



# **Department of Veterans Affairs Office of Inspector General**

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## **Evaluation of the Possible Mismanagement of Non-Appropriated Research Funds at the VA Central California Health Care System**

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## Executive Summary

### Introduction

The Office of Inspector General (OIG) evaluated whether a nonprofit research corporation, the San Joaquin Valley Health Consortium (Consortium), adequately managed non-appropriated research funds (research funds). The evaluation was conducted at the request of the Director and Associate Chief of Staff for Research and Education (ACOS) at the VA Central California Health Care System, Fresno, CA (the health care system).

### Results

Our evaluation validated the three concerns raised by health care system management regarding the possible mismanagement of research funds administered by the Consortium. The results of our evaluation are summarized below.

- **Issue 1: Did VA researchers inappropriately use research funds?**

Yes. We concluded that at least \$400,000 in research funds were not properly used in accordance with VA regulations. We found that \$123,485 was not used to conduct VA research when a VA researcher, who left VA's employment, was allowed to improperly transfer research funds to a private university. In addition, we estimated that health care system researchers improperly retained \$276,274 in research funds which should have been used to reimburse the health care system for support that had been provided their non-VA funded research projects.

- **Issue 2: Are there excess research funds that should be returned to the project sponsors or VA?**

Yes. We concluded the Consortium had about \$1.3 million in excess research funds that should be returned to VA.

- **Issue 3: Did any VA employees have conflicts of interest or violate Federal law in the administration or use of the research funds?**

Yes. A VA researcher violated Federal ethical conduct standards when he submitted vouchers and accepted \$13,353 in research funds to offset personal expenses.

### Recommendation

Based on our evaluation, we recommended that the Health Care System Director establish research fund management and accounting controls to ensure the proper deposit,

disbursement, and use of non-appropriated research funds in accordance with VA regulations, and that he ensure appropriate health care system staff receive training on the proper management, administration, and use of these funds. We also recommended that the Health Care System Director work with VA Regional Counsel to coordinate the return of all VA research funds maintained by the Consortium and the recovery of \$13,353 in research funds which were improperly used to reimburse a VA researcher for his personal expenses. Finally, the Health Care System Director also needed to take appropriate administrative action against the VA researcher who improperly accepted the \$13,353 in reimbursements for personal expenses.

## **Comments**

The Health Care System Director agreed with the findings and recommendations and provided acceptable improvement plans. (See Appendix C, pages 11–14, for the full text of the Director’s comments.) We will follow up on planned actions until they are completed.

*(original signed by:)*

MICHAEL L. STALEY  
Assistant Inspector General for Auditing

## Introduction

### Purpose

The purpose of the evaluation was to address concerns raised on September 10, 2004, by the Director and ACOS of the VA Central California Health Care System Fresno, CA, regarding the possible mismanagement of research funds. The evaluation was conducted to determine whether the health care system managers' concerns had merit.

### Background

Health care system managers asked the OIG to determine if: (1) health care system researchers had inappropriately used the research funds, (2) health care system researchers possessed excess research funds which should be returned to research project sponsors or VA, and (3) any VA employees had conflicts of interest or violated Federal laws in the administration or use of the research funds.

The Veterans Health Administration (VHA) conducts medical research in order to provide complete health care services to veterans and to contribute to the Nation's knowledge of disease and disability. VHA's Research and Development (R&D) programs receive funding from Congress, but are also supported by non-appropriated funding, such as donations, gifts, and grants from other Federal, state, and local agencies; nonprofit corporations or foundations; charitable organizations; corporations; and individuals. VHA medical facilities' R&D Committees and Directors must approve all research projects conducted at the medical facilities, including those funded with non-appropriated funds.

In 1982, the health care system authorized the Consortium, a non-VA nonprofit research corporation, to receive and administer research funds for the health care system's researchers.<sup>1</sup> In 1988, the passage of Public Law 100-322 allowed VA facilities to also establish their own nonprofit research corporations. However, the health care system continued to use the Consortium after the passage of this legislation because the health care system's nonprofit research corporation, Fresearch, Inc., established in 1990, never became operational.

### Scope and Methodology

We examined applicable national and local VA policies and guidance on the management of VA research and education programs. We interviewed personnel at the health care system and the Consortium to obtain an understanding of the research program and the role of the Consortium in the administration of the research funds. We reviewed

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<sup>1</sup> The Consortium is a private, nonprofit corporation which was established in 1972 to improve quality and access to health care in the San Joaquin Valley.

available health care system research project information such as grant letters and research agreements; Consortium financial documents including checks, check deposit forms, check vouchers, and general ledgers from fiscal years (FYs) 1982–2004; and Consortium board meeting minutes and annual financial audit reports to determine if the health care system and the Consortium followed Federal law and VA policy in the administration and use of the research funds.

Our evaluation of the administration and use of the research funds was impaired by lapses in health care system and Consortium research grant documentation and related accounting records for FYs 1982–2004. We could not review significant amounts of deposit and receipt information and could only reconstruct disbursement information from available copies of checks, vouchers, and invoices. Therefore, our evaluation results are qualified to the extent that our evaluation of the documents and evidence resulted in the findings discussed in this report, but we can not attest that other irregularities did not exist. The lack of accounting records and information related to the receipt, disbursement, and general administration of the research funds impaired our ability to identify additional potential violations of laws and regulations and illegal or fraudulent activities.

Except for the impairment discussed above, our evaluation was conducted in accordance with Generally Accepted Government Auditing Standards. We limited our internal control testing to those tests of procedures and records that were necessary to achieve the evaluation’s objectives. Because of the limited scope of our review, we did not assess the financial management control structures of the health care system’s Research and Fiscal Services.

## Results and Conclusions

### Issue 1: Did VA researchers inappropriately use research funds?

Yes. We found that VA researchers did not appropriately use at least \$400,000 in research funds in accordance with VA regulations. This occurred because the health care system's Research Service had not implemented any fund management and accounting controls to ensure research funds were properly accounted for, controlled, and used. The results of our review follow.

**Were research funds improperly given to a non-VA entity?** Yes. Our review of related administrative documents and vouchers at the Consortium disclosed that Research Service officials had improperly authorized the transfer of \$123,485 in research funds to a private university. A VA researcher, who left the health care system's employment in 1992, requested the transfer of the funds to the Emory University School of Medicine and provided documentation indicating the donors did not object to the transfer. Despite the researcher's documentation, Research Service officials did not have the authority to give VA research funds to a non-VA entity. VHA Directive 1200 states that VA does not have statutory authority to make research grants to colleges and universities, cities and states, and other non-VA entities. If Research Service officials had consulted the VA Regional Counsel before they authorized the transfer, they would have been advised that the funds could not be transferred because the funds had to be used to conduct research at the health care system. Although recoupment of the transferred funds would normally be called for, this is not feasible because of the amount of time that has elapsed since the transfer occurred and the fact that the researcher is no longer employed by VA.

**Were VA researchers improperly allowed to retain research funds that should have been used to reimburse the health care system?** Yes. Our review of disbursement records maintained by the Consortium disclosed that research funds were not always properly used to reimburse the health care system for its support of the VA researchers' non-VA funded research projects. From our review of the Consortium's disbursement records and vouchers and related records at the health care system, the health care system collected some reimbursements from the VA researchers for direct costs but none for the indirect costs that had been incurred in support of the VA researchers' non-VA funded research projects.

VA policy MP-4, Part 5, Chapter 2, Paragraph D.02, and VHA Handbook 1200.2(2)(c) require facilities to ensure that medical care and research appropriations are reimbursed for commodities or services furnished in support of non-VA funded research projects. This requirement exists because appropriated funds may only be used for the purposes for which they were appropriated (31 U.S.C §1301). Accordingly, a policy issued by the health care system in March 1989 required the recovery of the direct and indirect costs



incurred in support of the non-VA funded research projects administered by the Consortium.

The Consortium's disbursement records and vouchers showed that four VA researchers authorized the transfer of about \$227,000 to Research Service between 1990 and 1993 and that Research Service used these funds to cover direct project expenses. However, no supporting documentation was found to explain how these reimbursement amounts were derived nor was there any evidence that any additional reimbursements were collected after 1993. According to the health care system's own policy, the health care system should have also collected a 15 percent assessment from each project to cover the indirect costs incurred by the health care system. However, we found no evidence that the VA researchers ever reimbursed the health care system for indirect costs. Consequently, we estimate that VA researchers were improperly allowed to keep and use at least \$276,274 (\$1,841,824 in documented Consortium grant deposits made after the issuance of the March 1989 policy x 15 percent) in research funds which instead should have been used to reimburse the health care system for the indirect costs it had incurred to support their non-VA funded projects.

From our review of the grant documentation and related financial records located at the Consortium and the Research Service, the above conditions occurred because Research Service had not effectively managed or monitored the use of the research funds administered by the Consortium for over 20 years, dating back to 1982 when the first research fund accounts were established at the Consortium. We found that Research Service had not implemented adequate fund management and accounting controls required by MP-4, Part V, Chapter I, to ensure that research funds at the Consortium were properly accounted for and administered to conduct VA-approved research. From the condition of the records we reviewed and based on discussions with VA employees, we found that oversight and controls over these funds had been so poor, for such an extended period of time, that the current health care system managers did not know how much research funding had been deposited in the Consortium's accounts or what the current account balances at the Consortium were at the time of our review.

The significant control weaknesses and problems in the management and administration of these research funds were evident from Consortium documents which showed that the Consortium had accepted at least 24 research fund deposits totaling \$283,000 and disbursed funds to pay 470 vouchers totaling about \$206,000 without the authorization of Research Service. Consequently, the health care system and Research Service had no assurances that all of the research funds had been properly deposited and used by the Consortium to conduct VA-approved research. Similarly, we cannot attest that the only improper uses of research funds that occurred were those which we identified above due to the significant fund management control and documentation deficiencies that existed at the Consortium and the health care system. Examples of the problems we found included:

- Grant documentation, such as grant letters and research agreements, were not always retained so that we could assess whether research funds were properly used in accordance with the donors' instructions.
- The Consortium's accounting records for the period 1982–1987 commingled all research fund deposits and disbursements in one account and lacked adequate transaction information needed to determine if funds had been appropriately used.
- Our review of a sample of 664 disbursements valued at \$297,000 made between 1986 and 2004 disclosed that 342 (52 percent) of the disbursements totaling about \$245,000 (82 percent) lacked information and documentation needed to verify the appropriateness of the claimed expenses. The vouchers did not include information such as the purposes for the claimed expenses and/or identify the projects for which the expenses were incurred. However, Research Service officials still approved 323 (94 percent) of the 342 disbursements totaling about \$239,000 for payment and the Consortium paid the remaining 19 vouchers totaling about \$6,000 without the approval of Research Service officials.
- At the time of our evaluation, health care system managers responsible for these longstanding control problems were no longer employed at the health care system. However, available administrative records such as Consortium meeting minutes indicate that health care system managers in the previous administrations did not actively manage or oversee the Consortium's administration of the research funds. These officials appeared to accept the researchers' assertions that the research funds belonged to them and were to be used at their discretion, instead of at the health care system's discretion, to conduct VA-approved research.

## Conclusion

We found that VA researchers had not properly used at least \$400,000 in research funds in accordance with VA regulations. However, we can not attest that these were the only research funds that had not been properly used out of the estimated \$1.5 million disbursed by the Consortium since 1982 due to the lack of research fund management controls and documentation at the Consortium and the health care system.

**Recommended Improvement Action 1.** We recommended that the Health Care System Director ensure: (a) that research fund management and accounting controls are established to ensure that non-appropriated research funds are deposited, disbursed, and used in accordance with VA regulations; and (b) appropriate health care system staff receive training on the proper management, administration, and use of research funds in accordance with VA regulations.

The Health Care System Director agreed with the findings and recommendations and reported that to improve research fund management and accounting controls, future

non-appropriated research funds will be administered by Fresearch, Inc., in accordance with VA regulations. Monthly meetings will be held between the Research and Fiscal Services to review all health care system research accounts and a research finance accounting report summarizing the meetings will be provided to the Research and Development Committee. The health care system will conduct quarterly accountings of all research funds held, including expenditures and a listing of research funds administered by Fresearch, Inc. Mandatory training will be implemented for all health care system researchers on a range of research program requirements and safeguards including the proper management, administration, and use of research funds. Researchers are also scheduled to complete all required ethics training by June 1, 2006. The improvement plan is acceptable and we will follow up on the planned actions until they are completed.

## **Issue 2: Are there excess research funds that should be returned to the project sponsors or VA?**

Yes. Our evaluation identified about \$1.3 million in excess research funds held by the Consortium that needed to be returned to the health care system (See Appendix A, page 9).

The 36 accounts at the Consortium containing about \$1.3 million represent the residual funds and related accrued interest left after all of the research projects were completed or discontinued at the health care system. These funds were not returned to the health care system or sponsors as required by VA policy M-3, Part I, Chapter 5, because Research Service was not properly managing and monitoring the research funds administered by the Consortium (See Issue 1, page 3). During our review, the Chief of Cardiology asserted that he had sole authority over the use and disposition of the \$1.2 million in his 25 accounts at the Consortium because they were “unrestricted educational grants.”

However, VHA Handbook 1200.17 states that every research project approved by a medical facility’s R&D Committee is a VA research project, regardless of the source of funding or the entity administering the funds, and regardless of the research site. Furthermore, the VA Regional Counsel, citing VA’s Office of General Counsel’s Advisory Opinion VAOPGCADV 7 2004,<sup>2</sup> disagreed with the Chief of Cardiology’s contention that he controlled these funds and stated that the funds were VA funds, because they were donated and accepted for the purpose of conducting research at VA. The VA Regional Counsel also held that all of the funds currently deposited in the Consortium needed to be returned to the health care system. We found no grant

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<sup>2</sup> VA Office of General Counsel Advisory Opinion VAOPGCADV 7 2004, Funds Provided by Pharmaceutical Companies to Friends Research Institute for Cooperative Research Studies, July 8, 2004, held that pharmaceutical company funds provided for the purpose of conducting research at VA facilities were public funds that belonged to VA.

documentation at the health care system or Consortium which indicated that the donors had requested the return of residual research funds after the completion of the projects.

## Conclusion

We concluded that the \$1.3 million remaining in the health care system's accounts at the Consortium needed to be returned to the health care system.

**Recommended Improvement Action 2.** We recommended that the VA Health Care System Director work with the VA Regional Counsel to coordinate the return of \$1.3 million in research funds maintained by the Consortium to the health care system.

The Health Care System Director agreed with the findings and recommendations and reported that discussions had already been held with Regional Counsel to discuss the return of the research funds to the health care system. The improvement plan is acceptable and we will follow up on the planned actions until they are completed.

## Issue 3: Did any VA employees have conflicts of interest or violate Federal law in the administration or use of the research funds?

Yes. Although we did not identify any conflicts of interest, we identified a VA researcher who violated the Standards for Ethical Conduct for Employees of the Executive Branch when he accepted \$13,353 in research funds to offset his personal expenses. The VA researcher had submitted vouchers for \$13,353 in personal expenses which included membership fees to professional organizations, two personal digital assistants, a pocket dictaphone recorder, and cellular telephone service charges. Subsequently, Research Service officials improperly authorized the Consortium to pay for these expenses, and the VA researcher accepted the reimbursements in violation of 5 C.F.R. §2635.702 Subpart G, of the Standards for Ethical Conduct for Employees of the Executive Branch, which prohibits the use of public office for private gain.

An October 13, 2004, VA Regional Counsel letter sent to the Health Care System Director stated that collection actions would have to be undertaken for any research funds that had been disbursed for personal expenses. Consequently, the health care system needs to initiate actions to recoup the \$13,353 in reimbursements for personal expenses that were identified during our review.

## Conclusion

We identified a researcher who violated 5 C.F.R. §2635.702 Subpart G, of the Standards for Ethical Conduct for Employees of the Executive Branch, when he accepted \$13,353 in reimbursements for personal expenses. As a result, the health care system in coordination with the VA Regional Counsel should initiate collection actions to recover

these funds and initiate an appropriate administrative action to address the conduct of the researcher.

**Recommended Improvement Action 3.** We recommended that the Health Care System Director: (a) work with the VA Regional Counsel to recover the \$13,353 in research funds which were improperly used to reimburse a VA researcher for his personal expenses and (b) ensure an administrative action is taken against the VA researcher for accepting research funds to offset personal expenses.

The Health Care System Director agreed with the findings and recommendations and reported that the health care system will make efforts to collect the entire sum indicated, as limited by any binding statute of limitations. An appropriate administrative action will also be taken against the VA researcher at the conclusion of the collection efforts. The improvement plan is acceptable and we will follow up on the planned actions until they are completed.

## Residual Consortium Account Balances as of December 31, 2004

Account Holder	Account Title	Account Balance
Chief of Cardiology	Pfizer	\$9,992.66
	Education	110,859.73
	Tocainide	16,270.12
	Nitrendipine	35,580.61
	Captopril	29,462.80
	Nicardipine	45,438.32
	Echo 175 A	91,747.61
	Esmolol	12,664.78
	Doxazosin	34,460.47
	Bepidil	90,726.07
	Isosorbide	181.41
	Sotalol	36,363.04
	Coris/Cardio	724.32
	VED	66,823.03
	Captopril-AMI	9,600.00
	UK 48, 340	8,113.19
	Interest <sup>3</sup>	289,468.49
	Nifedipine	60,000.72
	Atenolol	71,302.04
	Atrial-Fib	4,423.20
	Assist	11,870.72
	OPC	58,522.55
	Manoplax	20,499.74
	Dilacor	73,125.00
	Losartan	22,364.49
	<b>Sub-total</b>	<b>\$1,210,585.11</b>
Other Researchers	Arthritis	866.86
	Amlodipine	12,713.05
	ACP	4,078.81
	Lilly	12,086.61
	Geriatric	8,514.29
	Nuclear Medicine	640.90
	Cancer-Palliative	2,352.47
	Diabetes Education	11,204.16
	<b>Sub-total</b>	<b>\$52,457.15</b>
Health Care System	Interest	1,963.63
	VA R&D	20,909.05
	VAMC Library	3,653.55
	<b>Sub-total</b>	<b>\$26,526.23</b>
	<b>Total</b>	<b>\$1,289,568.49</b>

<sup>3</sup> The Consortium invests funds on account and apportions the return on investment based on the researcher's account balances.

## Monetary Benefits in Accordance with IG Act Amendments

<u>Recommendation</u>	<u>Explanation of Benefits</u>	<u>Better Use of Funds</u>	<u>Questioned Costs</u>
1	Funds transferred to a non-VA entity (\$123,485) and indirect costs which were not recouped (\$276,274).		\$399,759
2	Excess research funds to be returned to VA.	\$1,289,568	
3	Reimbursement of personal expenses.		\$13,353
	Total	\$1,289,568	\$413,112

## Health Care System Director Comments

**Department of  
Veterans Affairs**

**Memorandum**

**Date:** March 22, 2006

**From:** Alan S. Perry, FACHE, Director, VA Central California Healthcare System (VACCHCS)

**Subject:** **Evaluation of the Possible Mismanagement of Non-Appropriated Research Funds at the VA Central California Health Care System**

**To:** Director, Los Angeles Audit Operations Division, Office of Inspector General (52LA)

**Thru:** Director, VISN 21 Sierra Pacific Network (10N21)

I wish to thank Mr. Gregory Gladhill, Audit Manager, Los Angeles Audit Operations Division, Office of the Inspector General (52LA), and his team for their professional, thorough, and exceptionally useful evaluation of research; completed at my request over the last year. I have concurred with each recommendation and have provided a corrective action plan.

As we continue to aggressively restructure and reinvigorate our research program, this OIG report provides an excellent "Blue Print" as well as the basis to recover substantial historically misplaced funding, according to your findings.

Again, my thanks to the OIG team for their timely and comprehensive review.

*(original signed by:)*

Alan S. Perry, FACHE



### **Health Care System Director's Comments to Office of Inspector General's Report**

The following Health Care System Director's comments are submitted in response to the recommendations in the Office of Inspector General's Report:

#### **OIG Recommendations**

**Recommended Improvement Action 1.** We recommend that the Health Care System Director ensures: (a) that research fund management and accounting controls are established to ensure that non-appropriated research funds are deposited, disbursed, and used in accordance with VA regulations, and (b) appropriate health care system staff receive training on the proper management, administration, and use of research funds in accordance with VA regulations.

Concur      **Target Completion Date:** Various (see items a-e for target completion dates).

One of the primary reasons why the facility initiated contact with the Office of Inspector General last Spring was the concern about the historical lack of substantial research fund management and accounting controls. Consistent with this recommendation, VACCHCS plans include:

a. To have future non-appropriated research funds handled by our newly revived VA Research Corporation, Fresearch, Inc., in accord with Public Law 100-322. The first steps have already been taken to make Fresearch operational. Some further steps are required before the corporation is able to receive research funds and facilitate VA research. We will ensure that this happens as expeditiously as possible. The target date for the Corporation to be fully operational is June 1, 2006.

b. Institute monthly meetings between the Research and Education Service and VACCHCS Fiscal Service at which all VACCHCS research accounts are reviewed. We have already initiated such meetings, with the first being scheduled for March 17, 2006. Regular meetings will occur monthly thereafter.

c. Institute a new standing item on the Research and Development Committee agenda: Research Finance Accounting Report. This will begin with the April 2006 meeting, and will provide a summary of the meetings mentioned in “b.” above. At least quarterly there will be an accounting of funds held, and expenditures from Research General Post Funds, and research Fund Control Points, and a listing of research dollars that went to Fresearch, Inc.

d. Institute mandatory training for VACCHCS investigators to educate VACCHCS researchers about a wide range of research requirements and safeguards, including training on the proper management, administration, and use of research funds in accordance with VA regulations. Target Date for development of this training is June 1, 2006, with completion of training for all current investigators by September 30, 2006. In addition, beginning immediately, every investigator who submits a research protocol to the Research and Development Committee will be queried by the R&D Committee members about how their research funding will be handled. (Researchers are already required to appear before the Committee to explain their new protocols.) It is the responsibility of the Chair, and the ACOS/R&E to ensure that this happens, and this will be documented in the R&D Minutes. If there appears to be a lack of understanding about the proper handling of research funds, the investigator will be directed to meet with the ACOS/R&E to address any gap in understanding. These research projects will not receive final approval until after such a meeting.

e. Ensure that all required Ethics training for researchers is completed by all VACCHCS researchers. The deadline for completion of this training for current researchers is June 1, 2006.

**Recommended Improvement Action 2.** We recommend that the VA Health Care System Director work with Regional Counsel to coordinate the transfer of all research funds maintained by the Consortium to the health care system.

Concur      **Target Completion Date:** March 24, 2006

We have already initiated discussions with VA Regional Counsel on the optimal process for return of these funds. Of course, we do not know whether the Consortium will readily acquiesce with our request to return these funds, in which case we have discussed the potential necessity of involving the U.S. Attorney's Office. The target date for the initial request letter is March 24, 2006.

**Recommended Improvement Action 3.** We recommend that the Health Care System Director: (a) works with the VA Regional Counsel to recover the \$13,353 in research funds which were improperly used to reimburse a VA researcher for his personal expenses and (b) ensures an administrative action is taken against the VA researcher for accepting research funds to offset personal expenses.

Concur      **Target Completion Date:** May 1, 2006

We agree that use of research dollars for non-research purposes is improper, and agree that it is proper to attempt to recover any misused funds. While we will make efforts to collect the entire sum indicated, we are mindful that the statute of limitations may apply to some of these expenditures, and that this may limit the amount we will be able to recover from this researcher. An appropriate administrative action will also be taken against the VA researcher, in accordance with the ultimate outcome of the steps indicated above. The target date for our initiation of formal collection efforts is May 1, 2006. The administrative action will be taken at the conclusion of the collection efforts.

## **OIG Contact and Staff Acknowledgments**

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OIG Contact	Janet Mah (310) 268-4335
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Acknowledgments	Gregory Gladhill Frank Giancola Tae Kim
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## Report Distribution

### VA Distribution

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This report will be available in the near future on the OIG's Web site at <http://www.va.gov/oig/52/reports/mainlist.htm>. This report will remain on the OIG Web site for at least 2 fiscal years after it is issued.