



Department of Veterans Affairs Office of Inspector General

Audit of Allegations at the Health Administration Center Denver, Colorado

**To Report Suspected Wrongdoing in VA Programs and Operations
Call the OIG Hotline – (800) 488-8244**

Contents

	Page
Executive Summary	i
Introduction	1
Purpose	1
Background.....	1
Scope and Methodology	2
Results and Conclusions	3
Issue 1: Whether Health Administration Center Contracts Were Properly Awarded and Administered	3
Allegation 1. Did contracting officers routinely exceed their warrant authorities?	4
Allegation 2. Did management intentionally create contracts with no deliverables to financially destroy the Health Administration Center?	4
Allegation 3. Did management intentionally create numerous contracts that were not used?	4
Allegation 4. Did management give contract employees authority to supervise Federal employees?.....	5
Allegation 5. Did contract employees fail to work the hours for which they were paid?	5
Allegation 6. Were contract employees paid for overtime that they did not work?	5
Allegation 7. Did contract employees receive VA employee awards?.....	6
Allegation 8. Did the Health Administration Center pay to train contract employees for skills they were already required to have?	6
Allegation 9. Did the Health Administration Center unnecessarily award a pharmaceutical billing services contract?	6
Issue 2: Whether the Health Administration Center Properly Safeguarded Resources	8
Allegation 10. Did Health Administration Center management deliberately misappropriate funds from the Fee Replacement Project?	8
Allegation 11. Did the Health Administration Center lose computer equipment costing millions of dollars?	8

Allegation 12. Did the Health Administration Center give employees computers for their personal use?	9
Allegation 13. Did management officials travel to Hawaii and the country of France at Government expense for personal benefit?	9
Issue 3: Whether Health Administration Center Management Adequately Addressed Operational Problems	10
Allegation 14. Did the Health Administration Center make \$20 million worth of unrecoverable payments to ineligible beneficiaries?	10
Allegation 15. Did the former Chief of the Financial Services Division authorize \$20 million in duplicate payments to vendors and make no effort to recover these payments?	11
Allegation 16. Did the Health Administration Center pay duplicate pharmaceutical claims worth millions of dollars?	11
Allegation 17. Did employees deliberately crash the Claims Processing & Eligibility system?	11
Allegation 18. Did management ignore a malfunction in the Optical Character Reader scanner that resulted in overpayments?	12
Allegation 19. Did the Health Administration Center unnecessarily spend millions of dollars to replace the Claims Processing & Eligibility system?	12
Issue 4: Whether the Health Administration Center Complied with VA Requirements for Hiring, Promotions, and Employee Recognition	13
Allegation 20. Was the Health Administration Center overstaffed with numerous high-grade, unnecessary positions?	13
Allegation 21. Did management discriminate against veterans and other eligible job applicants by hiring former contract employees?	14
Allegation 22. Were employees improperly promoted without meeting time-in-grade requirements?	14
Allegation 23. Did supervisors hire their relatives over more qualified applicants? ..	14
Allegation 24. Did management improperly promote or hire employees who did not meet educational requirements?	15
Allegation 25. Were employees allowed to keep previous buyout payments when hired?	15
Allegation 26. Did management only give awards to themselves and their friends?	15

Allegation 27. Did the Director tarnish the Health Administration Center’s image by giving employees candy in pill bottles?.....	16
--	----

Appendixes

A. Chief Business Officer Comments.....	17
B. OIG Contact and Staff Acknowledgments	19
C. Report Distribution	20

Executive Summary

Introduction

Between October 2005 and February 2006, the Office of Inspector General's (OIG's) Hotline Division received three letters from an anonymous complainant alleging fraud and mismanagement at the Health Administration Center (HAC) in Denver, CO. The HAC is part of the Veterans Health Administration (VHA) Business Office and has primary responsibility for administering health benefits programs for veterans and their family members. Major programs administered by the HAC include the Civilian Health and Medical Program of the Department of Veterans Affairs (CHAMPVA), the Fee Basis Program, and the VA Foreign Medical Program.

The complainant made 27 allegations that we categorized into 4 broad issues: (1) whether HAC contracts were properly awarded and administered; (2) whether the HAC properly safeguarded resources; (3) whether HAC management adequately addressed operational problems; and (4) whether the HAC complied with VA requirements for hiring, promotions, and employee recognition. Although the complainant submitted a total of 14 pages of allegations to the OIG, many of the allegations lacked sufficient relevant details about the individuals involved, time periods, or HAC programs to identify the complainant's specific concerns.

Results

The audit substantiated 1 of the complainant's 27 allegations. HAC managers needed to strengthen controls over contract administration to ensure that contracting officers did not exceed their warrant authorities. One contracting officer exceeded her warrant limit of \$25,000 on 14 occasions when authorizing purchases of information technology (IT) services. The total cost of the 14 purchase orders was \$2.1 million.

The audit did not substantiate the remaining 26 allegations. However, we identified a management issue that, in our opinion, was most likely the basis for many of the complainant's allegations because many of the allegations focused on a specific IT project. In fiscal year (FY) 2003, the HAC began the Fee Replacement Project, which had three phases: (1) establishing Electronic Data Interface (EDI) bill payment capability, (2) replacing the Claims Processing & Eligibility (CP&E) system, and (3) centralizing VA medical center (VAMC) fee basis payment processing. Although the first phase was completed on schedule in October 2003, the second and third phases encountered significant delays. One reason was that the HAC contracted out the project design and development functions without first establishing adequate project oversight controls. HAC managers also initially underestimated the project's complexity, and the contractor responsible for project design did not provide senior staff with the level of expertise needed. In December 2005, VHA officials discontinued the project when VHA's FY

2006 IT funding was sharply reduced. At that time, the second phase of the project was nearing completion. As of January 2006, about \$34.2 million of the planned \$74.1 million had been spent. Because the project was discontinued, we made no recommendation. However, we will review this issue in our continuing IT oversight work.

Recommendations

To improve management of HAC contract administration and address the allegation substantiated by our audit, we recommended that VHA's Chief Business Officer ensure that the HAC Director:

1. Implements controls to ensure that contracting officers do not exceed warrant authorities.
2. Takes appropriate administrative action against the contracting officer identified by our audit to preclude this condition from recurring.
3. Ensures the purchases made by the contracting officer were appropriate and cost-effective.
4. Requires the Chief of the Acquisition & Materiel Management (A&MM) Division to monitor all future contracts and purchases made by the contracting officer identified by our audit until the appropriate warrant authority is obtained.
5. Provides appropriate training on warrant authority limits to the contracting officer identified by our audit.

Chief Business Officer Comments

The Chief Business Officer agreed with our findings and recommendations and reported that corrective actions had been implemented. (See Appendix A, pages 17–18 for the full text of the Chief Business Officer's comments.) We considered these actions acceptable.

*(original signed by Joseph M. Vallowe,
Acting Deputy Assistant Inspector General
for Auditing for:)*

MICHAEL L. STALEY
Assistant Inspector General for Auditing

Introduction

Purpose

The purpose of the audit was to review allegations of fraud and mismanagement at VHA's HAC in Denver, CO. An anonymous complainant made 27 allegations that we categorized into 4 broad issues: (1) whether HAC contracts were properly awarded and administered; (2) whether the HAC properly safeguarded resources; (3) whether HAC management adequately addressed operational problems; and (4) whether the HAC complied with VA requirements for hiring, promotions, and employee recognition.

Background

In June 1986, VA centralized management of the CHAMPVA program at the Denver VAMC. The centralization was intended to increase efficiency and improve accuracy, internal controls, and accountability of CHAMPVA eligibility determinations. Before centralization, individual VAMCs were responsible for processing their own CHAMPVA applications and determining eligibility. In the early 1990s, an independent CHAMPVA Center was created as a field activity of VHA's central office and in 1996 was renamed the Health Administration Center.

The HAC's primary mission is to administer health benefits programs for veterans and their family members. It is the only Federal organization that directly processes health benefits claims—Medicare and Tricare both use contracted commercial claims processors. In FY 2005, the HAC's total budget was \$595.3 million, including a general operating budget of \$36.9 million.

HAC Responsibilities. The HAC's responsibilities include:

1. Administering the CHAMPVA program.
2. Administering the VA Foreign Medical Program for veterans living or traveling abroad.
3. Administering the Spina Bifida Healthcare Program for children of Vietnam veterans.
4. Administering the Children of Women Vietnam Veterans Healthcare Program.
5. Operating a Customer Service Center for beneficiaries and providers.
6. Participating in the development of electronic commerce applications for health care claims processing.
7. Supporting VA's Fee Basis Program for care provided by non-VA providers.

Legislative Changes Affecting HAC Operations. Effective October 1, 2001, the Veterans' Survivor Benefits Improvements Act of 2001 (Public Law 107-14) authorized the extension of benefits for CHAMPVA beneficiaries over the age of 65. As a result of this extension, the HAC experienced a significant increase in workload. At the beginning of FY 2002, there were 106,500 beneficiaries enrolled in CHAMPVA. By the end of FY 2005, there were 259,900 beneficiaries enrolled in CHAMPVA—a 144 percent increase in enrollment in 4 years.

Scope and Methodology

Between October 2005 and February 2006, the complainant submitted 14 pages of allegations to the OIG. Many of the allegations lacked sufficient relevant details about the individuals involved, time periods, or HAC programs to identify the complainant's specific concerns. Because the allegations were made anonymously, we had no means to contact the complainant to clarify details about the allegations. Where sufficient detail was not provided, we reviewed current operations and evaluated applicable internal controls.

The audit was conducted from January 3, 2006, to March 31, 2006, and included onsite evaluations of procedures and practices at the HAC during January 17–27 and February 21–24, 2006.

To determine the merits of the allegations, we interviewed the VHA Chief Business Officer, HAC managers, contracting officers, and employees involved in claims processing, equipment accountability, and fiscal operations. We also reviewed related Federal regulations and VA and local policies, organizational charts, fund control documents, staffing reports, personnel files, performance data, and employee travel records. In addition, we examined contract files, purchase orders, and documents related to the Fee Replacement Project.

In planning and performing the audit, we relied on computer-processed data recorded in HAC databases. To test the reliability of this data, we compared relevant data elements from the HAC databases with data on various source documents such as purchase orders, travel vouchers, and claims submitted by pharmacies. We found the computer-processed data to be sufficiently reliable for our audit objectives.

Our assessment of internal controls focused only on those controls related to our audit objectives of determining whether the allegations could be substantiated and was not intended to form an opinion of the adequacy of internal controls overall. We do not render such an opinion. In all other aspects, the audit was conducted in accordance with Generally Accepted Government Auditing Standards.

Results and Conclusions

We substantiated 1 of the 27 allegations made by the complainant. The HAC Director needed to strengthen controls to ensure that contracting officers did not exceed their warrant authorities when purchasing services.

The audit did not substantiate the remaining 26 allegations. However, we identified a management issue that, in our opinion, was most likely the basis for many of the complainant's allegations because many of the allegations focused on a specific IT project. In FY 2003, the HAC began the Fee Replacement Project, which was expected to save VHA about \$35 million annually in reduced overpayments and administrative costs when implemented. The project had three phases: (1) establishing EDI bill payment capability, (2) replacing the HAC's CP&E system, and (3) centralizing VAMC fee basis payment processing. Although the first phase was completed on schedule in October 2003, the second and third phases encountered significant delays. One reason was that the HAC contracted out the project design and development functions without first establishing adequate project oversight controls. HAC managers also initially underestimated the project's complexity, and the contractor responsible for project design did not provide senior staff with the level of expertise needed. In December 2005, VHA officials discontinued the project when VHA's FY 2006 IT funding was sharply reduced. At that time, the second phase of the project was nearing completion. As of January 2006, about \$34.2 million of the planned \$74.1 million had been spent. Because the project was discontinued, we made no recommendation. However, we will review this issue in our continuing IT oversight work.

Issue 1. Whether Health Administration Center Contracts Were Properly Awarded and Administered

The complainant made nine allegations pertaining to how the HAC awarded and administered contracts and monitored the work of contract employees:

- Contracting officers routinely exceeded their warrant authorities.
- Management intentionally created contracts with no deliverables to financially destroy the HAC.
- Management intentionally created numerous contracts that were not used.
- Management gave contract employees authority to supervise Federal employees.
- Contract employees failed to work the hours for which they were paid.
- Contract employees were paid for overtime that they did not work.
- Contract employees received VA employee awards.

- The HAC paid to train contract employees for skills they were already required to have.
- The HAC unnecessarily awarded a pharmaceutical billing services contract.

Findings

Our audit substantiated one of the nine allegations. HAC managers did not establish effective controls over contract administration to ensure that contracting officers did not exceed their warrant authorities.

Allegation 1. Did contracting officers routinely exceed their warrant authorities?

Yes. One contracting officer exceeded her warrant authority. Our review of 156 purchases (value=\$36.2 million) made during the period October 2002–December 2005 found that 1 of the 2 contracting officers responsible for Fee Replacement Project purchases had exceeded her warrant authority of \$25,000 for 14 purchases with a total cost of \$2.1 million. The contracting officer's warrant authorized her to purchase services over \$25,000 only when the purchases were made against Government contracts. The 14 purchases were for amounts greater than \$25,000 with IT service companies that did not have Government contracts. According to the Chief of the A&MM Division, the contracting officer exceeded her warrant authority because, due to heavy workload, she did not verify contract information when preparing the purchase orders.

Allegation 2. Did management intentionally create contracts with no deliverables to financially destroy the Health Administration Center?

No. We did not find any evidence that HAC management intentionally tried to financially destroy the HAC. However, we confirmed that the HAC used cost-based contracts during the Fee Replacement Project. HAC managers acknowledged that the use of these cost-based contracts, which did not require contractors to complete specific tasks, was a major cause for project delays and increased costs, particularly in the early stages of the project. After the implementation of a commercial project management system in October 2004, the HAC's control over contractor performance improved significantly because the system linked contractor time to specific assignments.

Allegation 3. Did management intentionally create numerous contracts that were not used?

No. We reviewed FYs 2003–2005 Fee Replacement Project contract purchases and FY 2006 HAC contracts to determine whether they were being used and found no indication that contracts were being established but not used.

We reviewed 75 FYs 2003–2005 Fee Replacement Project contract purchases (value=\$18.3 million). Of the 75 purchases, 64 (value=\$17.6 million) were for IT

specialist contract services. The other 11 purchases were for computer equipment, software, and miscellaneous project-related charges costing \$704,381. All of the contracts were used to meet the objectives of the Fee Replacement Project.

Of the 63 FY 2006 HAC contracts (value=\$1.9 million), we reviewed a statistical sample of 13 contracts (value=\$1.4 million).¹ We determined that 12 of the 13 contracts were needed for HAC computer maintenance and software license agreements. The other contract was used to pay for mental health services for HAC beneficiaries.

Allegation 4. Did management give contract employees authority to supervise Federal employees?

No. Although contractors did provide technical direction to Federal employees on project-related matters during the Fee Replacement Project, we found no evidence that they performed prohibited supervisory tasks, such as evaluating employee performance or authorizing leave.

Allegation 5. Did contract employees fail to work the hours for which they were paid?

No. The complainant alleged that seven contract employees routinely came in late and left early, took long lunch breaks, and worked only about 4 hours a day. The documentation reviewed and the coworkers and supervisors interviewed did not support the allegation. Of the seven contract employees identified in the allegation, six had recently worked at the HAC. For those employees, we reviewed timesheets and contracts for the 4-week period November 20–December 17, 2005. For one other employee who had not worked for the HAC since September 2004, we reviewed documentation for that month. We also interviewed 10 supervisors and coworkers of the contract employees and determined that HAC managers tracked contractors' time and activities through an automated project management and timekeeping system and that they ensured contract employees were working the required hours by daily monitoring contractors' progress, certifying timesheets weekly, and reconciling timesheets with individual billings.

Allegation 6. Were contract employees paid for overtime that they did not work?

No. We found that HAC supervisors monitored contract employee overtime using an automated project management system that tracked project tasks. All overtime had to be approved by HAC supervisors. In addition, HAC supervisors reviewed contractor billing statements and compared them with project management reports to ensure that the HAC only paid for services received and actual time worked.

¹ The sample size was based on a population of 63 items, a confidence level of 95 percent, and a precision rate of 5 percent, providing reasonable assurance that the sample adequately represented the population.

Allegation 7. Did contract employees receive VA employee awards?

No. The complainant alleged that at the end of FY 2005, the HAC Director authorized giving employee awards to Fee Replacement Project contract employees. To determine whether VA employee award money had been given to contractors, we interviewed the HAC Director, the Chief of the A&MM Division, and Fee Replacement Project managers. They all denied that contract personnel had received employee award money. We also reviewed documentation obtained from the Financial Services Division that showed that FY 2005 award money had been given only to VA employees.

Allegation 8. Did the Health Administration Center pay to train contract employees for skills they were already required to have?

No. We compared contract employee position requirements with the training they received at the HAC and found that contract employees had not been provided training for skills that they should have had when they were hired. According to a HAC Fee Replacement Project manager, information on project-specific topics, such as data structures, enrollment and eligibility, data migration, and the claims data validation software, had been provided to both HAC and contract employees during informal, voluntary “brown-bag” lunch meetings.

Allegation 9. Did the Health Administration Center unnecessarily award a pharmaceutical billing services contract?

No. The complainant alleged that the HAC unnecessarily entered into a contract for pharmaceutical billing services even though it had previously obtained these services without charge. The HAC had paid beneficiaries' pharmaceutical charges through a major pharmacy billing service company under a Memorandum of Understanding. To meet new VA requirements to improve controls over pharmacy benefits, the HAC established a new contract to provide additional services such as drug utilization reviews, formulary management, and discounted drug prices. Our review determined that the contract award process met Federal contracting standards. The HAC contracting officer estimated that the discounted drug costs generated from the contract would save VA about \$77.1 million over 5 years.

Conclusion

We determined that one of the nine allegations pertaining to how the HAC awards and administers contracts was substantiated. One contracting officer exceeded her authorized warrant when she made 14 purchases costing \$2.1 million. HAC management needs to ensure that the purchases made by the contracting officer were appropriate and cost effective and that she does not exceed her warrant authority on future purchases.

We did not substantiate the other eight allegations. Although the complainant identified a significant problem—the use of cost-based contracts not requiring specific deliverables—in the management of the Fee Replacement Project, we did not substantiate the allegation or make recommendations because: (1) HAC management had already taken action to improve controls and (2) the project had been discontinued before we began our review.

Recommendations. We recommended that the VHA's Chief Business Officer ensure that the HAC Director:

1. Implements controls to ensure that contracting officers do not exceed warrant authorities.
2. Takes appropriate administrative action against the contracting officer identified by our audit to preclude this condition from recurring.
3. Ensures the purchases made by the contracting officer were appropriate and cost-effective.
4. Requires the Chief of the A&MM Division to monitor all future contracts and purchases made by the contracting officer identified by our audit until the appropriate warrant authority is obtained.
5. Provides appropriate training on warrant authority limits to the contracting officer identified by our audit.

The Chief Business Officer agreed with our findings and recommendations. On May 31, 2006, he reported that HAC management had implemented controls to ensure that contracting officers do not exceed warrant authorities. HAC management had taken administrative action against the contracting officer, the Chief of the Contracting Activity had reviewed the contracting officer's contract awards for the past two years, the HAC had established a preaward review process for new contracts, and the contracting officer had completed training on warrant authority limits. These improvement actions are acceptable.

Issue 2. Whether the Health Administration Center Properly Safeguarded Resources

The complainant made four allegations pertaining to HAC controls over funds and equipment:

- Management deliberately misappropriated funds from the Fee Replacement Project.
- The HAC lost computer equipment costing millions of dollars.
- The HAC gave employees computers for their personal use.
- Management officials traveled to Hawaii and the country of France at Government expense for personal benefit.

Findings

Allegation 10. Did Health Administration Center management deliberately misappropriate funds from the Fee Replacement Project?

No. The Fee Replacement Project received funding from two sources: (1) 1VA+ multiyear funds and (2) HAC annual appropriation funds. By January 2006, the HAC had obligated \$24 million in 1VA+ funds. All HAC 1VA+ funds were required to be used for the Fee Replacement Project. Our review of 75 1VA+ fund purchases (value=\$18.3 million) found that all of the purchases were Fee Replacement Project related.

By January 2006, the HAC had also obligated \$14.6 million in annual appropriation funds for the Fee Replacement Project. In FYs 2004 and 2005, medical administration funds were used. For these funds, we could not find any legal requirement to segregate the costs for the Fee Replacement Project from the costs of other HAC operations. In FY 2006, IT appropriation funds were provided instead of medical administration funds for all IT activities. There was also no legal requirement for the HAC to segregate Fee Replacement Project costs from other HAC IT costs when obligating these funds.

Allegation 11. Did the Health Administration Center lose computer equipment costing millions of dollars?

No. The complainant alleged that one HAC manager had boasted about losing millions of dollars in computer equipment. We interviewed the manager and the HAC employee named in the allegation as having witnessed the manager's statement. Both individuals denied the allegation. We also reviewed HAC computer equipment accountability. In January 2006, the total value of all HAC computer equipment was about \$10.2 million. We inventoried 21 high-dollar items valued at \$5.7 million (56 percent of the total value) and found that all of the items were accounted for.

Allegation 12. Did the Health Administration Center give employees computers for their personal use?

No. We reviewed HAC procedures for computer use and current sign-out lists for computer equipment taken home by employees and found that, at the time of our audit, internal controls over computer equipment were adequate to ensure that computers were accounted for and used for official Government purposes. In addition, we interviewed five employees and two supervisors, who confirmed that their computers were needed to answer office electronic mail, work on projects, write reports, and perform other official duties while away from the HAC.

Allegation 13. Did management officials travel to Hawaii and the country of France at Government expense for personal benefit?

No. During the 4-year period FYs 2002–2005, HAC employees made five trips to Hawaii and one trip to the country of France. Four of the trips to Hawaii were to provide training on CHAMPVA and the fee basis system; one trip was for a meeting on VA and Department of Defense sharing of resources. The trip to France, which was approved by the Under Secretary for Health, was for a HAC employee to supervise testing of software that was developed by the contractor in France and needed for the CP&E system. We reviewed the travel claims for these trips and found that the claims had been properly authorized and approved, the travel reimbursements were appropriate, and the expenses were justified and adequately supported. Although annual leave had been taken in conjunction with one of the trips to Hawaii, all costs charged to the HAC were incurred in performance of the traveler's official duties.

Conclusion

None of the four allegations relating to control of HAC resources were substantiated. Funds had not been misappropriated, equipment had been effectively safeguarded, computers had been used for official purposes, and there was no evidence of employee travel abuse.

Issue 3. Whether Health Administration Center Management Adequately Addressed Operational Problems

The complainant made six allegations pertaining to the management and administration of CHAMPVA and other programs. The allegations related primarily to HAC overpayments to beneficiaries and vendors and claims processing system management.

- The HAC made \$20 million worth of unrecoverable payments to ineligible beneficiaries.
- The former Chief of the Financial Services Division authorized \$20 million in duplicate payments to vendors and made no effort to recover these payments.
- The HAC paid duplicate pharmaceutical claims worth millions of dollars.
- Employees deliberately crashed the CP&E system.
- Management ignored a malfunction in the Optical Character Reader (OCR) scanner that resulted in overpayments.
- The HAC unnecessarily spent millions of dollars to replace the CP&E system.

Findings

Allegation 14. Did the Health Administration Center make \$20 million worth of unrecoverable payments to ineligible beneficiaries?

No. Payments to ineligible beneficiaries typically result from changes in beneficiary eligibility that are not promptly reported to the HAC. We determined that payments to ineligible beneficiaries were not significant. Payments to ineligible beneficiaries for the 2-year period FYs 2004–2005 totaled \$788,654. However, during this same period the HAC paid about \$981 million in beneficiary payments. The amount paid to ineligible beneficiaries represented about .0008 percent of the total payments.

The HAC had effective controls for identifying and collecting payments to ineligible beneficiaries. The HAC's CP&E system is programmed to compare the dates of service on the bill against the periods of eligibility established in the system. When the HAC is notified of a change in a beneficiary's eligibility status, the system record is updated and collection is initiated for any claims paid during a period of ineligibility.

HAC collection actions were ongoing. As of January 2006, the HAC had recovered \$590,055, or 75 percent of the \$788,654 paid to ineligible beneficiaries for the 2-year period FYs 2004–2005.

Allegation 15. Did the former Chief of the Financial Services Division authorize \$20 million in duplicate payments to vendors and make no effort to recover these payments?

No. Based on our interviews with the former and current Chiefs of the Financial Services Division and other HAC officials and review of the duplicate payment file status report, we found that in June 2004, the HAC mistakenly sent a single day's batch twice to the VA Austin Automation Center for payment. The batch contained 16,812 claims valued at about \$1.8 million. When the former Chief of the Financial Services Division discovered the duplicate payment error, the HAC promptly began collection efforts and implemented system controls to ensure that payment files were not sent twice by mistake. As of February 2006, bills of collection had been established for all of these claims and \$1.6 million had been recovered. Collection efforts are ongoing.

Allegation 16. Did the Health Administration Center pay duplicate pharmaceutical claims worth millions of dollars?

No. The HAC used a major pharmaceutical billing service company to consolidate bills from pharmacies used by HAC beneficiaries. In FY 2005, the company charged the HAC \$96.3 million for about 1.5 million pharmaceutical claims. The HAC had an automated control process in place to identify when the same supplies were billed more than once and to reverse the initial payments when duplicate billings were identified. To determine if HAC controls were effective, we reviewed claims paid to the billing service company for the 3-month period May–July 2005. Of the 78 duplicate claims made during the period, 8 claims (value=\$525) had not been identified by the HAC for recovery. This indicates that about \$2,100 per year ($\525×4 quarters = \$2,100) in duplicate pharmaceutical payments may not have been identified by HAC duplicate claims controls. This amount represents a negligible amount compared to the \$96.3 million paid for pharmaceutical services.

Allegation 17. Did employees deliberately crash the Claims Processing & Eligibility system?

No. According to the complainant, HAC management instructed two Office of the Chief Information Officer (CIO) employees to deliberately crash the CP&E system for test purposes during September 13–17, 2005. We reviewed the system logs for that period and found no documentation of system down time. The CIO denied that the CP&E system had crashed during that period. However, he acknowledged that the claims processing system had experienced slowdowns as a result of a VHA-mandated software update in August 2005 and that Office of the CIO staff had not been able to solve all the problems causing the slowdowns until late September 2005.

Allegation 18. Did management ignore a malfunction in the Optical Character Reader scanner that resulted in overpayments?

No. The HAC used an OCR scanner to enter claims into the CP&E system. The Chief of the Support Services Division confirmed that the OCR scanner sometimes misread numbers with decimal points. However, because errors were infrequent and HAC claims processing controls were effective in identifying scanning errors and preventing overpayments, HAC managers gave low priority to fixing the OCR scanner.

To evaluate the effectiveness of HAC claims processing controls in preventing overpayments caused by scanning errors, we reviewed a sample of 450 claims from July 2005. For 11 (2.4 percent) of the 450 claims, the scanner had misread the decimal points. However, the HAC's review process had corrected the data for 10 of the claims, and the CP&E system's automated controls had prevented an overpayment for the remaining claim. We concluded that management had not ignored a malfunction in the OCR scanner and that significant overpayments had not resulted from the OCR scanner malfunction.

Allegation 19. Did the Health Administration Center unnecessarily spend millions of dollars to replace the Claims Processing & Eligibility system?

No. The complainant alleged that in December 2005, the HAC began another major project to rewrite CP&E system software and that this project would cost millions of dollars like the earlier Fee Replacement Project. We confirmed that in July 2005, the HAC had purchased hardware and software to modify the CP&E system. However, based on our discussions with the CIO and review of software specifications and literature, we found that the software did not replace or rewrite the CP&E system software. Instead, it supplemented it by adding significant system integration, data warehousing, and reporting capabilities that were previously not available. We also determined that the total cost for the equipment and software was about \$135,000, and annual license and maintenance charges are about \$80,000 per year. The HAC did not incur any other significant costs for the project.

Conclusion

None of the six allegations were substantiated. The HAC's procedures for identifying and recovering overpayments were effective. When the CP&E system problems occurred, HAC staff took appropriate corrective actions. The HAC's initiative to supplement the CP&E system is limited in scope, low cost, and is expected to provide significant improvements to the system.

Issue 4. Whether the Health Administration Center Complied with VA Requirements for Hiring, Promotions, and Employee Recognition

The complainant made eight allegations pertaining to HAC personnel practices:

- The HAC was overstaffed with numerous high-grade, unnecessary positions.
- Management discriminated against veterans and other eligible job applicants by hiring former contract employees.
- Employees were improperly promoted without meeting time-in-grade requirements.
- Supervisors hired their relatives over more qualified applicants.
- Management improperly promoted or hired employees who did not meet educational requirements.
- Employees were allowed to keep previous buyout payments when hired.
- Management only gave awards to themselves and their friends.
- The Director tarnished the HAC's image by giving employees candy in pill bottles.

Findings

Allegation 20. Was the Health Administration Center overstaffed with numerous high-grade, unnecessary positions?

No. During the 2-year period January 2004–December 2005, the HAC added 99 new positions, a 23.2 percent increase in staffing. These new positions were needed primarily because HAC workload had increased significantly after a 2001 change in legislation that expanded CHAMPVA eligibility. During the 2-year review period, CHAMPVA claims increased from 437,115 per month to 541,413 per month, a 23.9 percent increase. In addition, HAC program responsibilities were expanded to include management of VA's fee basis program and participation in the Project Healthcare Effectiveness through Resource Optimization pilot program.

Of the 99 new HAC positions, 75 were in HAC divisions responsible for processing CHAMPVA claims, verifying beneficiary eligibility, responding to customer inquiries, or rebilling claims overpayments. Expanded program management responsibilities accounted for seven other new positions. The remaining 17 positions were needed to meet increased personnel management, procurement, IT, and similar support requirements.

The increase included five new supervisory positions at the grades of General Schedule (GS) 13 or higher. Although the HAC had not performed any staffing studies or developed staffing standards, in our opinion, the higher graded supervisory positions were justified and necessary for the HAC to effectively meet the increased workload, reduce backlogs, and meet VHA performance standards.

Allegation 21. Did management discriminate against veterans and other eligible job applicants by hiring former contract employees?

No. Since the complainant did not provide specific details about this allegation, we identified all GS-12 through -14 positions that were filled at the HAC for the 2-year period January 2004–December 2005. We reviewed recruitment actions for 20 employees who were hired during this period, including 9 who had previously worked for Federal or local Government agencies; 2 who had worked for private sector, non-contract companies; and 9 who had previously worked for HAC contract companies. Based on our review of recruitment records, we found that the former contract employees had not been given preferential treatment. The nine employees were hired through seven different recruitment actions. All of the recruitment actions were listed on the Office of Personnel Management’s USAJobs website and were open to all qualified candidates. According to HAC records, veterans applied and were found qualified in only one of the recruitment actions, and a veteran was hired in that action. In addition, as of January 17, 2006, 200 (40 percent) of the HAC’s 496 employees were veterans.

Allegation 22. Were employees improperly promoted without meeting time-in-grade requirements?

No. During the 2-year period January 2004–December 2005, 369 HAC employees were promoted. Of these promotions, 63 at the GS-5 level or below were not subject to time-in-grade requirements, 302 promotions met the 1-year time-in-grade requirements, and 4 promotions were Veterans Readjustment Act appointments that were not subject to time-in-grade requirements up to the GS-11 level.

The primary reason for the large number of promotions during this time period was that 325 (88 percent) of the 369 employees promoted were in career ladder positions. Employees were generally hired at the lowest grade levels for their positions and were then promoted several times before reaching full performance levels. For example, voucher examiners positions are usually filled at the GS-4 level, but full performance is at the GS-7 level.

Allegation 23. Did supervisors hire their relatives over more qualified applicants?

No. Because the complainant did not identify specific HAC employees alleged to have been hired by relatives, we obtained a list of current employees from the Human Resources Division to identify employees with shared last names, who worked in the

same division, and who were involved in hiring decisions. Based on this review and our interviews with HAC division chiefs, we did not identify any cases where a HAC supervisor inappropriately hired a relative.

Allegation 24. Did management improperly promote or hire employees who did not meet educational requirements?

No. The complainant implied that some employees or job applicants provided fake college degrees to obtain promotions or positions at the HAC. Since the complainant did not specify the names or positions of employees concerned, we reviewed all recruitment actions during the 2-year period January 2004–December 2005 for positions requiring college degrees. Of the positions requiring college degrees, we identified only one case where the educational qualifications of the applicant might not have appeared to meet the position requirements. However, based on our review of the position description and an interview with the Chief of the Human Resources Division, we found that this Supervisory Contract Specialist position required a college degree at the GS-13 level, but not at the GS-12 level. The position was filled at the GS-12 level by a HAC employee who did not have a college degree.

Allegation 25. Were employees allowed to keep previous buyout payments when hired?

No. Because the complainant did not identify individuals in the allegation, we interviewed Human Resources Division staff and reviewed personnel files to identify all HAC employees who had previously received Government buyouts. We identified only one HAC employee who had received a buyout from another Federal agency. However, according to HAC records, this employee had repaid the buyout payment as required.

Allegation 26. Did management only give awards to themselves and their friends?

No. We found that HAC award policies were consistent with VA standards and clearly described the criteria for receiving awards. HAC awards for FY 2005 were widely distributed among HAC staff and were not limited to supervisors and a few favored employees, as alleged. Specifically, we found that:

- Performance awards totaling \$183,022 went to 164 non-supervisory staff in amounts ranging from \$333 to \$2,000.
- Performance awards totaling \$30,215 went to 18 supervisory staff in amounts ranging from \$562 to \$4,630.
- Incentive awards totaling \$149,500 went to 252 non-supervisory employees in amounts ranging from \$33 to \$500.
- Gainsharing awards totaling \$94,400 went to 433 non-supervisory staff in amounts ranging from \$50 to \$1,042.

- Gainsharing awards totaling \$14,917 went to 13 supervisory staff in amounts ranging from \$333 to \$1,250.

Allegation 27. Did the Director tarnish the Health Administration Center's image by giving employees candy in pill bottles?

No. According to the HAC Director, in October 2005, he distributed candy in pill bottles to all HAC employees, in an effort to build employee morale. A typewritten label on each bottle contained the following message:

POSITIVE POWERPILLS
Improve your ability to deal with coworkers
and customers with this dietary supplement.
Directions: For unlimited patience and understanding,
unbridled enthusiasm, and a winning service attitude.
Take as needed.
Must be taken with a smile.

We interviewed 10 HAC employees and supervisors who told us that they clearly understood that the Director distributed the candy in this method to build morale. They reported that employees had enjoyed the gesture and that they were not aware of any employees who had considered it offensive.

Conclusion

None of the eight allegations relating to HAC personnel management were substantiated. The HAC was not overstaffed. Hiring and promotions met applicable VA standards. HAC awards were given to numerous employees at substantial amounts. The HAC Director's distribution of candy in pill bottles was understood to be a morale-building gesture.

Chief Business Officer Comments

**Department of
Veterans Affairs**

Memorandum

Date: May 31, 2006

From: Chief Business Officer

Subject: Audit of Allegations at the Health Administration Center, Denver, CO

To: Director, Management Review Service (10B5)

The Chief Business Officer concurs with the report. Actions taken are attached.

(original signed by)

C. Mark Loper, FACHE, FAHM

1 Attachment

Chief Business Officer Comments to Office of Inspector General's Report

The following Chief Business Officer's comments are submitted in response to the recommendations in the Office of Inspector General's Report:

OIG Recommendations:

Allegation 1. Did contracting officers routinely exceed their warrant authorities?

Yes. One contracting officer exceeded her warrant authority. Our review of 156 purchases (value=\$36.2 million) made during the period October 2002-December 2005 found that 1 of the 2 contracting officers responsible for Fee Replacement Project purchases had exceeded her warrant authority of \$25,000 for 14 purchases with a total cost of \$2.1 million. The contracting officer's warrant authorized her to purchase services over \$25,000 only when the purchases were made against Government contracts. The 14 purchases were for amounts greater than \$25,000 with IT service companies that did not have Government contracts. According to the Chief of the A&MM Division, the contracting officer exceeded her warrant authority because, due to heavy workload, she did not verify contract information when preparing the purchase orders.

Concur: Management acknowledges the violation of a contracting warrant.

Appropriate administrative action was taken against the contracting officer who violated her warrant and the Chief of the HAC Contracting Activity. The Chief of the HAC Contracting Activity personally reviewed this contracting officer's contract awards for the past two years and found no other violations other than those cited in the OIG report. To prevent any further recurrences of this type, on May 1, 2006, the Chief of the HAC Contracting Activity has established a process to personally review each of these prior to award. Additionally, a contracting officer checklist has been developed that will be utilized for each contractual purchase. The contracting officer also completed training on warrant authority limits on May 2, 2006. We anticipate no further accidental violations of any contracting officer's warrant due to the implemented control measures.

OIG Contact and Staff Acknowledgments

OIG Contact	Claire McDonald (206) 220-6654
-------------	--------------------------------

Acknowledgments	Ron Stucky Kevin Day Angie Fodor Orlando Velásquez
-----------------	---

Report Distribution

VA Distribution

Secretary (00)
Deputy Secretary (001)
Chief of Staff (00A)
Executive Secretariat (001B)
Assistant Secretary for Management (004)
Assistant Secretary for Information and Technology (005)
Under Secretary for Health (10)
Deputy Under Secretary for Health for Operations and Management (10N)
Management Review Service (10B5)
Chief Business Officer (16)
Director, Health Administration Center (162/00)

Non-VA Distribution

House Committee on Veterans' Affairs
House Appropriations Subcommittee on Military Quality of Life and Veterans Affairs,
and Related Agencies
House Committee on Government Reform
Senate Committee on Veterans' Affairs
Senate Appropriations Subcommittee on Military Construction and Veterans Affairs,
and Related Agencies
Senate Committee on Homeland Security & Governmental Affairs
Government Accountability Office
Office of Management and Budget

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.