be closed, and this report will help the contracting office in closure. Finally, the results of this report will inform VA of risks when considering future reverse distribution contracts.

VA Entities Responsible for Reverse Distribution

Two VA offices were responsible for overseeing the Pharma Logistics contract:

- The **National Acquisition Center** is responsible for establishing and administering various national healthcare-related acquisition and logistics programs. A National Acquisition Center contracting officer awarded and administered the reverse distribution service contract and was responsible for contract oversight.

[14] VA, FY 2025 Budget Submission, https://www.va.gov/opa/docs/remediation-required/management/fy2025-va-budget-volume-ii.pdf.

[15] Stakeholders include VA, veterans, taxpayers, and oversight bodies such as Congress.

[16] The prime vendor contract established services for VA medical facilities and other government agencies, such as the Federal Bureau of Prisons and the Indian Health Service.

[17] According to the Pharma Logistics website, nonreturnable pharmaceuticals included bottles of medication with patient labels, partially used products, and items sold as not returnable.

[18] The subject contract period included one base year with four and a half option years; however, only one option year was exercised. Pharma Logistics previously held a VA reverse distribution services contract from 2013 to 2018.

[19] The deputy chief consultant of Pharmacy Benefits Management Services (PBM) told the team that some VA pharmacies use various methods for reverse distribution, such as local contracts with other providers, purchased software, and internal systems.

- VA **Pharmacy Benefits Management Services (PBM)** provides organizational and clinical leadership to VHA pharmacies. PBM has federal pharmacists and other staff who are experts in medication use and comprehensive pharmacy services. PBM's deputy chief consultant noted that PBM provided performance feedback to Pharma Logistics and the contracting officer based on that analysis.

At the local level, VHA network contracting officers oversaw the administration of returns and credits issued to local VA facilities under the reverse distribution contract. Pharmacy chiefs oversaw the drug return program at each VA facility.

How Reverse Distribution Worked Under the Contract

Under the contract, Pharma Logistics was responsible for collecting and sorting drugs that were expired or soon-to-expire or considered waste from medical facilities. Pharma Logistics returned the drugs to manufacturers for credit or disposed of nonreturnable drugs. The sections that follow describe VA's reverse distribution process.

VA Facilities Returned Drugs for Manufacturing Credits

To return drugs for manufacturer credits, VA medical facility employees first made a service request to Pharma Logistics and arranged for either on-site or off-site services to transport the drugs to the company's warehouse.[20] For on-site services, VA pharmacy staff were responsible for validating the contents of Pharma Logistics' list for accuracy before the items were taken from the facility. For off-site services, VA facility employees packed and shipped drugs to the Pharma Logistics warehouse.

Once a return arrived at the warehouse, Pharma Logistics employees sorted the items into returnable and nonreturnable drugs.[21] Pharma Logistics was required to provide VA an estimated return value based on manufacturer return policies for returnable drugs. This information was organized by job number; according to the contractor, each job represented the contents of one pickup or shipment from a VA pharmacy. Once information about a return was recorded in its system, Pharma Logistics sent returnable drugs to manufacturers for credit and disposed of nonreturnable products. This process is shown in figure 1.

[20] As part of the contract, Pharma Logistics provided a web-based service request ordering system, referred to in this report as the customer portal. The customer portal allowed VA staff to enter service requests, track returns, reconcile credits, and perform other monitoring activities.

[21] Pharma Logistics considered drugs returnable whether they were immediately returnable or returnable at a future date.

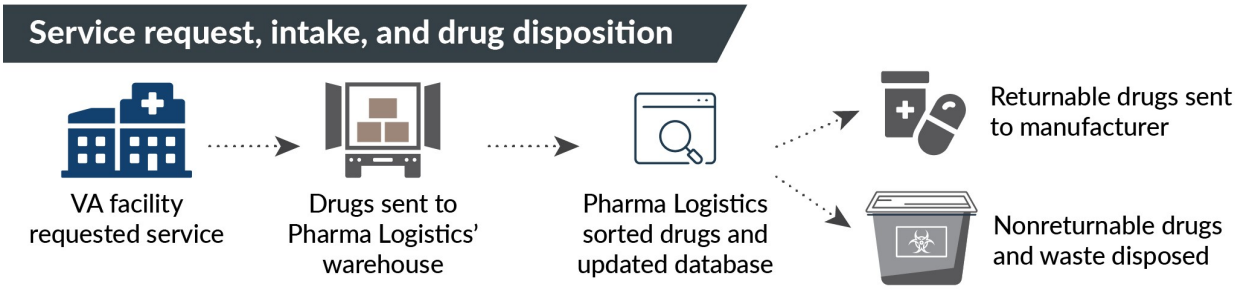

Figure 1. *Overview of drug returns for manufacturer credits.*
Source: VA OIG's analysis of the VA contract and interviews with Pharma Logistics representatives.

Manufacturer Credited VA for Returned Drugs

Once a manufacturer accepted or denied a drug for return, it either issued a credit memo with the actual return value for the drug or sent a denial of credit.[22] The prime vendor received credit memos and shared them with Pharma Logistics. Pharma Logistics subsequently provided reports to the prime vendor that identified which VA facility accounts were to be credited.[23] These credits were then available for future drug purchases.

Pharma Logistics employees updated its database to reflect the actual credits received based on manufacturers' credit memos and reconciled the differences between those amounts and the estimated return value. Pharma Logistics was required to provide a copy of all credit memos to VA facilities so the facilities could compare the records of estimated credits to actual credits received. The contract required Pharma Logistics and VA facilities to reconcile any discrepancies between the facility and contractor records on a quarterly basis.

The contract prohibited Pharma Logistics from using credits received from manufacturers to pay for any fees, such as prime vendor credit-processing fees. Actual credits received from manufacturers were required to be applied to the corresponding VA facilities' accounts.

Drugs Returned Under the Rapid Credit Program

Not all returned drugs were processed through the reverse distribution process. A March 23, 2020, contract modification added terms for products that were not due to expire within 120 days at the time of return, also known as in-dated products.[24] The modification noted that prior contract terms related to handling in-dated products were ambiguous and that VA did

[22] A credit memo listed the products returned and their manufacturer-determined refund values. According to the Pharma Logistics website, drug returns can be denied for reasons such as damaged product, attached prescription labels, and partially used returns. "Top Reasons Why Drugs Are Nonreturnable" (web page), Pharma Logistics, accessed November 5, 2024, https://pharmalogistics.com/top-reasons-why-drugs-are-nonreturnable/.

[23] Pharma Logistics was required to reconcile credits for batched returns to the prime vendor's individual VA pharmacy accounts. Batched returns contain drugs from multiple VA pharmacies.

[24] Payments to VA for these in-dated products were made to the returning VA facility.

not intend for in-dated products to be submitted for return.[25] Since VA had submitted in-dated products for return, the modification clarified those eligible products would be processed under the Rapid Credit Program, including those that were then warehoused by Pharma Logistics.[26] Under this program, Pharma Logistics would pay VA a percentage of the expected return value for certain products within no more than 90 days of receipt. As compensation, Pharma Logistics would retain the entire actual amount of the credits received.[27]

Process for Invoicing Contractor Fees and Reconciling Credits

The contract price schedule specified that Pharma Logistics' reverse distribution service fees were to be calculated as a percentage of the credits obtained from manufacturers for VA's returned drugs. Each invoice for reverse distribution services was submitted to VA facilities twice for approval. The first invoice was based on Pharma Logistics' estimated return value for the returnable drugs as of the day the products arrived in the warehouse. The second invoice was based on the actual return value of the drugs, which was determined by the manufacturer. In other words, the second invoice was meant to adjust the service fees depending on whether more or fewer credits were received than the estimated return value. Pharma Logistics officials told the OIG team that if the actual credits obtained for a return were lower than estimated in the first invoice, it would contact the VA facility's contracting officer so that the excess service fee VA had paid could be recouped.[28] If the actual credits obtained were higher, Pharma Logistics was paid an additional service fee for the difference.

A contract modification effective October 16, 2018, provided additional invoicing instructions that required Pharma Logistics to send the second invoice based on the actual return value once all credits were received from a manufacturer or otherwise after 18 months. Under the modification, the contractor was required to provide a report showing the reconciliation between

[25] The OIG previously audited VA's oversight of the reverse distribution process and found that the VA medical facilities examined violated contract terms by returning drugs before the 120-day window. VA OIG, *Ineffective Governance of Prescription Drug Return Program Creates Risk of Diversion and Limits Value to VA*, Report No. 20-00418-166, August 12, 2021.

[26] The modification was applicable to products already in Pharma Logistics' warehouse and products received on or after the modification effective date. While most products were eligible, the modification included a list of manufacturers ineligible for the program.

[27] VA received a smaller percentage of credit for product returns that had a longer period before expiration. Payments were to be made within 30 days of the modification for products already housed in the warehouse and within 90 days of receipt of future in-dated products. The audit team excluded credits received under the Rapid Credit Program from its review, as noted in appendix A.

[28] According to a Pharma Logistics controller, these fees were usually paid via check to a VA facility representative.

the estimated and actual return values for each line item and attach it to the second invoice. Furthermore, the contract required VA facilities and Pharma Logistics to work together to either consider the invoice closed and waive any additional credits or extend the amount of time that the invoice remained open to allow for more time for credit processing.

Results and Recommendations

The OIG believes the evidence obtained is sufficient and appropriate to provide a reasonable basis for the team's qualified opinion. Except for the contract noncompliance resulting in unapplied credits as described in the findings below, Pharma Logistics officials' assertion that it billed in accordance with the terms and conditions of its contract is fairly stated in all material respects through the team's audit completion date. However, subsequent events after the review period may disclose relevant information not now discernible. Although misstatements, as identified in the finding below, were material, they were not pervasive, as only a portion of the jobs during the contract were affected.[29] The purpose of this report is to validate the contractor's assertion that it complied with its drug return contract terms; therefore, this report is not suitable for any other purpose.

Finding: Pharma Logistics Did Not Apply More Than $4.1 Million in Manufacturer Credits to VA Facility Accounts

The OIG team estimated that VA should have received about $114.4 million in manufacturer credits for drugs that facilities returned as part of Pharma Logistics' reverse distribution services. As of March 2024, VA had received about $110.3 million of those credits.[30] Of this $4.1 million variance, Pharma Logistics retained over $3.6 million by improperly closing jobs. The contractor was unable to adequately support the remaining amounts, which include nearly $527,000 for contract-prohibited processing fees.[31] The contractor's failure to return the full amount of manufacturer drug credits may have not only reduced the funds available for this critical veteran healthcare need but may have also increased taxpayer costs.

In the interests of VA, veterans, and taxpayers, VA should confer with its Office of General Counsel regarding drug return credits VA is entitled to receive. Maximizing the value of these credits promotes positive stewardship of taxpayer dollars.

[29] According to professional standards, pervasive findings are those that are not confined to specific elements or items or that represent a substantial portion of the audit subject matter.

[30] The total amount received is net of any credits that VA did not expect to receive, such as credits received under the Rapid Credit Program. The team reviewed transactions initiated from October 8, 2018, through October 8, 2020; however, invoices for these returns were still being paid as of March 2024. See appendix A for more information.

[31] The audit team made changes to the finding and conclusion based on evidence provided by the contractor after audit work was completed. For more information about the potential monetary benefits and questioned costs that the audit team identified and the impact of the evidence provided after audit work was complete, see appendix B.

The finding is based on the determinations that the company

- improperly closed drug return jobs;
- retained VA drug return credits for processing fees; and
- claimed, but did not fully support, that some credits were returned to the manufacturer.

What the OIG Did

The OIG team reviewed the contract that took effect on October 8, 2018, and ended on October 8, 2020, and any modifications to it, as well as VA directives and guidance. The team then compared Pharma Logistics' invoices and manufacturer credit memos against the contractor's data.[32] The team also interviewed Pharma Logistics and VA officials regarding the data and reviewed reports generated by Pharma Logistics.

To calculate the unapplied credits, the team reconciled drug return data provided by Pharma Logistics and the prime vendor to determine the difference between the amount of manufacturer credits received by Pharma Logistics and the amount applied to VA accounts. The team discussed these discrepancies with Pharma Logistics officials and obtained related documents from them. For more details regarding the audit's scope and methodology, see appendix A.

Drug Return Jobs Closed Improperly

The OIG team found Pharma Logistics retained over $3.6 million in manufacturer credits that should have been applied to VA facility accounts.[33] If manufacturer credits for a return were pending, contract terms required Pharma Logistics to work with VA medical facilities to close invoiced jobs, waive any unprocessed credits, or extend the time needed to process additional credits. Pharma Logistics officials did not fully comply with the contract requirement and closed invoices—meaning, specific jobs—without the approval of authorized officials. In doing so, Pharma Logistics kept manufacturer credits for jobs that may have been closed without the required VA review and approval.

According to Pharma Logistics officials, jobs were automatically closed either once all manufacturer credits were received or 18 months after the day products of a job were entered into Pharma Logistics' system for initial invoicing, whichever came first. Once closed, a responsible contracting officer was notified via email to review and approve reconciliation

[32] The OIG previously audited VA's oversight of the reverse distribution program and examined fiscal year 2019 drug returns, which were included in the contract this examination reviewed. VA OIG, *Ineffective Governance of Prescription Drug Return Program Creates Risk of Diversion and Limits Value to VA*.

[33] The audit team made changes to this section of the report based on additional evidence provided by the contractor after audit work was completed. See appendix B for more information.

details for the job. If not approved within 30 days, an invoice was submitted for payment, and Pharma Logistics retained any future credits received from the manufacturer for that job.

In an email dated July 8, 2021, the VA contracting officer instructed Pharma Logistics to stop the job-closing process, reopen jobs that had been closed without proper authorization, and work directly with the VA facility contracting officers to close the jobs or leave them open for future credits, as required by the contract.[34] The contracting officer noted, "The contract does not provide Pharma Logistics authority to unilaterally close jobs 30 days after closing statements."[35] Pharma Logistics staff subsequently emailed VA facility contracting officers requesting an official reply with instructions to close a job or keep it open for future credits.

The company gave the audit team a list of who was contacted, a close date, and job numbers for jobs that had been closed at the direction of facility-based contracting officers. The team compared this list to the closed manufacturer credits Pharma Logistics retained for VA returns. According to the company's data, over $3.6 million of the credits the company retained were issued by the manufacturer at least three months before a facility contracting officer sent the company a reply with closing instructions or before the contractor's 18-month automatic close date.[36]

In other words, Pharma Logistics received credits that should have been applied to VA accounts before contacting authorized officials about closing the jobs. If Pharma Logistics received these credits before the jobs were closed, the credits are owed to VA. When the team asked Pharma Logistics officials why none of these credits were issued to VA facilities, the officials noted that they returned manufacturer credits based on the date contracting officers specified in their reply letters to the company's request for job closure instructions.[37]

A prior audit found Pharma Logistics provided VA's PBM leadership with reports containing inaccurate and incomplete information about the value of drugs returned for credit.[38] However, another audit found VA pharmacy chiefs did not always review their facility's drug return data to identify missing credits and request extensions when appropriate, which led to forfeited drug

[34] The contracting officer noted that from a VA perspective, Pharma Logistics' closing of a job did not affect the status of invoices.

[35] Contracting officer letter to a Pharma Logistics official, September 23, 2021.

[36] Based on the team's review of a selection of letters, the close date indicated in the company's data was the date on the contracting officers' reply letters with instructions to close jobs. If a close date was not provided for a job, the audit team used the contractor's automatic close date as the earliest possible VA review date. The actual automatic closed date used for each job was not provided to the audit team until after audit work was completed, so the team recalculated this date using the contractor's data.

[37] Pharma Logistics officials told the OIG team that contracting officers were provided three options to close jobs: the date of the contractor's letter requesting closure instructions, a future date specified by the contracting officer, or the date the jobs were commercially closed.

[38] VA OIG, *Ineffective Governance of Prescription Drug Return Program Creates Risk of Diversion and Limits Value to VA*.

return credits.[39] The OIG recognizes that both Pharma Logistics and VA were required by the contract to work together to close out open jobs and the contract did not specify actions for no VA response. Therefore, the OIG recommended that VA consult with its Office of General Counsel regarding the potential recoupment of credits retained by Pharma Logistics before any documented review by a facility official.

VA Credits Retained by the Contractor for Processing Fees

The audit team identified $526,520 in manufacturer credits that should have gone to VA, but Pharma Logistics instead used them to pay its own prime vendor credit processing fees. The contract required that all manufacturer credits received through reverse distribution services be applied to VA facility accounts; the contract terms expressly prohibited Pharma Logistics from using these credits to pay prime vendor processing fees. The team identified a discrepancy between records provided by Pharma Logistics and those from the prime vendor. Specifically, the prime vendor's records had fewer credits applied to VA facility accounts than Pharma Logistics' records. As noted previously, the prime vendor applies the credits to each VA facility account based on Pharma Logistics' directions.

The team asked about these differences, and Pharma Logistics officials confirmed that the processing fees owed to the prime vendor had been paid directly from VA credits and that the issue had been identified in July 2019. The officials explained that the credits were used as payment because of an automatic function in the company's software, which paid the prime vendor the amounts withheld in error, and that the company refunded VA for the fees deducted from credits owed to the VA facilities. Pharma Logistics officials provided a bank statement that indicated an electronic payment, but the statement did not specify the payee. The team requested—but did not receive—sufficient evidence of the payment recipient. In addition, the team notes there may have been updates to the prime vendor's data since they were originally obtained or the discrepancy may stem from issues within the prime vendor's records rather than from the contractor. VA should contact its Office of General Counsel regarding credit discrepancies for withheld drug returns.

Manufacturer Credits Returned

Pharma Logistics officials told the OIG team that they returned $454,475 in manufacturer credits that the company received on behalf of VA facilities to manufacturers. According to Pharma Logistics, manufacturers may reclaim credits when a manufacturer discovers overpayments of drug credits issued to a customer in error (for example, if duplicate credits were issued). The team requested evidence of the manufacturers' requests for the return of credits, and a Pharma

[39] VA OIG, *Medical Facilities Forfeited Drug Return Credits through Inadequate Monitoring of Vendor Invoices*, Report No. 20-00418-190, August 12, 2021.

Logistics controller said those emails had not been retained. Instead, Pharma Logistics provided a spreadsheet to the team to support its assertion. However, after the audit work was completed, the company provided additional documentation to support its assertion that credits were returned to manufacturers.

Conclusion

VA facilities did not receive over $4.1 million owed in drug return credits to use for future drug purchases for veterans. The contractor's failure to return the full amount of manufacturer drug credits reduced the funds available for this critical veteran healthcare need and may have increased taxpayer costs. It is in the best interests of VA, veterans, and taxpayers for VA to confer with its Office of General Counsel regarding VA's drug return credits. Maximizing the value of these drug return credits promotes positive stewardship of taxpayer dollars.

Pharma Logistics' fee for reverse distribution services was calculated as a percentage of the total actual value of the manufacturer credits received and applied to VA facility accounts. Therefore, credits applied to facility accounts based on the OIG's finding may result in additional service fees owed to Pharma Logistics.[40] In addition, the findings of this report serve to inform VA of the risks when considering future reverse distribution contracts.

Recommendations 1–3

The OIG made the following recommendations to the contracting officer:[41]

1. Confer with the Office of General Counsel regarding the potential recovery of the $3.6 million in manufacturer credits that were issued by manufacturers and retained by Pharma Logistics before the associated jobs were closed.
2. Confer with the Office of General Counsel regarding the potential recovery of unsupported discrepancies between the total credits received and the amounts disbursed.
3. Confer with the Office of General Counsel regarding the potential recovery of unsupported return credits to manufacturers.

Management Comments

The principle executive director of the Office of Acquisition, Logistics, and Construction, who also serves as chief acquisition officer, concurred with the OIG's finding and revised recommendations and provided a responsive action plan. To address the recommendations,

[40] The audit team made changes to the finding's conclusion and appendix B based on evidence provided by the contractor after audit work was completed.

[41] After discussions with VA officials, the OIG revised its recommendations for the unsupported questioned amounts.

contracting officials said they will confer with the Office of General Counsel regarding the potential recovery of the manufacturer credits questioned, including those the company retained from improperly closed jobs (recommendation 1) and unsupported questioned amounts (recommendations 2 and 3). VA management comments are presented in full in appendix C.

The audit team shared its results with Pharma Logistics and engaged in a series of discussions and written correspondences to obtain the contractor's views on the finding and conclusion. The contractor requested that the OIG revise the report for clarity and it submitted additional documentation for consideration. Specifically, the contractor asserted that its automatic commercial closing process for jobs complied with the contract terms and was responsive to the contracting officer's instructions and that over $1.1 million was remitted to VA in accordance with the close-out directions. In addition, the contractor said funding constraints and the limited engagement from VA's contracting officers contributed to delays in job closures and credit application. The contractor also asserted that the credits retained for processing fees were subsequently issued to VA customers. The company provided evidence to support its assertion that certain credits had been returned to manufacturers.

OIG Response

The OIG considers VA's corrective action plan responsive to the recommendations. The OIG will monitor the implementation of the planned action and will close recommendations 1 and 2 once the proposed actions are completed. Recommendation 3 is considered closed based on the comments and additional evidence provided by the contractor.

To address the contractor's comments, the OIG revised the report section "Drug Return Jobs Closed Improperly." Specifically, the OIG adjusted the questioned amount to exclude about $833,000 in questioned costs based on additional evidence the contractor provided after audit work was completed. The OIG also removed a discussion about the audit team and VA officials' access to the customer portal and required reports, as well as the contracting officer's statement about unauthorized pharmacy staff closing jobs. Additionally, the OIG revised the "VA Credits Retained by the Contractor for Processing Fees" section to acknowledge that the discrepancy may stem from issues within the prime vendor's records. Finally, the OIG removed the questioned costs from the "Manufacturer Credits Returned" section and the report findings and conclusion based on evidence provided by the contractor after the audit work was concluded; the OIG considers recommendation 3 closed.

In other instances, the OIG did not make changes to the report based on the contractor's comments. For example, the contractor's assertion that its job-closing process met contract terms is not supported by the evidence, as stated in the report. Also, the documentation the contractor provided did not support its assertion that over $1.1 million was remitted to VA. Last, the contractor's assertion regarding credits retained for processing fees was unsupported by the evidence provided.

Appendix A: Scope and Methodology

Scope

The audit team performed its work from October 2023 through July 2025.[42] The audit was prolonged due to complexities in the reconciliation process and the continued receipt of contractor records through November 2024.

The Pharma Logistics contract (contract number 36W79718D0002) took effect on October 8, 2018, and ended on October 8, 2020. The audit universe of detailed return data consisted of 254,376 rows of data, with each row representing a unique line item for drugs returns initiated within the contract period. The total value of this data is about $115.9 million in manufacturer drug credits that had been issued as of March 2024.[43] The audit universe comprised contractor-provided data summarized at various levels, as well as contract payment data obtained from VA's Financial Management System.

Scope Limitation

The VA Office of Inspector General (OIG) team limited its examination to manufacturer credits that Pharma Logistics received and the processing fees that were invoiced as part of its reverse distribution services under contract number 36W79718D0002. Waste disposal services and returns made under the Rapid Credit Program were not included in the team's evaluation.[44]

The team relied on data provided by Pharma Logistics, the prime vendor, and contract payment data obtained from VA's Financial Management System. While the team validated portions of the contractor's information with data provided by the prime vendor and contract payment data obtained from the Financial Management System, some questions remained. For instance, the contractor provided invoicing data at the summary level but could not reconcile the summarized job and invoice totals to its detailed data and did not provide the audit team with access to its customer portal. Therefore, the team could not fully reconcile the summarized or detailed data with the invoice payment data from the Financial Management System to determine the amount VA paid for the reverse distribution services.

[42] An examination is a type of audit that, although limited in scope, achieves reasonable assurance of its conclusions.

[43] The audit team reviewed almost $115.9 million in manufacturer drug credits and determined that about $114.4 million of these credits should have been disbursed to VA facility accounts, as some credits retained by the contractor were not questioned.

[44] About $3.8 million in manufacturer credits were issued for VA drug returns made under the contract through the Rapid Credit Program.

Methodology

To calculate the unapplied credits, the team compared drug return data provided by officials from Pharma Logistics and the prime vendor to invoicing data from VA's Financial Management System and determined the difference between the value of credits received by Pharma Logistics and applied to VA accounts. The team discussed these discrepancies with Pharma Logistics officials. Due to the volume and complexity of data (that is, the 254,376 unique line items mentioned previously), Pharma Logistics officials responded to the team's request over numerous submissions made from June 2023 through November 2024. The audit team obtained, and relied on, paid invoice amounts under the subject contract from VA's Financial Management System.

To address the examination objectives, the team

- examined criteria, including the Pharma Logistics contract, contract modifications, and VA directives and guidance;
- interviewed Pharma Logistics, Pharmacy Benefits Management Services officials, and VA officials;
- requested and obtained data from Pharma Logistics, the prime vendor, and VA's Financial Management System;
- identified jobs associated with contract number 36W79718D0002;
- reconciled drug return data to determine the credited amounts received by Pharma Logistics and the value of credits applied to VA accounts; and
- reconciled datasets to calculate the credits owed to VA for jobs initiated from October 8, 2018, through October 8, 2020.

Internal Controls

The team obtained an understanding of internal controls over Pharma Logistics' billing processes relevant to the engagement. This understanding enabled the team to identify and assess the risks of material misstatements in the jobs submitted to VA under this contract, to provide a basis for designing and performing procedures to respond to the assessed risk, and to obtain reasonable assurance to support the team's opinion on Pharma Logistics' compliance with the terms and conditions of its contract. However, the team did not design and perform tests of controls because the team did not intend to rely on internal controls and the subject matter of this OIG report was not internal controls. Accordingly, the team does not express an opinion on Pharma Logistics' internal control system.

Government and Professional Standards

The OIG conducted its examination in accordance with generally accepted government auditing standards for attestation engagements and assertion-based attestation examination standards established by the American Institute of Certified Public Accountants.[45] The standards require the team to be independent and to meet relevant ethical requirements relating to the engagement. The standards require that the team plan and perform the examination to obtain reasonable assurance about whether Pharma Logistics' assertion is fairly stated in all material respects. Accordingly, the team's examination included testing and other auditing procedures that it considered necessary to accomplish the objectives. The team's responsibility is to express an opinion on Pharma Logistics officials' assertion that it billed in accordance with the terms and conditions of contract number 36W79718D0002. The team believes its examination provides a reasonable basis for its qualified opinion.

The team provided a summary of its examination results to Pharma Logistics and obtained comments. The contractor's views are incorporated in the report as appropriate. The team achieved the examination objectives and identified corrective action without developing the elements of a finding. Generally accepted government auditing standards require the elements of a finding only to the extent necessary to achieve the examination objectives or to the extent necessary to assist oversight officials in understanding the need for taking corrective action.[46]

[45] The standards identify three types of attestation engagements: examinations, reviews, and agreed-upon procedures engagements. This report is based on the results of an examination—referred to simply as an "audit" in this report. The evidence obtained is sufficient and appropriate to provide a reasonable basis for the OIG team's qualified opinion.

[46] Government Accountability Office, *Government Auditing Standards*, GAO-21-368G, April 2021, paras. 7.19 and 7.48.

Appendix B: Monetary Benefits in Accordance with Inspector General Act Amendments

Recommendation	Explanation of Benefits	Better Use of Funds	Questioned Costs[47]
1	Improperly closed drug return jobs	$0	$3,611,862[48]
2	Credits used for processing fees	$0	$526,520
	Total	**$0**	**$4,138,382**

[47] The OIG questions costs when VA action or inaction (such as spending or failure to fully compensate eligible beneficiaries) is determined by the OIG to violate a provision of law, regulation, contract, grant, cooperative agreement, or other agreement; when costs are not supported by adequate documentation; or when they are expended for purposes that are unnecessary or unreasonable under governing authorities. Within questioned costs, the OIG must, as required by section 405 of the IG Act, report unsupported costs. Of the over $4.1 million in questioned costs, $526,520 was unsupported, which represents credits the contractor used for prohibited processing fees and that the contractor maintains were refunded to VA facility accounts. Amounts have been rounded to the nearest whole dollar.

[48] The audit team made changes to the finding's conclusion based on evidence provided by the contractor after audit work was completed; therefore, the team revised its recommendations and removed $833,455 from the original $4,445,317 in questioned credits associated with previously unsupported discrepancies, as the contractor was able to provide sufficient substantiating evidence that these amounts were not owed to VA.

Appendix C: Management Comments

Department of Veterans Affairs Memorandum

Date: August 28, 2025

From: Principal Executive Director, Office of Acquisition, Logistics, and Construction (003)

and Chief Acquisition Officer

Subj: Office of Inspector General (OIG) Draft Report: Independent Audit Report of Pharma Logistics LLC's Billing Compliance 02182-AE-0079 (VIEWS #13461506)

To: Inspector General (50)

1. In response to your request, the Office of Acquisition, Logistics, and Construction (OALC) reviewed the subject OIG Draft Report. OALC concurred with the finding and with all recommendations and will take the actions referenced in the attached implementation plan.

The OIG removed point of contact information prior to publication.

(Original signed by)

Phillip W. Christy

Attachment

Attachment

VIEWS 13461506

Department of Veterans Affairs (VA) Comments

Office of Inspector General (OIG) Draft Report

Office of Acquisition, Logistics, and Construction

Independent Audit Report of Pharma Logistics LLC's Billing Compliance, 2023-02182-AE-0079

August 2025

The OIG recommends that the Contracting Officer:

Recommendation 1: Confer with the Office of General Counsel regarding the potential recovery of the $4.4 million in manufacturer credits that were issued by manufacturers and retained by Pharma Logistics before the associated jobs were closed.

VA Comment: Concur. VA agrees with this recommendation. We will consult the Office of General Counsel (OGC) to review the $4.4 million in credits retained by Pharma Logistics and discuss the potential for recovering these credits.

Target Completion Date: January 31, 2026.

Recommendation 2: Contact the Office of General Counsel regarding the potential recovery of unsupported discrepancies between the total credits received and amounts disbursed.

VA Comment: Concur. VA agrees with this recommendation. We will consult with OGC to address the potential recovery of unsupported discrepancies between the total credits received and amounts disbursed. However, VA wishes to note the following: The company has indicated to OIG that it either does not have or will not share the required disbursement data, thereby preventing VA from obtaining and reconciling the detailed data as recommended. OIG reported that during the entrance conference on July 14, 2025, they had been unsuccessful in obtaining the data even after 3.5 years of auditing, which included subpoena efforts. Without the supporting data, it is not possible to confirm the existence and extent of the issue to resolve it. To avoid this situation in future contracts, VA will ensure to structure contracts to eliminate the need for complex reconciliation procedures.

Target Completion Date: January 31, 2026.

Recommendation 3: Contact the Office of General Counsel regarding the potential recovery of unsupported return credits to manufacturers.

VA Comment: Concur. VA agrees with this recommendation. We will consult with OGC to address the potential recovery of unsupported return credits to manufacturers. However, VA wishes to note the following: The company has indicated to OIG that it either does not have or will not share required manufacturer credit information thereby preventing VA from obtaining and reconciling the detailed data as recommended. OIG reported that during the entrance conference on July 14, 2025, they had been unsuccessful in obtaining the data even after 3.5 years of auditing, which included subpoena efforts. Without the supporting data, it is not possible to confirm the existence and extent of the issue to resolve it.

To avoid this situation in future contracts, VA will ensure to structure contracts to eliminate the need for complex reconciliation procedures.

Target Completion Date: January 31, 2026.

For accessibility, the original format of this appendix has been modified to comply with Section 508 of the Rehabilitation Act of 1973, as amended.

OIG Contact and Staff Acknowledgments

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Pursuant to Pub. L. No. 117-263 § 5274, codified at 5 U.S.C. § 405(g)(6), nongovernmental organizations, and business entities identified in this report have the opportunity to submit a written response for the purpose of clarifying or providing additional context to any specific reference to the organization or entity. Comments received consistent with the statute will be posted on the summary page for this report on the VA OIG website.

OIG reports are available at www.vaoig.gov.