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OFFICE OF INSPECTOR GENERAL

Office of Audits and Evaluations

VETERANS HEALTH ADMINISTRATION

Audit of Pharmaceutical Purchases Made Outside the Prime Vendor Contract

Audit	25-02487-143	June 25, 2026

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Executive Summary

The VA Office of Inspector General (OIG) conducted this audit to assess whether the Veterans Health Administration (VHA) had adequate controls to ensure medical facilities complied with VA policies when making pharmaceutical purchases through the open market. VA spent about $11.7 billion on pharmaceuticals during the audit period, which was from April 1, 2024, through March 31, 2025. Of that amount, VHA spent about $322.5 million—about 3 percent—on pharmaceuticals purchased outside the prime vendor contract. VHA Directive 1108.07(2) requires facility staff to use the prime vendor as the first source for all contract pharmaceutical purchases.[1] The prime vendor is the main commercial distributor of a broad range of drugs and pharmaceuticals to VA and other agencies with a contracted pricing schedule that leverages the government's buying power.[2]

VHA's Pharmacy Benefits Management Services is responsible for establishing pharmacy policy and guidance, while Veterans Integrated Service Network directors are responsible for ensuring that medical facilities comply with VHA Directive 1108.07(2) as it relates to pharmaceutical procurement. The OIG is aware that as of March 2026, VHA was reorganizing and realigning its operations, and that these changes may affect how VHA addresses the recommendations in this report. The OIG communicated with VHA leaders throughout the audit, most recently in March 2026, and the leaders generally agreed with the team's findings. The audit team also analyzed additional data on pharmaceuticals purchased from October through December 2025, which were the most recent data available as of February 2026, and found that the same challenges with noncompliance persisted.

What the Audit Found

The OIG found that VHA facilities did not always comply with policy requiring them to document attempts to purchase pharmaceuticals through the prime vendor and conduct market research for cost-effectiveness before making open market purchases. A review of medical facility staff's government purchase card transactions showed VHA spent about $322.5 million on pharmaceutical purchases outside the prime vendor contract during the audit period. The audit team reviewed $276.7 million of those purchases, excluding purchases made through VHA's Consolidated Mail Outpatient Pharmacies, and found oversight and compliance issues:

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[1] VHA Directive 1108.07(2), *General Pharmacy Service Requirements*, November 28, 2022, amended December 6, 2024.

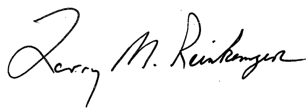
[2] "Pharmaceutical Prime Vendor" (web page), Office of Procurement, Acquisition, and Logistics, accessed March 19, 2026, https://department.va.gov/procurement-acquisition-and-logistics/national-contract-service/?target=PharmPrimeVendor.

- **Prime vendor not always used.** Facility staff could not produce evidence that they attempted to purchase pharmaceuticals through the prime vendor before purchasing items on the open market.
- **Insufficient market research.** Staff could not produce evidence that they conducted research to ensure cost-effective purchasing for about 93 percent of all open market purchases.
- **Policy and training deficiencies.** Existing guidance lacks detail about how to document when items are unavailable through the prime vendor or how to conduct market research. Approving officials generally performed cursory reviews and did not verify whether purchases were necessary or cost-effective.
- **Oversight gaps.** The VA National Acquisition Center did not review $197.4 million in purchases made outside the prime vendor contract, meaning these purchases lacked program office oversight. Without visibility into these transactions, VHA cannot identify inappropriate purchases, enforce compliance, or realize cost savings.

Recent executive orders emphasize the need for more transparency and tighter controls over government spending, including government purchase cards.[3] The audit team's findings further the implementation of those orders by recommending more comprehensive VHA oversight of pharmaceuticals purchased through the open market using a government purchase card. The recommendations in this report align with the OIG's statutory responsibility to deter potential fraud, as well as reduce waste and abuse of taxpayer dollars.

Next Steps

The OIG will continue to monitor VHA's corrective actions and will close the recommendations once VHA provides sufficient evidence that it has strengthened its oversight processes and addressed the risks identified in this report.



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[3] Exec. Order 14222, "Implementing the President's 'Department of Government Efficiency' Cost Efficiency Initiative," February 26, 2025; Exec. Order 14271, "Ensuring Commercial, Cost-Effective Solutions in Federal Contracts," April 15, 2025.

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Abbreviations

NAC	National Acquisition Center
OIG	Office of Inspector General
PBM	Pharmacy Benefits Management Service
VHA	Veterans Health Administration
VISN	Veterans Integrated Service Network

Introduction

Maintaining a sufficient supply of pharmaceuticals in Veterans Health Administration (VHA) facilities is essential to delivering quality health care for veterans. VA spent about $11.7 billion on pharmaceuticals from April 1, 2024, through March 31, 2025 (the audit period).[4] To purchase pharmaceuticals, medical facility staff primarily use a single contracted vendor known as the prime vendor. However, staff can use the open market to make purchases outside established government contracts when the prime vendor does not have the item needed. Of the $11.7 billion that VA spent on pharmaceuticals during the audit period, VHA spent about $322.5 million—about 3 percent of the total—on pharmaceuticals purchased outside the prime vendor contract.

The VA Office of Inspector General (OIG) conducted this audit to determine whether VA had adequate controls in place to ensure medical facilities purchased pharmaceuticals in accordance with VA policies. Adequate controls should enable Veterans Integrated Service Networks (VISNs) and medical facilities to hold staff accountable for purchasing pharmaceuticals through the appropriate source and for making cost-effective decisions when purchasing through the open market.

Recent executive orders emphasize the need for additional transparency and tighter controls over government spending, including government purchase cards.[5] The audit team's findings are consistent with those orders and underscore that VHA needs to provide better oversight of pharmaceuticals purchased through the open market using a government purchase card. The recommendations in this report align with the OIG's statutory responsibility to deter potential fraud, as well as reduce waste and abuse of taxpayer dollars.

Pharmaceutical Procurement Overview

The prime vendor is the main commercial distributor of a broad range of drugs and pharmaceuticals to VA and other agencies with a contracted pricing schedule that leverages the government's buying power.[6] The program uses just-in-time acquisition and inventory processes and allows users to place orders through a web-based system. Pricing for most products distributed by the prime vendor is established under the Federal Supply Schedule Service. VA's National Acquisition Center (NAC) manages the program.

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[4] This value represents VA's reported amount spent through the prime vendor contract and the OIG's analysis of what VA spent on purchases outside the prime vendor contract.

[5] Exec. Order 14222, "Implementing the President's 'Department of Government Efficiency' Cost Efficiency Initiative," February 26, 2025; Exec. Order 14271, "Ensuring Commercial, Cost-Effective Solutions in Federal Contracts," April 15, 2025.

[6] "Pharmaceutical Prime Vendor" (web page), Office of Procurement, Acquisition, and Logistics, accessed March 19, 2026, https://department.va.gov/procurement-acquisition-and-logistics/national-contract-service/?target=PharmPrimeVendor.

Open Market Purchases

VHA Directive 1108.07(2) requires that the prime vendor program be used as the first source for all contract pharmaceutical purchases.[7] The directive says if an item is not available through the prime vendor, VHA's pharmaceutical procurement technicians, or "technicians," must follow the VA Acquisition Regulations to buy it. This procurement process is shown in figure 1.

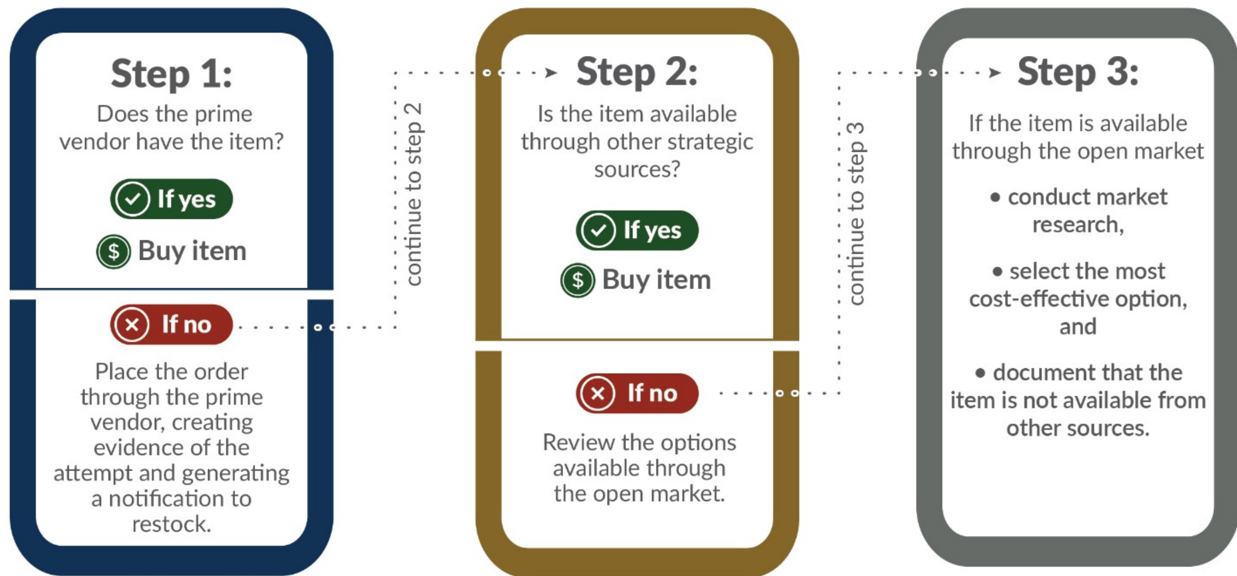

Figure 1. *Pharmaceutical ordering process.*

Source: OIG analysis of pharmaceutical ordering process.

According to the VA financial policy "Government Purchase Card for Micro-Purchases," purchasers may only buy pharmaceuticals on the open market only after every effort has been made to locate the item on an existing government or departmental contract.[8] To support this effort, technicians can use the NAC's contract catalog search tool, an online list of active VA healthcare contracts. The tool helps staff verify whether an item is under contract, compare prices, and review details of an order. As part of the process, technicians must document that the needed item is not available through an existing governmental or departmental contract.

Technicians can purchase from the open market in two ways. One is to purchase an open market item using the prime vendor's website, which, in addition to contracted items, also displays pricing for open market items. The second is to access and purchase items directly from a different vendor. According to VA's mandatory purchase card training, technicians must conduct

[7] VHA Directive 1108.07(2), *General Pharmacy Service Requirements*, November 28, 2022, amended December 6, 2024.

[8] VA Financial Policy, "Government Purchase Card for Micro-Purchases," in vol. 16, *Charge Card Programs* (October 2025), chap. 2. While VA revised this policy in October 2025, the updates did not materially affect the criteria used in this audit.

market research when making these open market purchases to ensure reasonable prices; compare prices; and verify timely, reliable, and quality service.[9]

Roles and Responsibilities

VHA's Pharmacy Benefits Management Services is responsible for establishing pharmacy policy and guidance, while VISN directors are responsible for ensuring medical facilities comply with VHA Directive 1108.07(2) as it relates to pharmaceutical procurement.[10] The OIG is aware that, as of March 2026, VHA has developed plans for a multiyear reorganization of its operations. While VHA provided limited details on its plans, there does not appear to be any significant impact on the open market pharmaceutical purchasing process.

VHA Pharmacy Benefits Management Services

According to VHA Directive 1108.07(2), the Pharmacy Benefits Management Service (PBM) service is aligned under the assistant under secretary for health for patient care services and is responsible for developing standards for pharmacy services, including procurement.[11] PBM, in collaboration with VISN and facility leaders, is responsible for tracking pharmaceutical purchases made through the pharmaceutical prime vendor. After reviewing an earlier version of the OIG's finding in April 2026, PBM told the OIG that they track these purchases through program-level data and analytics. Additionally, VHA Directive 1217(1) states that as a program office, PBM has an oversight responsibility to set performance and risk measures.[12] Furthermore, PBM, in collaboration with VISN and facility leaders, is responsible for evaluating the effectiveness and accuracy of data.

VA National Acquisition Center

VA's NAC program office is aligned under VA's Office of Procurement, Acquisition, and Logistics, which ultimately reports to the VA Secretary. The NAC is responsible for supporting VA and other government agencies by awarding contracts and purchase agreements to vendors for the acquisition and delivery of pharmaceuticals.

The National Contract Service, which falls under the NAC, consists of several divisions, including the pharmacy division and the prime vendor division. The pharmacy division is responsible for supporting VA pharmaceutical contracts and works with PBM, VISN pharmacy

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[9] VA, "VA Online Purchase Card Training," VA Talent Management System, accessed March, 2, 2026 (this web page is not publicly accessible).

[10] VHA Directive 1108.07(2).

[11] VHA Directive 1108.07(2).

[12] VHA Directive 1217(1), *VHA Operating Units*, August 14, 2024, amended January 19, 2025.

executives, and other groups to match clinical needs with contracting requirements. The prime vendor division oversees the pharmaceutical prime vendor program.

VISN and VA Medical Facilities

VHA Directive 1108.07(2) notes that VISN directors, VISN network pharmacist executives, and VA medical facility directors are responsible for ensuring their facilities comply with pharmacy procurement procedures. The directive states that a facility's pharmacy chief is responsible for ensuring compliance with VA fiscal, procurement, and inventory requirements.[13] Facility staff who are government purchase cardholders are given the authority to obligate funds on behalf of the government. Facility approving officials are responsible for ensuring cardholders make only authorized purchases.

Explanation of Pharmaceutical Purchase Data

Table 1 describes key numbers discussed in this report. The amounts in the first column represent pharmaceutical purchases made from April 1, 2024, through March 31, 2025.

Table 1. Pharmaceutical Purchase Data Description

Amount	Description
$11.7 billion	This value represents VA's reported amount spent through the prime vendor contract and the OIG's analysis of what VA spent on purchases outside the prime vendor contract.
$11.4 billion	VA reported this value as the amount spent through the prime vendor on contracted items.
$322.5 million	The OIG identified this as the amount spent on purchases outside the prime vendor contract that were made with a government purchase card and met a pharmaceutical classification criterion (budget object code, federal supply code, or national drug code). This amount also includes $125.1 million in open market purchases made through the prime vendor's web platform, which, in addition to contracted items, also displays pricing for and facilitates purchase of open market items.

Source: The numbers reported above were consolidated from VA's PBM Office, as well as the OIG's analysis of purchase card data from VA's Corporate Data Warehouse.

Note: Numbers are rounded.

[13] VHA Directive 1108.07(2).

Results and Recommendations

Finding: VHA Did Not Provide Adequate Oversight of Pharmaceutical Purchases Made Outside the Prime Vendor Contract

Medical center staff used the prime vendor appropriately—as required by VHA Directive 1108.07(2)—to purchase about $11.4 billion, as reported by VA, in pharmaceuticals from April 1, 2024, through March 31, 2025.[14] VA purchased an additional $322.5 million worth of pharmaceuticals outside the prime vendor contract. Of this amount, the audit team identified $276.7 million in purchases made by facility staff—about 660,000 transactions. The remaining $45.9 million—purchases made through VHA's Consolidated Mail Outpatient Pharmacies—was not reviewed by the OIG because this audit focused on VHA medical facilities.

The audit team found that VHA facilities did not always comply with VHA Directive 1108.07(2) nor with mandatory purchase card training.[15] Within the $276.7 million in reviewed pharmaceutical purchases made outside the prime vendor, facility staff could not produce evidence they attempted to use the prime vendor before buying through the open market for about 83 percent of purchases. Staff could also not produce evidence that they conducted market research to ensure cost-effectiveness for about 93 percent of all open market purchases. The team analyzed an additional sample of pharmaceutical purchases from October through December 2025, which was the most recent data available as of February 2026, and found the same challenges persisted. VHA leaders must ensure staff conduct and document adequate research, as required, to secure the most cost-effective option.

These issues stemmed from inadequate oversight from VHA, VISN, and facility leaders, including unclear guidance and lack of oversight reviews. Without proper monitoring, these leaders lacked visibility to detect fraud or waste, confirm compliance with guidance, or review transaction accuracy. While some open market purchases were necessary, VHA did not provide sufficient oversight of those transactions to identify savings opportunities.

What the OIG Did

The team reviewed transactions made by VA medical facility staff with a government purchase card that met at least one classification criterion to identify pharmaceutical purchases made outside the prime vendor contract. The transactions had either a budget object code of 2631, a federal supply code of 6505, or a value in the national drug code field.

[14] VHA Directive 1108.07(2).

[15] VHA Directive 1108.07(2); VA, "VA Online Purchase Card Training."

The team identified about 660,000 purchases, coded as pharmaceutical purchases, made by VA medical facility staff outside the prime vendor contract during the audit period. Based on VA's input, the team determined that an estimated 534,000 transactions were made on the open market, while the remaining transactions involved items purchased through other national contracts or blanket purchase agreements or items that were not pharmaceuticals.

The team visited seven medical facilities to discuss the pharmaceutical ordering process and reviewed a sample of 350 transactions to determine whether medical facility staff purchased pharmaceuticals in accordance with VHA Directive 1108.07(2).[16] The team also interviewed over 70 staff members, including VA and VHA officials, VISN and facility pharmacy chiefs, and pharmaceutical staff. See appendix A for more on the team's full scope and methodology and see appendix B for the team's statistical sampling methodology.

The team communicated with VHA leaders throughout the audit, most recently in March 2026. PBM leaders generally agreed with the OIG's findings.

The Open Market Pharmaceutical Procurement Process

According to the VA financial policy "Government Purchase Card for Micro-Purchases," technicians are required to document when a pharmaceutical item is unavailable from the prime vendor before making an open market purchase.[17] However, the audit team found that medical facility staff could not always produce evidence they attempted to purchase pharmaceuticals through the prime vendor before buying them on the open market.

Mandatory training instructs staff to conduct enough market research so the government receives good value for its money. However, approving officials were not always able to verify that staff complied with this direction because staff did not generally document their research efforts to justify open market purchases.

Prime Vendor Ordering Hierarchy

Of the 534,000 open market transactions, an estimated 250,000 were for items included in the prime vendor contract. The audit team estimated that medical facility staff could not produce evidence to show they attempted to purchase pharmaceuticals through the prime vendor for 207,000 of the 250,000 items (about 83 percent) that the prime vendor was contracted to carry. Staff should place orders for those items—even when the system shows they are out of stock—so the vendor can restock those pharmaceuticals. A facility lead procurement technician explained that when staff order pharmaceuticals from the prime vendor's website, even when the system shows the items are unavailable, it still generates an invoice showing the order could not

[16] VHA Directive 1108.07(2).

[17] VA Financial Policy, "Government Purchase Card for Micro-Purchases."

be fulfilled. According to VA Acquisition Regulation 808.404-70 and guidance from the NAC, medical facility staff must exhaust all other strategic sourcing options, such as the prime vendor, national contracts, and the Federal Supply Schedule, before purchasing pharmaceuticals through the open market.[18]

In addition to the sample review, the team also analyzed the pricing of 246 pharmaceuticals purchased through the prime vendor's open market and that had an available prime vendor contract price from April 1, 2024, through March 31, 2025, to identify any price differences. Using the prime vendor's pricing data, the team determined that about 120 pharmaceuticals were priced at least 50 percent higher on the prime vendor's open market. Based on these variances, the team estimated that facilities could have saved about $458,000 by purchasing through the prime vendor contract instead of the open market, assuming the items were available. Table 2 highlights examples of transactions with price differences between the open market and contracted rates.

Table 2. Price Difference Between Prime Vendor's Contract and Open Market

Pharmaceutical transaction	Prime vendor's open market unit price	Prime vendor's contract unit price	Price difference
1	$382	$14	$368
2	$93	$6	$87
3	$43	$3	$40
4	$139	$11	$128
5	$474	$37	$437
6	$288	$24	$264
7	$733	$72	$661
8	$25	$3	$22
9	$366	$44	$322
10	$38	$5	$33

Source: VA OIG comparison of pricing data for pharmaceuticals through the prime vendor's contract and open market.

Note: Numbers are rounded.

Open Market Research

The audit team found that medical facility staff could not produce evidence to show they conducted market research before purchasing an estimated 495,000 of 534,000 transactions

[18] VA Acquisition Regulation 808.404-70, *Use of Federal Supply Schedules—the Veterans First Contracting Program*.

(about 93 percent) valued at an estimated $138.9 million on the open market. According to the mandatory government purchase card training, cardholders should conduct enough market research to "ensure that the government receives a good value for its money in terms of reasonable price and timely, reliable, and quality service." Furthermore, the purchase should "represent the best buy that meets the government's minimum requirements." Approving officials are responsible for ensuring transactions were made within purchasing guidelines, and to do so, officials would need documentary evidence to verify staff made purchases in accordance with guidance.[19]

Market research is important so that staff purchase pharmaceuticals at the best price, regardless of whether the purchase is through the prime vendor's website or other vendors. The team compared prices from the prime vendor's open market website to other vendors and found variances in pharmaceutical pricing. The team found that the prime vendor's open market price was higher for the same items in some cases. Table 3 outlines pricing differences between the prime vendor and other vendors for the same pharmaceutical purchased in March 2025.

Table 3. Comparison of Prime Vendor Open Market Prices to Other Open Market Vendors

Pharmaceutical	Prime vendor open market unit price	Other open market unit price	Unit price difference
1	$110.25	$39.17	$71.08
2	$1,411.99	$1,344.75	$67.24
3	$40.00	$18.57	$21.43
4	$87.20	$44.67	$42.53

Source: VA OIG analysis of open market pharmaceutical transactions for the prime vendor and alternative vendors made in March 2025.

Facility staff said they prefer to use the prime vendor's web platform to purchase pharmaceuticals on the open market when needed because the website is user-friendly and simple to navigate. Staff said they use the vendor's open market option because the platform shows contracted and open market prices in one place. Staff are allowed to purchase pharmaceuticals through the prime vendor as long as they conducted sufficient research to support the decision.

Open Market Transaction Controls

VHA does not have standardized guidance for justifying open market purchases and does not routinely review any of the open market pharmaceutical transactions.

[19] VA, "VA Online Purchase Card Training."

Guidance for Making Open Market Transactions

The audit team determined that the VA financial policy "Government Purchase Card for Micro-Purchases" lacks detailed instructions and does not promote standardization across medical facilities. This policy states that technicians are required to document when a pharmaceutical item is unavailable from the prime vendor before making an open market purchase.[20]

Through interviews with technicians, the team determined that guidance lacked specificity on how to document attempts to purchase pharmaceuticals through the prime vendor. As a result, technicians used different approaches to meet the requirement. For example, some technicians followed NAC guidance by placing the order through the prime vendor's system, even when the system showed insufficient stock. This action generates an unfulfilled invoice, which serves as verifiable evidence of nonavailability, as required by policy. Another technician told the team that they included a written justification on the purchase order. While this also serves as documentation, it does not allow supervisors to verify a technician's attempt to order through the prime vendor's system and it does not notify the contractor that an item needs to be restocked.

While VA training instructs cardholders to conduct market research to make cost-effective purchases, the training does not outline the level of research required nor the minimum documentation required to support the transaction.[21] During the team's site visits, facility staff said they were taught through on-the-job training to expedite the procurement process by buying from the open market vendor they were familiar with without researching other options. Staff also noted that obtaining numerous cost estimates and saving that documentation would be too time-consuming. In addition, staff did not have a standard list of vendors to use for cost estimates. Although not a requirement, a list of local vendors could have been helpful for staff to research open market pricing and determine whether it was competitive.

Updated guidance would provide clearer instruction for staff and provide approving officials with sufficient documentation to validate that staff attempted to purchase pharmaceuticals through the prime vendor and conducted required open market research. VHA should consider developing and establishing detailed guidance for medical facility staff to document evidence supporting their decisions to buy pharmaceuticals through the open market.

Open Market Transaction Reviews

VISN purchase card coordinators and facility pharmacy leaders lack a standardized process to confirm that open market purchases made outside the prime vendor's website are made appropriately. According to the VA financial policy "Government Purchase Card for Micro-Purchases," the purchase card program coordinator is required to periodically review and

[20] VA Financial Policy, "Government Purchase Card for Micro-Purchases."

[21] VA, "VA Online Purchase Card Training."

evaluate the effectiveness of internal controls, which includes determining whether cardholders made cost-effective purchases and followed the required ordering hierarchy.[22]

The VHA purchase card program manager said VHA does not have a standardized process to audit government purchase card transactions. She said she had developed a standard operating procedure for conducting internal audits; however, she rescinded it in October 2021 to make updates, and the standard operating procedure had not been reissued as of December 2025.

The audit team learned that some VISNs conduct audits of government purchase cards. However, the audits may not always identify whether cardholders are attempting to purchase pharmaceuticals through the prime vendor before going to the open market or whether staff are making cost-effective purchases based on sufficient open market research.

At the facility level, approving officials are responsible for monitoring the use of the government purchase cards by reviewing supporting documentation to ensure purchases are made according to guidelines. The team determined that some approving officials at the facility level are not reviewing all transactions for appropriateness or accuracy. Specifically, an approving official told the audit team that they generally provide a cursory review to confirm open market purchases were for a pharmaceutical, were bought from a familiar vendor, and were charged for the correct amount. However, approving officials did not always review open market transactions to verify pharmaceuticals were unavailable through the prime vendor contract or that staff conducted sufficient research to make the most cost-effective purchases.

Without policy providing specific requirements for documentation and enforcing consistent oversight of transactions, approving officials cannot verify that the ordering hierarchy is followed and that the government receives a fair and reasonable price for open market pharmaceutical purchases. The OIG recommends that VHA ensures medical facility leaders conduct routine assessments of pharmaceutical purchases made through the open market to confirm purchases are made in accordance with policy.

Program Office Oversight

VHA Directive 1217(1) states that, as a program office, PBM is responsible for managing quality, compliance, and risk.[23] As part of that responsibility, PBM, in coordination with VISN and facility leaders, is responsible for overseeing pharmaceutical purchases. The audit team found weaknesses such as unclear guidance and lack of reviews stemmed primarily from ineffective and incomplete oversight. Without proper monitoring, the program office cannot identify which controls need to be strengthened.

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[22] VA Financial Policy, “Government Purchase Card for Micro-Purchases.”

[23] VHA Directive 1217(1).

According to VA's data, of the purchases totaling $322.5 million made outside the prime vendor contract, a clinical pharmacist at the NAC provided routine oversight for $125.1 million worth of open market transactions (39 percent) made through the prime vendor's website that identified potential cost-savings opportunities. Specifically, during the audit period, the clinical pharmacist sent weekly emails to procurement staff summarizing recent open market spending, highlighting purchasing trends and opportunities to better leverage the prime vendor program. While this oversight helped to identify broad cost-savings opportunities, it did not include reviewing whether medical facilities attempted to use the prime vendor contract first or whether they conducted and documented required research to compare prices with other vendors. PBM needs this information to accurately oversee pharmaceutical purchasing at an enterprise level. The following example highlights an opportunity for facility staff to make a cost-effective decision for a specific item, as identified by the clinical pharmacist.

Example 1

In an April 2024 email, a pharmacist at the NAC emailed pharmacy chiefs and procurement technicians to inform them of a cost-savings opportunity. He said facilities were buying a product on the open market for $42.91, while the equivalent product was available through the prime vendor for $19.96. He also said facilities purchased over $7,000 of the product on the open market over the previous week. The team calculated that if the facilities had purchased the drug through the prime vendor, they would have saved about $3,800.

Neither the NAC nor PBM had oversight of the remaining $197.4 million worth of transactions (61 percent) made to other vendors outside the prime vendor. PBM leaders explained that they did not receive, collect, or maintain data for these transactions because they consider tracking these purchases a facility responsibility. The lack of oversight contributed to an estimated 111,000 of 660,000 transactions that were incorrectly classified as pharmaceuticals. These transactions were for items such as medical supplies. The VA financial policy "Government Purchase Card for Micro-Purchases" requires staff to correctly classify transactions to ensure accurate financial records.[24] Without this oversight, VA cannot effectively track expenses, manage budgets, or plan for future spending.

Without oversight of all purchases made outside the prime vendor, PBM and VISN leaders lack insight into how facilities are using the prime vendor program, including the accuracy of the data and the ability to assess the number of purchases made through the prime vendor versus the open market. Oversight of these transactions is essential for VHA to identify and prevent potential fraud, as well as reduce waste and abuse of taxpayer dollars. PBM is also unable to offer suggestions or reinforce guidance, like the NAC does for open market purchases made through

[24] VA Financial Policy, "Government Purchase Card for Micro-Purchases."

the prime vendor. The OIG recommends that VHA should ensure PBM develops a mechanism, in coordination with VHA's purchase card program, that provides visibility into all pharmaceutical purchases, including purchases outside the prime vendor contract.

Conclusion

VHA medical facility staff did not always produce evidence that they attempted to purchase pharmaceuticals through the prime vendor before using the open market, nor did they consistently demonstrate that they conducted research to ensure the most cost-effective open market purchases. VHA did not adequately oversee pharmaceutical purchases made outside the prime vendor's ordering system to confirm that staff complied with policy. Without comprehensive oversight of all pharmaceutical purchases, VHA lacks the information necessary to understand the full scope of facility purchasing behavior. This lack of visibility creates a control gap that increases the risk of overspending as well as potential fraud and waste. Until VHA fully implements recent executive orders to enhance oversight of government purchase cards and ensures compliance with policy requirements, VHA will remain limited in its ability to ensure cost-effective purchasing, deter fraud, and safeguard taxpayer resources.

Recommendations 1–3

The OIG made the following recommendations to the under secretary for health:

1. Develop and establish guidance detailing how medical facility staff must document evidence to support their decisions when they make pharmaceutical purchases through the open market.
2. Ensure medical facility leaders conduct routine assessments of pharmaceutical purchases made through the open market so purchases are made in accordance with policy.
3. Develop a mechanism, in coordination with VHA's purchase card program office and VA's Office of General Counsel, that provides visibility into all pharmaceutical purchases, including purchases outside the prime vendor contract.

VA Management Comments

The under secretary for health concurred in principle with all recommendations and submitted corrective action plans to address issues identified in the report. For recommendations 1 and 2, VHA said it will convene a multidisciplinary workgroup to review facility-level practices against national policy and determine whether revisions or additional education are needed. In response to recommendation 3, VHA noted that the Office of Acquisition, Logistics, and Construction; the Office of Procurement; and the VHA Office of the Chief of Staff will collaborate with the VA Financial Services Center to develop a report that provides visibility into all pharmaceutical purchases and to update the *Financial Services Center Purchase Card Handbook* to strengthen

oversight controls. All corrective actions remain in progress with an expected completion date of March 2027. See appendix C for the under secretary's full response.

OIG Response

VA's corrective actions plans are responsive to the intent of the recommendations. The OIG will monitor VA's progress in addressing the recommendations and will close them when VA provides sufficient evidence that the action plans have been completed.

Appendix A: Scope and Methodology

Scope

The team conducted its work from June 2025 through April 2026. The review focused on assessing whether the Veterans Health Administration (VHA) purchased pharmaceuticals in accordance with policy and the ordering hierarchy. The team reviewed transactions that were not made through the prime vendor contract.

Methodology

To accomplish its objective, the audit team completed the following:

- Obtained a stratified sample of 350 of 659,886 transactions made by medical facility staff with a government purchase card that met at least one pharmaceutical classification criterion.

  The transactions had at least one of the following: budget object code of 2631, a federal supply code of 6505, or value in the national drug code field. The sample excluded purchases made by consolidated mail outpatient pharmacies. The team requested supporting documentation from the medical facilities to assess whether the purchases were made in accordance with VA policy. VA medical facilities responded to 347 of 350 sample transactions. The team made repeated follow-up attempts to three facilities regarding the remaining three transactions; however, those facilities did not respond. Since these three transactions had minimal impact on the estimates, the OIG conservatively treated them as if they were not made through the open market. As a result, some projections in table B.2 may be slightly lower than if VA had provided feedback on those three transactions.

- Developed a data collection tool—which included preloaded sample information, key data points to review, and standardized questions—to ensure consistency of transaction reviews.

- Interviewed leaders in the National Acquisition Center and the Pharmacy Benefits Management Services as well as medical facility staff, including pharmacy chiefs and pharmacy procurement technicians, to determine whether staff purchased pharmaceuticals in accordance with policy.

- Visited seven judgmentally selected sites: Buffalo, New York; Tampa, Florida; Bay Pines, Florida; Philadelphia, Pennsylvania; Lebanon, Pennsylvania; Alexandria, Louisiana; and Amarillo, Texas.

- Analyzed open market and prime vendor pharmaceutical transaction data at the enterprise level to determine whether there was a variance in pricing.

Internal Controls

The team assessed internal controls to determine whether they were significant to the audit objective. As outlined in the Government Accountability Office's *Standards for Internal Control in the Federal Government*, this included consideration of the five internal control components: control environment, risk assessment, control activities, information and communication, and monitoring.[25] In addition, the team reviewed the principles of internal controls as associated with the objective and identified three components and four principles as significant. Because the audit was limited to the internal control components and underlying principles identified, it may not have disclosed all internal control deficiencies that could have existed at the time of this audit. The team identified internal control deficiencies during this audit and proposed recommendations to address those listed in table A.1.

Table A.1. VA OIG Analysis of Internal Control Components and Principles Identified as Significant

Component	Principle	Deficiencies identified by this audit
Risk assessment	Managers should define objectives clearly to enable the identification of risks and define risk tolerances.	Oversight challenges prevent VHA from identifying potential inappropriate purchases or ensuring that open market purchases are being made in accordance with policy.
Control activities	Managers should design control activities to achieve objectives and respond to risks.	Internal controls are not properly designed to ensure open market purchases are reviewed as required.
Information and communication	Management should use quality information to achieve the entity's objectives.	The program office does not have assurance that open market transactions made outside the prime vendor are reviewed. Additionally, there is no assurance that VISNs are conducting standardized purchase card transaction reviews.
	Managers should internally communicate the necessary quality information to achieve the entity's objectives.	VHA cannot review open market transactions made outside the prime vendor.

Source: VA OIG analysis of internal control components and principles. The principles listed are consistent with the Government Accountability Office's Standards for Internal Control in the Federal Government.

[25] Government Accountability Office, *Standards for Internal Control in the Federal Government*, GAO-14-704G, September 2014.

Data Reliability

The team obtained data from the Corporate Data Warehouse and assessed the reliability of the data used to support findings, conclusions, and recommendations related to the review objectives.

To test the accuracy, reliability, and completeness of the data, the audit team assessed purchase orders, invoices, and shipping forms from the sampled facilities. The team also used medical facility staff questionnaire responses in its analysis. The audit team's assessment determined the data the team relied on were complete, accurate, and relevant for supporting the audit objective and results.

Government Standards

The OIG conducted this performance audit in accordance with generally accepted government auditing standards.[26] Those standards require that the OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on audit objectives. The OIG believes the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

[26] Government Accountability Office, *Government Auditing Standards 2024 Revision*, GAO-24-106786, February 2024.

Appendix B: Statistical Sampling Methodology

Approach

To accomplish the objective, the audit team reviewed a statistical sample of purchase card transactions to assess whether VA had adequate controls in place that ensured medical facilities purchased pharmaceuticals in accordance with VA policies.

Population

The review population included 659,886 transactions for items identified as pharmaceuticals, based on associated budget object codes, federal supply codes, and national drug codes. The team reviewed purchases made between April 1, 2024, and March 31, 2025. Transactions from consolidated mail outpatient pharmacies were excluded; the review focused solely on transactions made at VA medical centers.

Sampling Design

During preliminary testing of the population, the team identified transactions that appeared to involve items other than pharmaceuticals. To obtain more precise results, these transactions were flagged as potential "nonpharmaceuticals" and placed into a separate stratum. These items were not excluded from the population; instead, the team verified with medical facility staff whether the items were indeed nonpharmaceutical.

Within each stratum, the sampled items were selected based on probability in proportion to size based on the total cost associated with each item within each stratum. Strata information, including sample size per stratum, are shown in table B.1 on the next page.

Additionally, the team took steps to identify transactions in the population that involved specialty drugs by referencing VA's website for specialty distribution medications. According to VHA Directive 1108.07(2), specialty drugs are not available through the prime vendor's normal process and are distributed through a specialty distribution company or third-party distributor.[27] Because item descriptions for these transactions were not standardized, the team included specialty medications in the sample and validated with the VA medical facility whether they were specialty drugs. If the facility confirmed that the sampled item was a specialty drug and the team verified that it was not available through the prime vendor, the transaction was noted in the analysis and was not counted as an error. See table B.1 for additional details on the sample design.

[27] VHA Directive 1108.07(2), *General Pharmacy Service Requirements*, November 28, 2022, amended December 6, 2024.

Table B.1. Pharmaceutical Transaction Strata

Category	Number of items	Total cost	Sampled items
Nonpharmaceuticals	89,728	$32,399,145	100
Pharmaceuticals	565,155	$211,146,504	150
Specialty Drugs	5,003	$33,106,421	100

Source: VA OIG statistician's stratified population. Data were obtained from the Corporate Data Warehouse.

Weights

Samples were weighted to represent the population from which they were drawn, and the weights were used in the estimate calculations. For example, the team calculated the error rate estimates by first summing the sampling weights for all sample records that contained the given error, then dividing that value by the sum of the weights for all sample records.

Projections and Margins of Error

The projection is an estimate of the population value based on the sample. The associated margin of error and confidence interval show the precision of the estimate. If the OIG repeated this audit with multiple sets of samples, the confidence intervals would differ for each sample but would include the true population value about 90 percent of the time.

The OIG statistician employed statistical analysis software to calculate estimates, margins of error, and confidence intervals that account for the complexity of the sample design.

The sample size was determined after reviewing the expected precision of the projections based on the sample size, potential error rate, and logistical concerns of the sample review. While precision improves with larger samples, the rate of improvement decreases significantly as more records are added to the sample review.

Figure B.1 shows the effect of progressively larger sample sizes on the margin of error.

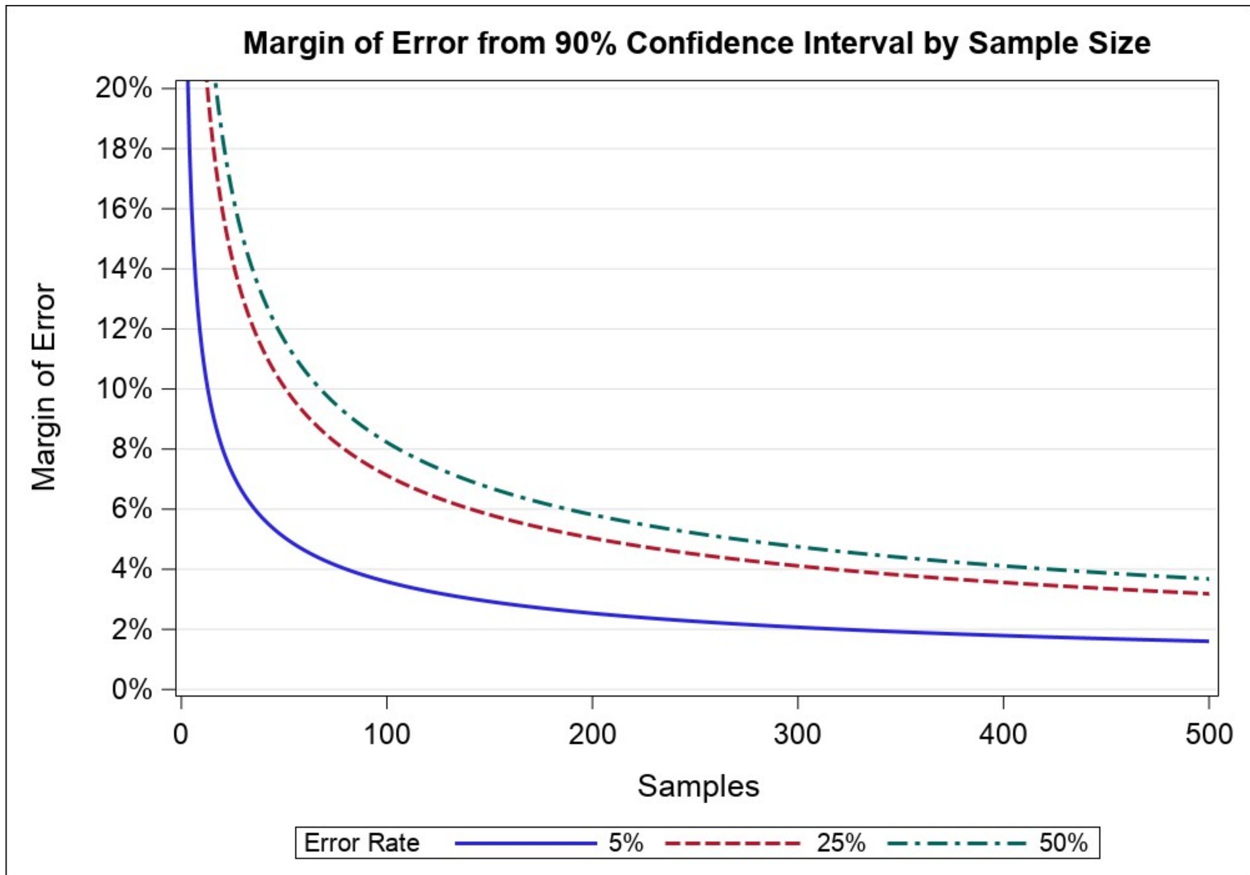

Figure B.1. *Effect of sample size on margin of error.*

Source: VA OIG statistician's analysis.

Projections

Table B.2 shows the total sampled items where VA responded along with the seven categories of transaction errors and the OIG's associated estimates.

Table B.2. Statistical Projections Summary for Transaction Errors, with a 90 Percent Confidence Interval

Estimate name	Estimate number	Margin of error	Lower limit	Upper limit	Sample size
1. Number of nonpharmaceutical items identified as pharmaceuticals	111,350	45,150	66,199	156,500	71

Estimate name	Estimate number	Margin of error	Lower limit	Upper limit	Sample size
2. Number of pharmaceutical transactions made through the open market	533,895	4,918	528,976	538,813	142
3. Number of open market transactions for a prime vendor contracted item	249,506	97,908	151,599	347,414	68
4. Number of eligible open market transactions where VA did not attempt to use or document use of the prime vendor	207,478 (83%)	25,169 (10%)	182,309 (73%)	232,647 (93%)	51
5. Number of eligible open market transactions where VA did not conduct or document open market research	494,869 (93%)	27,338 (5%)	467,530 (88%)	522,207 (97%)	121
6. Value of eligible open market transactions where VA did not conduct or document open market research	$138,913,087	$13,109,430	$125,803,656	$152,022,517	121

Source: VA OIG statistician's projections.

Appendix C: VA Management Comments, Under Secretary for Health

Department of Veterans Affairs Memorandum

Date: May 15, 2026

From: Under Secretary for Health (10)

Subj: Office of Inspector General (OIG) Report, Audit of VHA's Oversight of Pharmaceutical Purchases Made Outside the Prime Vendor Contract (VIEWS 14654746).

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

1. Thank you for the opportunity to review and comment on OIG's draft report on Audit of VHA's Oversight of Pharmaceutical Purchases Made Outside the Prime Vendor Contract. Attached is the Veterans Health Administration's (VHA) action plan.

2. VHA is grateful for the OIGs audit and review and is pleased to learn that 97.2% of pharmaceutical purchases were through the contracted prime vendor. VHA looks forward to addressing the recommendations through further reinforcement of existing published policies that govern the Purchase Card Program. Your collaboration is instrumental in helping us achieve our commitment to excellence in health care services for Veterans.

The OIG removed point of contact information prior to publication.

(Original signed by)

John J. Bartrum, JD, MBA

Attachment

Attachment

VETERANS HEALTH ADMINISTRATION (VHA) Action Plan

OIG Draft Report - Audit of VHA's Oversight of Pharmaceutical Purchases Made Outside the Prime Vendor Contract

(OIG Project Number 2025-02487-AE-0103)

Recommendation 1: Develop and establish guidance detailing how medical facility staff must document evidence to support their decisions when they make pharmaceutical purchases through the open market.

VHA Comments: Concur in Principle. Veterans Health Administration (VHA) concurs in principle because the VHA purchase card policy has appropriate guidance of "when making open market purchases cardholders must document the non-availability of the goods/services from a Government contract vehicle" (Chapter 02 – Government Purchase Card for Micro-Purchases Volume XVI - Charge Card Programs). The VHA Pharmacy Benefits Management Office, in collaboration with the Office of the Chief Operating Officer and Purchase Card Program Office, will charter a workgroup consisting of subject matter experts to review the current facility level processes against published national policy, and determine if a change in national policy is required, or if education to reinforce the national policy is needed to facilitate open market purchases.

Status: In-Progress Target Completion Date: March 2027

Recommendation 2: Ensure medical facility leaders conduct routine assessments of pharmaceutical purchases made through the open market so purchases are made in accordance with policy.

VHA Comments: Concur in Principle. VHA concurs in principle because the VHA purchase card policy has appropriate guidance of "Agency/Organization Program Coordinators (A/OPCs) oversee the card program(s) for his or her agency/organization; establish purchase card accounts in the servicing bank's Electronic Access System (EAS); serve as liaison between the cardholder and the servicing bank; provide on-going advice; review purchase card account activity; maintain necessary account information; monitor and track card program participants that violate policy; and ensure that the offices take appropriate action to address any instances of policy violations" (Chapter 02 – Government Purchase Card for Micro-Purchases Volume XVI - Charge Card Programs). Through the charted workgroup outlined in Recommendation 1, The VHA Pharmacy Benefits Management Office, in collaboration with the Purchase Card Program Office and the Office of the Chief Operating Officer, will review the current facility level processes against published national policy and determine if a change in national policy is required, or if education to reinforce the national policy is needed to facilitate routine assessments.

Status: In-Progress Target Completion Date: March 2027

Recommendation 3: Develop a mechanism, in coordination with VHA's purchase card program office and VA's Office of General Counsel, that provides visibility into all pharmaceutical purchases, including purchases outside the prime vendor contract.

VHA Comments: Concur in Principle. VA Office of Acquisition, Logistics and Construction (OALC), Office of Procurement, and the VHA Office of the Chief of Staff will engage with VA Financial Service Center (FSC) to (1) assist in the development of a report that provides visibility into all pharmaceutical purchases and (2) assist FSC in revising the FSC Purchase Card Handbook to add a detailed oversight/internal

control program with assigned duties for all A/OPCs for the review of pharmaceutical open market purchases.

Status: In-Progress **Target Completion Date: March 2027**

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.

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