



# Office of Inspector General

## Evaluation of Financial and Administrative Controls in the Research Program at the VA Greater Los Angeles Healthcare System

*Major financial and administrative deficiencies have been corrected, but continued management oversight is needed to ensure that problems do not recur.*

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# **Evaluation of Financial and Administrative Controls in the Research Program at the VA Greater Los Angeles Healthcare System**

## **Executive Summary**

**Introduction.** In March 1999, the former Under Secretary for Health suspended the operation of the research program at the VA Greater Los Angeles Healthcare System (GLAHS). He imposed the suspension because the Department of Health and Human Services Office for Protection from Research Risks withdrew its assurance that GLAHS research involving human subjects was conducted in compliance with federal policy. The existing GLAHS Research Service managers were assigned to other duties and an interim management team was appointed. The interim managers initiated actions to bring the GLAHS program into compliance with federal policy on research involving human subjects, and in November 1999 the program suspension was lifted.

The interim managers found numerous deficiencies in Research Service financial and administrative operations and began taking corrective action. Because of the seriousness of these deficiencies, Veterans Health Administration (VHA) management requested that the Office of Inspector General (OIG) evaluate research operations, with the objective of providing independent assurance that all the major financial and administrative deficiencies had been identified and effectively corrected. In addition, we agreed to review Research Service general post funds (donated funds) and unliquidated obligations to determine if unused funds could be freed up to meet research operating expenses. In Fiscal Year (FY) 1999, GLAHS had the second largest VA research program, with 516 active research protocols and a budget of \$42.9 million.

**Operational Deficiencies Have Been Corrected.** We concluded that the major deficiencies in financial and administrative operations had been identified and effectively corrected. Current GLAHS top management and the interim Research Service managers:

- Ended the practice of using grant funds "earmarked" for specific research protocols to pay expenses that were not related to those protocols and implemented procedures to ensure that funds were used only for their intended and authorized purposes.
- Implemented the computerized Research Management System, which provided managers and principal investigators (PIs) the reliable information needed to control research accounts.
- Reduced Research Service staffing and implemented procedures to ensure that temporary employees were released when their appointments ended.
- Established controls to prevent PIs from spending more funds than they had in their protocol accounts and began collecting reimbursements from PIs whose overspending had been improperly covered by appropriated research funds.
- Improved controls on the use of the government purchase card and implemented procedures to ensure that goods and services purchased with the card were actually received.
- Improved the administration of Intergovernmental Personnel Act agreements and ensured that all agreements complied with VA policy and were properly funded.

- Strengthened controls on research general post funds to ensure that funds are used as the donors intended, that account records are properly maintained, and that funds disbursements and transfers are properly authorized and recorded.

These corrective actions established the system of controls needed to ensure the integrity of future financial and administrative operations in Research Service and also addressed the problems that had caused a research budget deficit that had existed since at least the early 1990s. This deficit had been largely caused by the overstaffing in Research Service and had been exacerbated by other questionable practices, such as allowing principal investigators to spend more funds than they had in their protocol accounts. As of June 2000, the deficit had been eliminated and research financial and administrative activities were operating successfully.

**Unused Funds Could Be Made Available for Research Needs.** Our review of research general post funds and unliquidated obligations identified a total of \$268,000 that could be freed up for current operating needs (\$219,000 in unused general post funds and \$49,000 in obligations that could be cancelled). GLAHS management agreed with the results of our review and began using the funds to meet various Research Service expenses.

**Continued Top Management Oversight Is Needed.** The former GLAHS top management did not provide adequate oversight of Research Service and did not establish effective controls to ensure that they received reliable information on research operations. In our opinion, this was the major reason why the research deficiencies were not addressed before the 1999 suspension of the program. The former top management officials were aware of many of the deficiencies and had initiated some corrective actions, but they did not follow through to ensure that these actions were effectively implemented.

The current GLAHS management had implemented stronger oversight controls, with the main control being a Research Budget Subcommittee that is responsible for monitoring research financial operations. To further strengthen oversight, we recommended that the GLAHS Chief Executive Officer implement procedures for conducting periodic reviews of research operations to ensure that controls continue to be effective and that the past deficiencies will not recur.

**GLAHS Chief Executive Officer Comments.** The GLAHS Chief Executive Officer concurred with the evaluation recommendation and provided an acceptable implementation plan. The Research Budget Subcommittee will provide oversight of the recommended periodic reviews of research operations, which will be supervised by a recently appointed Chief Financial Officer who has had no prior association with the GLAHS Financial Management Service. We consider all evaluation issues resolved and will follow up on the implementation of planned actions.

For the Assistant Inspector General for Auditing  
(Original signed by:)  
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## **Table of Contents**

	<b>Page</b>
<b>Executive Summary .....</b>	<b>i</b>
<b>Introduction .....</b>	<b>1</b>
<b>Results and Recommendation .....</b>	<b>2</b>
Continuing Top Management Oversight Is Needed To Sustain Improvements in Research Service Financial and Administrative Operations..... ..	2
Conclusion .....	11
Recommendation.....	13
<b>Appendices</b>	
I. Objectives, Scope, and Methodology .....	15
II. Monetary Benefits in Accordance with IG Act Amendments .....	16
III. GLAHS Chief Executive Officer Comments .....	17
IV. Final Report Distribution.....	20

## **Introduction**

### **Suspension of VA Greater Los Angeles Healthcare System Research Program**

In March 1999, the former Under Secretary for Health suspended all research at the Greater Los Angeles Healthcare System. He took this action because the Department of Health and Human Services Office for Protection from Research Risks (OPRR) had raised concerns about the GLAHS research program. The most important deficiencies cited by OPRR were that program committees were not properly reviewing research protocols involving human subjects and that the program was not maintaining required records on these protocols. As a result of these deficiencies, OPRR withdrew its assurance that research involving human subjects was conducted in compliance with federal policy.

Shortly after the suspension was imposed, VHA management sent two review teams to assess the GLAHS research program. Based on these assessments, in April 1999 VHA appointed an interim management team composed of research staff from other VA facilities to begin addressing the problems in Research Service prior to the recruitment of new permanent managers. The interim managers were tasked with improving clinical, financial, and administrative controls and with correcting deficiencies in various operational activities.

As part of their responsibilities, the interim managers had all existing GLAHS research protocols reviewed by committees of experts to ensure that the protocols complied with VA policy. By November 1999, this review process had been completed, all GLAHS protocols had been either approved to continue or terminated, and the suspension had been lifted. In April 2000, a new Associate Chief of Staff for Research was appointed and a new permanent management team took over operation of Research Service.

At the time of the suspension, GLAHS had the second largest VA research program, with a budget of \$42.9 million. (VA Medical Center San Diego, with a research budget of \$47.5 million, had the largest program.) In FY 1999, the GLAHS research program had 516 active research protocols and a staffing level of 92 permanent and temporary full-time equivalent employees (FTEE), including 77 principal investigators.

### **Request for Office of Inspector General Review**

During the suspension, the interim managers found numerous deficiencies that had not been identified by earlier VHA reviews. Because of the magnitude and complexity of these deficiencies, VHA management requested an OIG evaluation to provide an independent assessment of Research Service's past problems and ongoing corrective actions. Based on our discussions with VHA and GLAHS officials, the main purpose of the evaluation was to determine whether the major financial and administrative deficiencies had been identified and corrected. In addition, we agreed to review Research Service general post fund (GPF) accounts and unliquidated obligations to determine if unused funds could be made available to meet research operating expenses.

## **Results and Recommendation**

### **Continuing Top Management Oversight Is Needed To Sustain Improvements in Research Service Financial and Administrative Operations**

#### **Major Research Service Operational Deficiencies Have Been Corrected**

We concluded that GLAHS top management and the Research Service interim managers had identified the major deficiencies in financial and administrative operations and had taken effective corrective actions. There were seven major issues that needed to be addressed:

- Research Service had frequently used grant funds "earmarked" for specific research protocols to pay expenses that were not related to those protocols.
- The automated Research Management System (RMS) had not been properly installed and used to manage and account for research funds.
- Research Service was overstaffed. This was the main cause of a Research Service budget deficit which persisted for several years until it was eliminated in FYs 1999-2000.
- Some PIs had been allowed to spend more funds than they had available in their research protocol accounts. The practice contributed to the research budget deficit.
- Research Service did not have effective controls on the use of the government purchase card and did not have adequate assurance that equipment, supplies, and services purchased to support research protocols had been received.
- Controls on Intergovernmental Personnel Act agreements (commonly called IPAs) were not adequate to provide assurance that employees hired through IPA appointments were actually on duty and working on VA research.
- Research general post funds were not properly controlled and accounted for.

These issues and the corrective actions taken to address them are discussed below.

#### **The Use of Earmarked Funds To Pay Unrelated Expenses Has Ended**

**Funds "Shifted" To Pay Unrelated Expenses.** The former Research Service managers had adopted a practice of using earmarked research funds in individual PI accounts to pay various research expenses that were not related to those accounts. They told us that they had considered this to be necessary to deal with the ongoing budget deficit in Research Service. The practice worked as follows:

If a particular account had an expense to be paid but there were insufficient funds in the account, the former managers would determine which PI accounts had "available" funds and then would use these funds to pay the expense in question. For example, if at the end of the fiscal year the employee salary account did not have enough funds to cover the payroll, the funds would be taken from available PI funds. Funds would not actually be transferred between the accounts. Instead, the expense would simply be paid out of the wrong accounts. When the former research managers used a PI's funds to pay an unrelated expense, they usually "reimbursed" the PI's account at a later date. They did this by following the same practice -- that is, by paying some of the PI's expenses with funds from other PI accounts. Because the PIs were usually reimbursed in this way, they generally did not lose any research funds so long as the practice was in operation.

At GLAHS, this practice was called "shifting funds." (Other descriptive characterizations that we heard for the practice were "juggling expenses," "floating expenses," making "bridge loans" to cover expenses, and, more colloquially, "robbing Peter to pay Paul.")

The budget deficit already existed when the former managers took over Research Service in 1996. The practice of shifting funds had also begun before 1996, and the former managers continued the practice as one of their methods for dealing with the Research Service budget deficit. In FY 1996, the deficit was about \$1.0 million and it remained at this level in FYs 1997, 1998, and 1999. Shifting funds was the mechanism by which one year's deficit was pushed into the next, thus postponing the day of reckoning in the hope that new funding would eventually be found or that costs could be reduced. (The origin of the deficit is discussed on page 6.)

**Shifting Funds Violated VA Policy.** The practice of shifting funds among accounts did not comply with VA funds management policy which states that funds should only be used for authorized purposes. (VA Manual MP-4, Part V, Chapter 1, 1A.12) In addition, the practice did not comply with VHA policy meant to ensure that funds allocated by VHA's Office of Research and Development (ORD) for specific PI protocols and research programs are actually spent as authorized.

VHA policy allows changes in research fund distributions or allocations for administrative reasons, but this should only be done infrequently and under very specific conditions. (VHA Directive 98-053) For example, if a particular PI has a temporary funding shortage Research Service can arrange for another PI to "loan" funds to cover the shortage, provided that both PIs are funded under the same research program. In this case, the transaction is appropriate because the loan is mutually agreed upon by the PIs involved and it does not change the total amount of funding that ORD has authorized to support the PIs' protocols or a specific research program.

**IPA Funds Shifted to Cover Other Expenses.** The largest transactions involving funds shifting were those associated with payments on Intergovernmental Personnel Act agreements. IPAs allow VA to hire affiliated university staff to work on research protocols for specified periods of time. Under the IPA arrangement, the affiliated university pays the employee's salary and VA reimburses the university. At GLAHS, funds that should have been used for protocol-specific IPAs could easily be shifted to cover other expenses because the university's bills for IPA services were often several months late. This allowed the former research managers to remove

from PI accounts funds that had been (or should have been) obligated for IPA salaries and to use these funds for other expenses. The following example illustrates this practice:

An IPA agreement for the period October 1997 - September 1998 required the obligation of \$74,000 to pay the salary of a laboratory manager who would be working on a specific research protocol. However, the obligation was never established. Instead, the funds that should have been obligated were used for other expenses. Meanwhile, the laboratory manager was hired and worked on the protocol. When the IPA bills for her services were received, the former research managers had to use funds from other PI accounts to pay the bills.

Although the practice of shifting funds that should have been used for IPAs provided a temporary source of funds to pay more pressing expenses, problems inevitably developed when the IPA bills finally arrived from the university. Because the funds that should have been obligated for the IPAs had already been spent, funds had to be found to pay the IPA bills that were now due. As this process went on for several years, it became more and more difficult to find the necessary funds. As a result, when the interim managers took charge in April 1999, they found that Research Service did not have funds to cover overdue IPA bills totaling about \$1.0 million for 46 IPAs in effect during FYs 1995-1999.

**Corrective Action.** The interim managers recognized that the practice of shifting funds could not be allowed to continue and that the budget deficit could be addressed without resorting to shifting funds. Not only was the practice not in compliance with VHA policy, it contributed to three other problems:

- Funds shifted to pay unrelated expenses were not being used as intended by the grantors. To obtain research funding, PIs must submit grant applications. Grantors expect that funds will be used for the purposes specified on grant awards. To ensure the financial integrity of the GLAHS research program and to avoid the risk of losing future grants, it was necessary to stop shifting grant funds to pay expenses unrelated to the purposes of the grants.
- Funds shifting resulted in generally poor accountability for research funds. So long as the practice continued there could be no reliable information on PI account balances, how much PIs had spent on their protocols, or how much had been shifted to pay unrelated expenses. The interim managers recognized that the most important accounting function in Research Service is the monitoring of individual PI accounts to ensure that protocols are completed within budget. This function could not be accomplished unless the practice of shifting funds was ended.
- Funds shifting had been used to postpone or avoid addressing the deficit. In fact, so long as funds were being shifted to pay unrelated expenses the exact amount of the deficit could not be known. The only way to determine the amount and to begin the process of eliminating the deficit was to stop shifting funds and to only pay expenses from the appropriate accounts.

Immediately after taking over Research Service, the interim managers ended the practice of shifting funds and began monitoring all research accounts to ensure that funds were used for their intended and authorized purposes. Instead of shifting funds to pay overdue bills when no

funds had been obligated, the interim managers paid the bills with funds in the appropriate accounts or obtained additional funds by canceling unneeded obligations or by requesting funding from GLAHS. Because so much of the funds shifting was associated with IPAs, the interim managers reviewed the FY 1999 IPAs to ensure that there was adequate funding to cover the agreements and, with the help of GLAHS Financial Management Service, found funds to pay the \$1.0 million owed on pre-FY 1999 IPAs. As of June 2000, only \$50,000 remained to be paid on outstanding IPA bills, and Research Service had the funds to meet this expense.

## **The Research Management System Has Been Properly Implemented**

**RMS Not Used to Manage Research Accounts.** Before the arrival of the interim research managers, RMS had not been properly implemented and was not being used to manage research accounts. VHA policy encourages Research Services to use computerized systems, such as RMS, to control and account for all VA and non-VA funding received and expended. Research funds are typically budgeted either for specific administrative purposes or for specific research protocols. Managers should use RMS to establish accounts for these specific-purpose funds. Account balances should be adjusted as funds are received and expenditures are made.

RMS should be interfaced with the medical center's main accounting system, the Financial Management System (FMS), to ensure that RMS account data is accurate and up-to-date. This interface allows research financial transactions made through FMS to also be recorded in the RMS accounts. If properly implemented and used, RMS provides managers with the financial information they need to prevent research staff from spending more than their allocated funding and to ensure that the funds are only used for their approved purpose. At the same time, RMS can provide PIs with information that they can use to keep track of their research expenses and their remaining grant funds.

At GLAHS, RMS had not been properly interfaced with FMS. Because of this, transactions made through FMS were not automatically recorded in RMS and instead had to be manually entered into the system. This resulted in highly inaccurate RMS data because transactions were erroneously entered or not entered at all. The inaccurate RMS data meant that managers and PIs did not have reliable financial information to effectively control and account for research funds.

The former managers told us that they had not properly implemented RMS because they did not consider it a high priority. Their first priority was dealing with the Research Service budget deficit. Because of their concern with the deficit, they focused on monitoring service-level accounts in FMS, but paid little attention to the PI-level accounts in RMS. This practice allowed the former managers to monitor the availability of funds and to use available funds to pay for any research expense regardless of whether the funds were budgeted for specific research protocols or administrative purposes.

**Corrective Action.** Recognizing that RMS was key to managing both the service-level and the PI-level accounts, the interim managers made proper implementation of RMS one of their earliest priorities. They interfaced RMS with FMS and they trained administrative staff in the use of RMS. These actions reduced the risk of erroneous data being entered into and maintained in RMS. The proper implementation and use of RMS has provided managers and PIs the reliable

information needed to effectively manage research accounts, prevent future cost overruns, and ensure that funds are used for their approved purposes.

## **Unfunded Staff Positions Have Been Eliminated**

**Overstaffing in Research Service.** Overstaffing was the main cause of the research budget deficit. The overstaffing problem appears to have originated in the late 1980s or early 1990s, before the former research managers arrived in 1996. Because research protocols are funded by grants, the employees hired with grant funds should be hired on temporary or IPA appointments and they should be promptly released at the end of their appointments. However, in the past Research Service had not always done this. Instead, some employees who should have been hired on temporary appointments were hired as permanent employees and some employees who were hired as temporary employees were not terminated when their appointments ended.

As a result of these practices, employees continued to be carried on the payroll after their protocol funding had been exhausted. When this occurred, funds to pay salaries had to be found from other sources. The former managers referred to this as the “unsupported salary” problem. According to the Research Service Business Plan for FYs 1998 through 2002, unsupported salaries had totaled about \$250,000 in FY 1995, \$400,000 in FY 1996, \$175,000 in FY 1997, and \$100,000 in FY 1998. The projected amount for FY 1999 was \$150,000.

In 1996, the former research managers and the former GLAHS top management began resolving the overstaffing problem by implementing a reduction-in-force and by not hiring any new employees on permanent appointments. These actions succeeded in reducing staffing from 144 FTEE in 1995 to 100 FTEE in FY 1998. However, the former managers did not establish effective controls to monitor the status of employees on IPA or term appointments to ensure that they were released when their appointments ended. As a result, the interim managers found that 27 temporary employees whose appointments had expired were still on the payroll. In one instance, the employee's appointment had expired 3 years earlier, in May 1996.

**Corrective Action.** The interim managers corrected this problem by terminating all employees whose appointments had expired. They also established controls to continuously monitor the status of staff on temporary appointments to ensure that they are released when their appointments end. By March 2000, Research Service's net staffing (total FTEE less terminated unfunded staff plus new funded staff) had been reduced to 91 FTEE. The overstaffing problem has been resolved and Research Service's staffing level is in line with its budget.

## **Account Spending Is No Longer Allowed To Exceed Available Funds**

**PIs Allowed to Overspend Their Accounts.** The former research managers had allowed some PIs to expend more funds than they had available in their protocol accounts. This overspending was a major symptom of the general lack of accounting controls in Research Service. If research accounts are properly controlled, expenditures should never exceed the funds available. When overspending occurs, it must be covered by funds obtained from other sources, such as transfers from other research accounts or by canceling other research obligations. Overspending should be avoided because it contributes to the development of a budget deficit if additional funds cannot be found.

Overspending in an account is evidenced by a negative fund balance (a balance less than zero). To evaluate the extent of overspending in research accounts, we reviewed records for 348 accounts for the 5-year period, FY 1995 through FY 1999. During this period, 166 (47.7 percent) of the 348 accounts had negative balances at least one time. (The amounts of individual negative balances ranged from \$7 to \$582,000 and averaged \$33,859). The 166 accounts with negative balances had funding totaling about \$16.4 million. However, the expenditures for these accounts totaled about \$22.0 million, so the total excess expenditures (or total negative balances) were \$5.6 million, or 34 percent more than the \$16.4 million available. The number of accounts with negative balances varied from year to year. During FY 1995, only seven accounts had negative balances. However, during FYs 1996-1999 the number of accounts with negative balances increased significantly and ranged between 32 and 51 accounts each year.

The overspending occurred in accounts for both VA-funded research and non-VA funded research and, for both types of accounts, the overspending was generally covered by appropriated funds shifted from other research accounts. When overspending in non-VA funded accounts was covered with appropriated funding, the PI responsible for the overspending should have been required to reimburse Research Service for the payments made to cover the overspending. PIs can usually make these reimbursements from grant funds that they receive after the overspending has occurred.

The former research managers had not established controls to ensure that PIs made reimbursements for expenses covered with research funds. We analyzed research budget and account information for FYs 1996-1999 and estimated that of the total \$5.6 million in overspending about \$1.6 million (28.6 percent) was incurred on non-VA protocols. This \$1.6 million should have been reimbursed to Research Service from non-VA funds. However, because of the absence of controls and the disarray of the financial records, neither we nor the interim research managers could determine how much, if any, of this overspending had been reimbursed.

**Corrective Action.** To prevent future overspending, the interim managers implemented procedures under which RMS is used to continuously monitor account balance and expenditures. If this monitoring indicates that a PI is expending protocol funds at a rate that might exceed the funds available in the account, then the research managers will meet with the PI to ensure that there are plans to either receive additional protocol funding or to limit expenses. In addition, the interim managers took steps to obtain reimbursements from six PIs who had overspent their accounts by \$153,000 in FY 1999. By June 2000, Research Service had either already received these reimbursements or was in the process of collecting them from the PIs.

## **Purchasing Controls Have Been Strengthened**

**No Controls To Ensure that Purchases Were Received.** Research Service did not have sound procedures for purchasing equipment, supplies, and services used to support research protocols. The main problem was that there were no controls to ensure that purchased items and services had actually been received. About 95 percent of such purchases were made by the former research purchasing clerk using a government purchase card (credit card). The clerk made purchases based on requests from PIs. Supplies and equipment were delivered directly to the PIs and not to a central delivery point. PIs were expected to forward receipts to the purchasing clerk

so that she could verify that the purchase order had been fulfilled and could reconcile the order, the receipt, and the credit card charges.

We found research purchasing records to be in general disarray. Orders were not filed in an organized manner, such as by vendor or by order date. There were no controls to ensure that PIs forwarded receipts to the purchasing clerk. The receipts that were forwarded were thrown into a file cabinet and not filed in any order. As a result of these practices, purchases were not reconciled with receipts, and bills were paid without assurance that the charges were correct and that the orders had been received.

**Corrective Action.** The interim managers took action to address this problem. The current purchasing clerk established orderly records that allow the easy reconciliation of receipts with orders and charges. PIs were encouraged to forward receipts to the purchasing clerk, and the clerk developed procedures for routinely following up on orders for which receipts have not been received. As of June 2000, credit card reconciliations were being properly performed and the timeliness of reconciliations had improved, with 64 percent of reconciliations done within VA's 5-day standard. This was a significant improvement compared to performance before the corrective action, when Research Service had more than 5,000 unreconciled purchase card charges. However, the Service needed to continue improving the timeliness of reconciliations until the 5-day standard is met. In our opinion, one way to improve timeliness would be to have as many supply and equipment deliveries as feasible made to a centralized location where the clerk could obtain receipts without having to rely on PIs to send them to her.

## **IPA Management Has Improved, but Better Timekeeping Is Needed**

**No Controls on IPA Agreements.** The former research managers had not established any controls to ensure that staff services purchased through IPAs were actually received -- that is, that employees hired through IPA appointments were actually on duty and working on VA research. Neither Research Service nor Human Resources Management Service had a complete list of active IPAs. There was no requirement for PIs to account for the work time of their IPA employees. Because of the absence of records, we could not determine whether there had been instances when Research Service had paid for IPA services that had not been received. However, we were able to determine that there had been a general lack of control on IPAs, as the following example illustrates:

In March 1998, Research Service approved an IPA for hiring a research biologist. The IPA appointment was to run from March 1998 through September 1999, and the total salary cost was to be \$48,400. However, the biologist was not eligible for an IPA appointment because he was already a full-time employee of GLAHS, receiving an annual salary of \$50,275. While he was on the IPA, he, in effect, received two VA-funded salaries for the same work performed during the same duty hours. When the interim managers identified this situation, they terminated the IPA, and the biologist was reprimanded and required to repay \$25,755 in salary overpayments.

**Corrective Action.** To address the deficiencies in IPA controls, the interim managers reviewed all of the active research IPAs to ensure that they complied with VA policy and that funding was

available to pay IPA costs. Based on our review of current IPA records and on our discussions with the interim managers, we concluded that IPA agreements were generally being properly managed. However, we believe that procedures to monitor the time and attendance of IPA employees need to be improved. To determine if IPA services were being received, we reviewed a judgment sample of 10 of the 31 active IPAs. For all 10 we confirmed that the IPA employees were on duty as required. For 7 of the 10 IPAs, the responsible PIs had, on their own, established some type of timekeeping record to account for employee time.

To improve timekeeping, Research Service needed to develop uniform procedures that all PIs would use to account for IPA employee work time so the GLAHS management would have reasonable assurance that the services purchased through IPAs had been received. PIs should be required to maintain and submit to Research Service a time record signed by the supervisor and the IPA employee certifying that services were provided in accordance with the IPA agreement and that time reported was accurate. This procedure would be consistent with forthcoming VA policy that will require timekeeping for IPA employees. (Draft VA Directive 5334, "Temporary Assignment of Employees Under the Intergovernmental Personnel Act," which will be issued in response to another OIG audit of IPA practices in VHA.)

## **General Post Fund Controls Have Been Strengthened**

**Ineffective Controls on Research GPF Accounts.** The former research managers did not establish adequate controls on research GPF accounts. General post funds are donated funds. VA policy allows individuals, corporations, non-profit foundations, and others to donate funds for designated research protocols, for specific types of research, or for the use of specific researchers. Donations supporting VA's research program must be deposited in designated GPF accounts where the use of the funds can be controlled by research staff and financial management staff to ensure that the funds are used in accordance with donor wishes.

As with other research accounting activities, we found the GPF account records to be disorganized and incomplete. The records lacked required documentation such as receipts to show that donations were deposited with the agent cashier, acknowledgement letters to thank the donor and record the donor's wishes for the donations, and memorandums from PIs requesting approval to use donated funds. Similarly, financial management did not have adequate documentation to support transactions and account balances shown in the available GPF records. The deficiencies in the management of GPF accounts can be illustrated by the results of our review of the largest research GPF account, the general purpose account, which had a balance of \$296,000 at the time of our review:

Financial Management Service records indicated that from October 1997 through July 1999, 24 donations totaling \$756,000 had been deposited to the general purpose account. For 16 of these donations (valued at about \$335,000), neither Research Service nor Financial Management Service had the original donor letters or other documentation showing the purpose of the donations. During the same period there had been 66 disbursements and transfers totaling \$458,000 from the account. Neither Research Service nor Financial Management Service had documentation such as requests and/or approvals to

use funds, purchase orders, or transfer records to show what the disbursements were for or why the transfers had been made.

Because there was little or no supporting documentation explaining the purpose for GPF disbursements and transfers, we could not determine whether funds had been used as donors intended, nor could we trace GPF transactions or reconcile account balances.

**Corrective Action.** To address deficiencies in the management of general post funds, the interim managers began using RMS to control GPF accounts and began properly maintaining GPF account files, which now include documentation supporting all transactions. The receipts verifying the deposit of donations are held in a pending file until the funds are posted to the appropriate GPF account. RMS is then updated and the documents filed in the appropriate GPF account file. In addition, all disbursements and transfers from research GPF accounts are reviewed and approved by the GLAHS Research and Development Committee. These measures have improved controls over the use of general post funds and have provided the documentation needed to trace and reconcile GPF account transactions.

## **Unused Funds Could Be Made Available To Meet Operating Needs**

The second objective of our evaluation was to review research GPF accounts and unliquidated obligations to determine if funds could be used to meet research operating needs. As discussed below, our review resulted in about \$268,000 being made available.

### **About \$219,000 in Unused General Post Funds Could Be Made Available**

At the request of GLAHS management, we reviewed various records pertaining to active and inactive research GPF accounts. Management requested our assistance because the GPF accounts were in such disarray that the interim managers could not readily determine either the accuracy of account balances or whether accounts contained funds that could be made available to meet current expenses.

As of July 31, 1999, the last full month for which records were available when we began our review, Research Service had 29 GPF accounts with balances totaling \$919,000. Based on a preliminary review of all 29 accounts, we selected for detailed review 14 accounts containing \$554,000, or 60 percent of the total research GPF balances. Our review found that about \$219,000 could be made available to meet current needs. These funds fell into three categories:

- **Donations Posted to the Wrong Accounts.** The VA Desert Pacific Healthcare Network Business Center had erroneously posted two donations totaling \$99,507 to accounts at other VHA facilities. As a result of our review, in October 1999 the posting errors were corrected and the funds were transferred to the correct research accounts.
- **Inactive Account Balances.** We identified inactive account balances totaling \$122,633. At our suggestion, Research Service began contacting the donors to determine the disposition of the inactive funds. As of June 2000, this effort had resulted in \$79,377 being made available (\$76,004 for a specific research protocol and \$3,373 for the Research Service general

purpose account). Of the remaining \$43,256 in donations, \$21,478 was returned at the donor's request, and the disposition of the other \$21,778 had not been finalized.

- **Collection of Unreimbursed Expenses.** When Research Service provides support to a PI whose protocol is funded by donations, the cost of this support is supposed to be reimbursed from the PI's GPF account. We found that expenses incurred by one PI had not been fully reimbursed. As a result of our review, Research Service negotiated a settlement under which the PI agreed to reimburse \$40,000.

## **Unliquidated Obligations Totaling \$49,000 Could Be Cancelled**

The interim research managers requested our assistance in resolving unliquidated obligations. As part of the procurement process, VAMC staff must establish obligations to ensure that funds are available to pay for orders placed for goods or services. There are two categories of obligations -- accrued services payables and undelivered orders. Accrued services payables are obligations established to pay the estimated cost of services contracted for but not yet received. Undelivered orders are obligations established to pay for supplies, equipment, and certain types of services that have been ordered. Obligations should be carefully monitored and those that are no longer needed should be cancelled so that the obligated funds can be used for other purposes.

We reviewed accrued services payables and undelivered orders as of July 31, 1999. The value of these obligations was \$1.9 million. We focused on obligations funded from the 2-year appropriation for FYs 1998 and 1999 so that any funds freed up by canceling obligations could be used before these funds expired at the end of FY 1999. Because the pertinent records were disorganized and incomplete, we were not able to review and resolve all the obligations. However, we did review 74 obligations valued at \$464,000 and determined that 12 obligations valued at \$49,000 could be cancelled. The following example illustrates the type of obligation that was no longer needed:

In January 1998, Research Service issued an order and obligated funds to purchase a microscope for \$20,897. However, no payments were ever made on this order and the vendor had no record of having received it. Based on our review, Research Service cancelled the obligation.

In addition to recommending action on the 12 obligations, we provided the interim managers with a list of 27 other obligations valued at more than \$121,000 that required further evaluation before they could be resolved.

## **Conclusion -- Continued Top Management Oversight Is Needed To Prevent a Recurrence of Research Service Deficiencies**

### **Former GLAHS Top Management Oversight Was Not Effective**

The former GLAHS top management did not provide adequate oversight of Research Service. In our opinion, this was a major reason why the research problems were not effectively addressed

before 1999, when the suspension of the program forced VHA and GLAHS to undertake corrective action. The former GLAHS management had not established effective controls to ensure that they received reliable information about the status of research operations.

In any VA medical center, the internal control system should operate at two major levels – the service level and the top management level. At the service level, controls should generally ensure that VA policies and procedures are being followed, that VA resources are being properly managed and protected, and that errors and fraud are prevented. At the top management level, controls should generally provide feedback information on mission accomplishment, the effectiveness of service-level controls, and progress in correcting identified problems.

The former top management had established some controls to monitor operational issues in Research Service. The main controls were semiannual management briefings and more frequent meetings to discuss specific issues. As a result of these controls, the former top management was aware of the operational deficiencies and believed that the former research managers were making improvements. This is evident in a June 13, 1997, memorandum to the VHA Chief Research and Development Officer, in which the former GLAHS Executive Director acknowledged the deficiencies but stated that controls had been strengthened. He further stated that management would "continue with our aggressive efforts to thoroughly examine our research program and initiate appropriate measures to improve the administration of that program."

Although the former top management was aware of the research problems, they did not follow through to ensure that corrective action was taken. In retrospect, it is clear that they relied too much on what the former research managers told them. They did not implement any controls or procedures to independently determine the severity of the problems or to verify that improvements were being made.

One control that could have provided some independent oversight was Fiscal Quality Assurance Reviews. The GLAHS Financial Management Service is required to perform these reviews annually for all significant financial activities, including service-level activities. (VHA Fiscal Quality Assurance System, 1730.2) The former top managers did not ensure that these reviews were done for Research Service. In fact, these reviews had not been done for most GLAHS services, including Research Service, since at least 1995. Financial Management Service had generally provided little fiscal oversight of Research Service, as was evident from the questionable accounting practices used in the service and from the disarray of the records. If the Fiscal Quality Assurance Reviews had been done, they could have identified many of the research problems and could have helped motivate improvement before the problems developed into a crisis.

## **Current Top Management Has Improved Oversight**

Current GLAHS top management has implemented stronger, more effective oversight controls for Research Service. The main oversight control is a new Research Budget Subcommittee, which is charged with monitoring research financial operations. The Subcommittee includes officials from Research Service, Financial Management Service, and top management. The purpose of the Subcommittee is to provide a level of independent review of research financial

activities and to provide reliable feedback information to the GLAHS Chief Executive Officer. In addition, top management has reinstituted the Fiscal Quality Assurance Review program and all significant GLAHS fiscal activities are scheduled for review before October 2000.

Although top management has significantly improved oversight, we believe that an additional control is needed to provide stronger assurance that the old deficiencies in Research Service will not recur. There should be periodic, independent, top management-directed reviews of Research Service operations and internal controls. Ideally, the reviews should be done by GLAHS or other VHA staff who are independent of both Research Service and Financial Management Service. The reviews should ensure that research controls are operating effectively, with emphasis on controls related to past deficiencies. Specifically, the reviews should ensure that RMS is being effectively used, PI and GPF accounts are properly controlled, the purchase card program complies with VA policy, and IPA timekeeping is accurate. The independent reviews do not have to be a permanent control, but they should be done at least once a year for about the next 2 to 3 years until top management has full assurance that the research improvements have taken hold and that the old problems will not recur.

The practices used by the former managers contributed to serious operational deficiencies in Research Service. Practices such as shifting funds and allowing PIs to overspend their accounts were unacceptable, violating both VA policy and generally recognized principles of good financial management. Controls on major activities, such as purchases and IPA contracts, were weak or nonexistent. Research accounting and administrative records were incomplete and generally in disarray. Because of these circumstances, both we and GLAHS management were concerned that funds or other resources might have been misappropriated or stolen. However, we found no evidence that this had occurred.

The current GLAHS management has significantly improved research operations and has established a positive internal control environment in Research Service. The major deficiencies have been corrected, and as of June 2000 research financial and administrative activities were operating successfully and controls were generally effective.

## **Recommendation 1**

We recommend that the GLAHS Chief Executive Officer (CEO) implement procedures to conduct periodic independent reviews of Research Service operations until there is complete assurance that controls are operating effectively and that the prior deficiencies will not recur.

## **GLAHS Chief Executive Officer Comments**

The GLAHS CEO concurred with evaluation findings, conclusions, and recommendation. (See Appendix III, pages 17-19, for the full text of the CEO's comments.)

## **Implementation Plan**

The CEO stated that the Research Budget Subcommittee will continue to provide ongoing oversight of Research Service operations. At their August and September 2000 meetings, the Subcommittee planned and approved another review of Research Service financial activities to ensure continued compliance with VHA and GLAHS policies. The review will be supervised by a recently appointed Chief Financial Officer who has had no prior association with the GLAHS Financial Management Service.

The CEO also reported that GLAHS had performed ongoing reviews to ensure that research administrative activities continue to operate effectively. As of September 2000, Research Service had paid almost all outstanding IPA bills, with a balance of only \$20,000 remaining. The Service had also continued to improve the timeliness of purchase card reconciliations and as of October 2000 all transactions were being reconciled within the 5-day standard. In addition, the Service had established uniform timekeeping procedures for all IPA employees.

## **Officer of Inspector General Comments**

The implementation plan meets the intent of the recommendation and we consider the evaluation issues to be resolved. We will follow up on the implementation of planned actions.

## **Objectives, Scope, and Methodology**

### **Objectives**

The objectives of the evaluation were: (1) to determine if the major financial and administrative deficiencies in research operations had been identified and corrected and (2) to review GPF accounts and unliquidated obligations to determine if unused funds could be made available to meet operating expenses.

### **Scope and Methodology**

To accomplish these objectives, we reviewed pertinent GLAHS and Research Service budget, accounting, and administrative records for the period FY 1995 - FY 2000, through June 2000. More specifically, we reviewed various records pertaining to research accounting transactions, the use of the government purchase card, IPA agreements, GPF accounts, and unliquidated obligations.

We discussed research operations with GLAHS and VHA managers and staff involved in the current and past operations of the program. We also interviewed selected PIs and staff in Research Service, GLAHS Human Resources Management Service, Financial Management Service, and Acquisitions and Materiel Management Service. We reviewed applicable Federal laws and VA policies on research programs, IPAs, the purchase card program, and funds management and control.

We found that Research Service financial and administrative records were generally disorganized, incomplete, and not up-to-date. Because of the condition of the records, we could not reconcile some accounts or trace transactions through the accounting records. Although this problem hindered our review of certain research accounting operations, it did not prevent us from meeting our primary objective of determining whether the major research deficiencies had been identified and corrected. The evaluation was performed in accordance with government auditing standards for qualifications, independence, and due professional care.

**Monetary Benefits in**  
**Accordance with IG Act Amendments**

**Report Title:** Evaluation of Financial and Administrative Controls in the  
 Research Program at the VA Greater Los Angeles Healthcare System

**Project Number:** 1999-00191-R8-0178

<b><u>Recommendion Number</u></b>	<b><u>Category/Explanation of Benefits</u></b>	<b><u>Bettter Use of Funds</u></b>	<b><u>Questioned Costs</u></b>
Not applicable	Better use of funds as a result of identifying unused general post funds and unliquidated obligations that could be released to meet research operating needs.	\$268,000	

## GLAHS Chief Executive Officer Comments

**Department of  
Veterans Affairs**

# Memorandum

Date: October 2, 2000

From: Chief Executive Officer, VA Greater Los Angeles Healthcare System (691/00)

Subj: Comments on OIG Draft Report

To: Director, OIG Audit Operations Division at Seattle (52SE)

1. In response to the draft report from the Office of the Inspector General, "Evaluation of Financial and Administrative Controls Research Program at the VA Greater Los Angeles Healthcare System," I appreciate and concur with the findings that the major Research Service operational deficiencies have been corrected. I also agree with the overall recommendation: *"Continued top management oversight is needed to sustain improvements in Research Service financial and administrative operations."* Oversight and monitoring systems have been implemented to assure that Research Service financial and administrative operations are in compliance with regulations and good business practices.

2. Regarding the sole specific Recommendation in the Report: *"GLAHS Chief Executive Officer implement procedures for conducting periodic, independent, reviews of research operations and controls until there is complete assurance that controls are operating effectively and that the prior deficiencies will not occur."* The report specifically recommended that an annual review should be done by staff who are independent of both Research Service and Financial Management Service.

Implementation Plan: With the appointment of an experienced Chief Financial Officer who had no prior association with WLA/GLA Financial Management Service, I am confident that the financial review planned and approved by the Research Budget Subcommittee at their August and September meetings will be sufficient to determine compliance. The Research Budget Subcommittee meets monthly for oversight of Research financial management. They provide regular reports and recommendations to the Research and Development Committee.

3. The OIS evaluation found the following corrections of deficiencies to be in place. Our recent administrative review verifies that Research Service remains in full compliance and has implemented effective monitoring controls.

**Issue 1:** The Research Management System (RMS) to manage research accounts remains fully implemented.

**Issue 2:** Unfunded staff positions have been eliminated. Research Service has ended the practice of retaining temporary and term employees beyond their

Page 2.

appointment termination date and after their funding source had expired. Research Service closely monitors staffing linked to funding source, and staffing level remains in line with its budget.

**Issue 3:** Spending from Principal Investigator accounts is no longer allowed to exceed available funds. Tight controls and monitoring are in place.

**Issue 4:** Research Service practices remain in full compliance with VA funds management policy and the policy of the VHA Office of Research and Development. As of September 2000, less than \$20,000 remains to be paid on pre-FY99 UCLA IPA bills. Payment is pending receipt of accurate invoices from UCLA.

**Issue 5:** General Post Fund controls remain in place with RMS used to monitor the GPF accounts. Proper documentation supports all transactions.

4. The following statements provide an update on the current status for the operational deficiencies that were pending full resolution at the time of the draft OIG report.

**Issue: Purchasing Controls**

Recommendation: Although the OIG found that proper systems for reconciliation of purchase orders had been implemented, they recommended that a system be developed to assure that timeliness of credit card reconciliations was improved. As of June, 2000, only 64% of reconciliations were completed within the VA's 5-day standard.

Current Status: Acquisition and Material Management reports show that as of 10/2/00 all reconciliations on Research Service credit cards have been completed within the 5-day standard. Systems have been implemented to assure that clerks receive purchase order receipts promptly so that the 5-day standard for completing reconciliations will be met. At the Sepulveda site, deliveries are made to a centralized location. An improved system of communication between Principal Investigators and purchasing staff now exists at both sites.

**Issue: Improve Timekeeping of IPA appointments**

Recommendation: Research Service needs to develop uniform procedures that all PIs would use to account for IPA employee work time. PIs should be required to maintain and submit to Research Service a time record signed by the supervisor and the IPA employee certifying that services were provided in accordance with the IPA agreement.

Page 3.

Current Status: Uniform procedures have been implemented with all three IPA institutions (UCLA and the two VA non-profit foundations – BBRI and SRI). All invoices submitted to the VA from these institutions for payment of services of IPA employees must be accompanied by time sheet documents for each employee.

**Issue: Required Fiscal Quality Assurance Reviews were not completed**

Recommendation: Financial Management Service is required to perform these reviews annually for all significant financial activities, including service level activities.

Current Status: All Fiscal Quality Assurance Reviews are up to date.

5. Thank you for the opportunity to comment on the OIG report on the evaluation of research operations at the VA Greater Los Angeles Healthcare System. GLA management will provide ongoing oversight and resources to assure compliance and continued improvement.

*(Original signed by:)*  
PHILIP P. THOMAS

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