



Department of Veterans Affairs Office of Inspector General

Audit of Veterans Health Administration's Accounting and Oversight of Hurricane Katrina Costs

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Executive Summary

Introduction

On August 29, 2005, Hurricane Katrina devastated the Gulf Coast states of Louisiana, Mississippi, Alabama, and Florida. The VA Southeast Louisiana Veterans Health Care System in New Orleans, LA, and the VA Gulf Coast Veterans Health Care System in Gulfport, MS, were severely damaged and remain nonoperational. As a result of widespread congressional and public interest in the Federal response to Hurricane Katrina, the President's Council on Integrity and Efficiency (PCIE) established a working group that developed a coordinated hurricane oversight effort. The purpose was to summarize the audit efforts by the inspectors general community in their oversight of response and recovery efforts related to Hurricane Katrina. Our oversight responsibilities included an audit of internal controls associated with the recovery of Hurricane Katrina.

Results

While VHA employees demonstrated heroic efforts in overseeing the evacuation of 166 patients in Mississippi and Louisiana following Hurricane Katrina, our audit showed that VHA did not have sufficient internal controls in place to effectively account for costs resulting from relief activities. We determined that when accounting for disaster relief costs, VHA needed to: (1) improve tracking and reporting, (2) ensure routine costs are not reported as disaster relief costs, (3) establish fund control points, and (4) develop more comprehensive policies and procedures. We attributed the deficiencies to the lack of a reliable methodology to track and report costs related to a Federally declared emergency. As a result, \$13.7 million (26 percent) of \$52.5 million was incorrectly accounted for as disaster relief costs. The \$13.7 million in overstated costs was comprised of routine medical costs, costs reported as both an obligation and expenditure, and estimated costs instead of actual costs.

Recommendations

We recommended that the Acting Under Secretary for Health establish controls or mechanisms to ensure costs resulting from Hurricane Katrina are accurately identified, recorded, and reported; ensure the \$0.6 million for prescriptions provided by temporary mobile health clinics is not included as disaster relief costs; ensure distributed funds are based on actual costs; and establish fund control points to account for disaster relief costs.

Acting Under Secretary for Health Comments

The Acting Under Secretary for Health agreed with the findings and recommendations and provided acceptable implementation plans. (See Appendix A, pages 8–12 for the full text of the Under Secretary's comments.) The Acting Under Secretary reported that VISN 16 has already made significant progress in strengthening needed internal controls to ensure that costs incurred by Hurricane Katrina relief efforts are clearly tracked and

validated. He also reported VHA will cooperate fully with the Offices of the Assistant Secretary for Management and the Assistant Secretary for Policy and Planning to develop comprehensive national policies and procedures to account for disaster relief costs. He also provided technical comments that we incorporated into our report where appropriate. We will follow up on the implementation of planned improvement actions until they are complete.

(original signed by:)
BELINDA J. FINN
Assistant Inspector General
for Auditing

Introduction

Purpose

As a result of widespread congressional and public interest in the Federal response to Hurricane Katrina, we conducted an audit to determine whether VHA had controls in place that were operating effectively to account for costs resulting from Hurricane Katrina relief activities.

Background

On August 29, 2005, Hurricane Katrina devastated the Gulf Coast states of Louisiana, Mississippi, Alabama, and Florida with Category 4 winds and torrential rains. Katrina was the third strongest hurricane in history to hit the United States and the sixth strongest hurricane ever recorded in the Atlantic basin.¹ VA has major health care systems located in the affected areas.

Hurricane Katrina Impact. Hurricane Katrina caused severe damage to the VA Southeast Louisiana Veterans Health Care System in New Orleans, LA, and the VA Gulf Coast Veterans Health Care System in Gulfport, MS. Both are part of Veterans Integrated Service Network (VISN) 16, the South Central VA Health Care Network. Both facilities remain nonoperational as of the date of this report. Hurricane Katrina's impact on the VA Gulf Coast Veterans Health Care System in Gulfport is depicted below in the photograph of the facility.



The VA Southeast Louisiana Veterans Health Care System experienced severe flooding, and the VA Gulf Coast Veterans Health Care System had extensive wind and water

¹ Department of Veterans Affairs, "VA Hurricane Katrina Pre-Landfall VA Actions," dated October 2005.

damage. Patients from the VA Gulf Coast Veterans Health Care System in Gulfport were transferred to the VA Gulf Coast Veterans Health Care System in Biloxi, MS. Patients from the VA Southeast Louisiana Veterans Health Care System in New Orleans were transferred to various medical facilities within VISN 16. Also, VA established temporary outpatient clinics in the New Orleans area to meet the health care needs of its remaining patients.

Compendium of Hurricane Oversight. The PCIE established a working group that developed a coordinated hurricane oversight effort to summarize the audit efforts by the inspectors general community in their oversight of response and recovery efforts related to Hurricane Katrina. The *Compendium of Hurricane Oversight in the Gulf States*, published in December 2005, identified management reviews, audits, and investigations to be performed by the inspectors general community. Our oversight responsibilities consist of audits of internal controls, contract actions, purchase card transactions, and program management.

Gulf Coast Recovery Supplemental Appropriation. The *Department of Defense, Emergency Supplemental Appropriations to Address Hurricanes in the Gulf Of Mexico, and Pandemic Influenza Act of 2006* provided a \$198.3 million supplemental appropriation to reimburse VA for medical services.²

VA Employees Honored for Hurricane Relief Efforts. By unanimous consent, the U.S. Senate adopted a resolution of praise for VA employees for their heroic efforts following Hurricane Katrina. The resolution stated that before the storm hit, employees oversaw the evacuation of 166 patients in Mississippi and Louisiana and that employees had the foresight to transfer copies of electronic medical records from the health care system in New Orleans to other VA facilities so that those records would be available on a national level.³

Prior Hurricane After Action Reports. On December 15, 2004, after Hurricanes Charley, Frances, Ivan, and Jeanne had made landfall during the year, VHA's internal assessment revealed that major emergencies, such as hurricanes, usually require VHA to seek supplemental funds for cost reimbursements.⁴ Knowing that response timeframes are usually short in emergent situations, VHA concluded that designing a system for tracking impact costs could improve accuracy of VHA's accountability of recovery efforts. On December 23, 2005, VHA reported the completion of procedures to capture reimbursable and nonreimbursable expenditures for major emergencies.

² Public Law 109-148, December 30, 2005.

³ Senate Resolution 263, "Commending the Efforts of the Department of Veterans Affairs in Responding to Hurricane Katrina," October 3, 2005.

⁴ This issue is discussed in VHA's *After Action Report 2004, Hurricanes Charley, Frances, Ivan, and Jeanne*, dated December 15, 2004.

Scope and Methodology

To address the objectives of the audit, we interviewed operations and financial management employees at VISN 16; G.V. Sonny Montgomery VA Medical Center (VAMC); Jackson, MS; VA Medical Center Alexandria, LA; VA Gulf Coast Veterans Health Care System; the Michael E. DeBakey VAMC in Houston, TX; and at the VA Office of Finance and VHA's Office of the Deputy Under Secretary for Health for Operations and Management located at VA Central Office (VACO). We also reviewed impact cost reports, purchase orders, vendor invoices, receiving reports, accounts payable schedules, and submissions for allocations of supplemental appropriation funds. We conducted onsite work at the Michael E. DeBakey VAMC; the VA Gulf Coast Veterans Health Care System; the Alexandria VAMC in Alexandria, LA; the G.V. Sonny Montgomery VAMC and VISN 16 in Jackson, MS; and VHA's Business Liaison Office at VACO.

We assessed compliance with VA policies and Federal laws that addressed accounting and oversight of obligations and expenditures related to Hurricane Katrina damages reimbursable under the Gulf Coast recovery supplemental appropriation. In addition, we reviewed a number of background documents as well as Government Accountability Office reports and congressional testimony. On November 10, 2005, we attended the Senate Committee on Veterans' Affairs hearing on rebuilding the Gulf Coast following Hurricane Katrina.

Our scope covered the period August 29, 2005, to January 15, 2006. We conducted onsite work from December 6, 2005, to March 17, 2006. In planning and performing the audit, we relied on computer-generated data. To test the reliability of this data, we compared relevant electronic data elements with supporting expenditure and obligation documents. We found the computer-generated data to be sufficiently reliable for our audit objectives.

Our assessment of internal controls was reported to the PCIE Compendium of Hurricane Oversight and focused only on those controls related to our audit objective of determining whether controls over accounting for costs resulting from Hurricane Katrina relief activities were operating effectively. Our assessment was not intended to form an opinion on the adequacy of internal controls overall, and 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

Accounting Controls Needed Strengthening

Findings

Controls to account for disaster relief costs needed strengthening. We determined that improvements in key accounting controls could reduce the risk of unreliable tracking and reporting of disaster relief costs. Our audit revealed that when accounting for disaster relief costs, VHA needed to: (1) improve tracking and reporting, (2) establish fund control points, and (3) develop more comprehensive policies and procedures. We attributed the deficiencies to the lack of a reliable methodology to track and report costs related to Hurricane Katrina disaster relief activities. As a result, \$13.7 million (26 percent) of \$52.5 million was incorrectly accounted for as disaster relief costs. The \$13.7 million in overstated costs was comprised of routine medical costs, costs reported as both an obligation and expenditure, and estimated costs instead of actual costs. This could affect the availability of Gulf Coast Recovery Supplemental Appropriation funding.

The Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control*, dated December 21, 2004, requires that managers establish internal controls for financial reporting and for improving the accountability and effectiveness of Federal programs and operations. The proper stewardship of Federal resources is an essential responsibility of agency managers and staff.

Tracking and Reporting of Disaster Relief Costs Needed Improvement. As of February 2006, VHA identified \$52.5 million in disaster relief costs relating to Hurricane Katrina relief efforts. Our audit revealed \$13.7 million (26 percent) of the costs were incorrectly reported. We determined that: (1) \$11 million of routine medical services costs were included as disaster relief costs, (2) VHA's Business Liaison Center managers inadvertently reported \$1.9 million of modular building costs as both an obligation and expenditure, and (3) approximately \$0.8 million of estimated costs instead of actual costs were reported when accounting for computer equipment and employee lodging.

Routine Costs Were Identified as Disaster Relief Costs. Our audit revealed that routine medical services costs were identified and reported as disaster relief costs. Of the \$52.5 million in reported costs, we determined \$11 million (21 percent) was not related to relief efforts. The table on the following page depicts the costs.

Table 1. Routine Costs Reported as Disaster Relief Costs

Description of Routine Costs	Dollars (in millions)
Patient Care	\$ 8.5
Patient Prescriptions	1.6
Prescriptions Provided by Temporary Mobile Health Clinics	0.6
Patients Placed in Nursing Homes	0.2
Other Costs Associated with Patient Care	0.1
Total	<u>\$11.0</u>

On February 13, 2006, VISN 16 managers agreed that the initial \$10.4 million we identified should be classified as routine medical costs rather than disaster relief costs. VISN managers made the appropriate adjustment. The \$10.4 million consisted of \$8.5 million for patient care services, \$1.6 million for patient prescriptions, \$0.2 million of nursing home services for patients that were relocated, and \$0.1 million for various miscellaneous costs associated with patient care.

Subsequent to the \$10.4 million adjustment made by VHA, we identified an additional \$0.6 million for prescriptions provided by temporary mobile health clinics that were reported as disaster relief costs. These costs were actually normal operating costs for providing medical services to eligible veterans.

VHA Reported Costs as Both an Obligation and an Expenditure. VHA Capital Improvement Projects managers obligated \$7.1 million for site preparation and acquisition of two modular buildings, which were to be used as temporary administrative space for displaced employees from the VA Gulf Coast Veterans Health Care System. In January 2006, VISN 16 managers reported expenditures of \$1.9 million against the \$7.1 million obligation. VHA Business Liaison Office managers added the \$7.1 million obligation to VISN 16's reported expenditures. Consequently, the \$1.9 million for the buildings was reported as both an obligation and expenditure.

Disaster Relief Costs Included Estimates. We determined that a distribution of appropriated funds that included \$813,185 of estimated, not incurred, costs was requested. *The Department of Defense, Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico, and Pandemic Influenza Act of 2006* appropriated \$198.3 million to reimburse VA for medical services costs incurred related to the 2005 Gulf Coast hurricanes. The act explicitly states that distribution of funds from the supplemental appropriation is for actual expenses, not estimated or unobligated costs. The Acting Under Secretary of Health reported that VISN 16 and medical facility fiscal managers tracked and validated all distributed funds to ensure that they were utilized for actual costs incurred as a result of hurricane relief efforts rather than estimated costs.

Fund Control Points Should Be Established to Track Disaster Relief Costs. Three of the four facilities we visited had not established fund control points to account for

obligations and expenditures related to disaster relief costs reimbursable under the supplemental appropriation. We identified one instance where a fund control point was established to account for relief costs related to travel for displaced employees at the medical center at New Orleans, LA. As a result, VISN 16 managers had difficulty segregating hurricane-related expenditures from normal operating costs within the Financial Management System (FMS), VA's core financial computer accounting system.

More Comprehensive Policies and Procedures Should Be Developed to Track Disaster Relief Costs. More comprehensive policies and procedures were needed to account for Hurricane Katrina relief activities. The Department of Homeland Security issued the *National Response Plan (NRP)* in December 2004. The *NRP* provides the framework for each Federal agency to establish effective administrative control of funds and ensure that the costs incurred are consistent and reasonable. Within VA, the Office of Management has primary responsibility for developing a plan to identify relief costs for any Federally declared emergency.

While the Office of Management issued a handbook that requires VA to develop plans for the identification of costs related to any declared emergency, VHA had not established a comprehensive process for identifying, recording, and reporting relief costs.⁵ On August 30, 2005, VHA issued guidance via an e-mail requiring the use of a Microsoft Excel® template to gather Hurricane Katrina costs. The template categorized costs by operational, travel, equipment, and non-recurring maintenance. It further categorized the costs by appropriation. However, the guidance did not: (1) define costs related to Federally declared emergencies, (2) prescribe cost accounting procedures, or (3) provide a mechanism for segregating routine and declared emergency expenditures within FMS.

Conclusion

We concluded that VHA needs to strengthen controls over its accounting for disaster relief costs. For instance, we determined routine medical services costs were included in disaster relief costs, fund control points had not been established to account for obligations and expenditures related to disaster relief costs, and more comprehensive policies and procedures were needed to account for relief activities.

Recommended Improvement Action 1. We recommended that the Acting Under Secretary for Health:

- a. Establish controls or mechanisms to ensure costs resulting from Hurricane Katrina are accurately identified, recorded, and reported.

⁵ VA Handbook 0320, *Comprehensive Emergency Management Program*, dated March 24, 2005.

- b. Ensure the \$0.6 million for prescriptions provided by temporary mobile health clinics is not included as Hurricane Katrina disaster relief costs.
- c. Ensure funds distributed under *The Department of Defense, Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico, and Pandemic Influenza Act of 2006* are based on actual costs incurred.
- d. Establish fund control points to account for disaster relief costs.

The Acting Under Secretary for Health agreed with the recommendations. He reported that VISN 16 has already made significant progress in strengthening needed internal controls to ensure that costs incurred by Hurricane Katrina relief efforts are clearly tracked and validated. He also reported VHA will cooperate fully with the Offices of the Assistant Secretary for Management and the Assistant Secretary for Policy and Planning to develop comprehensive national policies and procedures to account for disaster relief costs. The improvement actions are acceptable, and we will follow up on the completion of planned actions.

Acting Under Secretary for Health Comments

**Department of
Veterans Affairs**

Memorandum

Date: December 21, 2006

From: Acting Under Secretary for Health (10)

Subject: **Audit of VHA's Accounting and Oversight of Hurricane Katrina Costs** (Project No. 2006-00595-R9-0057/
WebCIMS 367524)

To: Assistant Inspector General for Auditing (52)

1. Thank you for the opportunity to review and respond to this draft report. I concur with your findings and recommendations, and I am attaching the Veterans Health Administration's (VHA) plan of corrective action in response to each recommendation.

2. I wholeheartedly endorse your acknowledgment that VHA employees demonstrated heroic efforts throughout the hurricane's tragic aftermath, and commend all involved for the vital services they managed to sustain in support of our veterans, despite overwhelming obstacles. Under the circumstances, it is understandable that immediate humanitarian response took precedence over stringent documentation of expenditures. Nevertheless, lessons learned from the disaster point to a need for the Department to develop comprehensive national policies and procedures to account for disaster relief costs, as you also recommend. VHA will cooperate fully with the Offices of the Assistant Secretary for Management and the Assistant Secretary for Policy and Planning in this endeavor. VHA's Office of Finance and Office of Public Health and Environmental Hazards, in conjunction with the South Central VA Health Care Network (also known as the Veterans Integrated Service Network [VISN] 16), are also coordinating actions to develop and implement VHA-specific policy and standard operating procedures for fiscal management of disaster relief expenditures. I anticipate that the guidance will be finalized for field distribution by the end of February 2007.

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3. Regionally, VISN 16 has already made significant progress in strengthening needed internal controls to ensure that costs incurred by Hurricane Katrina relief efforts are clearly tracked and validated. For example, disaster relief fund control points have been established at all VISN medical centers. Through careful manual tracking of expenditures, VISN fiscal managers have also verified that all appropriated supplemental funds have been utilized for actual costs incurred by the hurricane. Related accounting records were reviewed with your auditors, who questioned a few items, particularly in relation to costs associated with prescriptions provided by the temporary mobile clinics, which you initially identified as "normal operating costs." Subsequent clarification of mobile clinic workload breakdowns, however, indicated that almost 70 percent of those prescriptions were actually provided to non-veterans, who, based on a decision by the Secretary, were not billed for the provided services. In addition, a portion of the remaining 30 percent of the prescriptions provided for veterans were assumed to be emergency replacements of lost medications. VISN 16 has subsequently completed a comprehensive review of pharmaceutical costs for prescriptions dispensed to veterans by the mobile clinics. Based on that analysis, \$641,237 of costs originally included in the emergency supplemental hurricane appropriations will be re-designated as normal operating costs and transferred back to the regular appropriation. This figure represents the reduced portion of the total retail price paid to supplier Wal-Mart (\$1,246,740) that VA would normally pay through our national purchasing agreements. The VISN also reports that unallocated funds still remaining from the supplemental appropriation will be used to cover additional actual hurricane-related costs that are anticipated during this fiscal year.

4. VISN 16's efforts have resulted in a broad range of cost accountability procedures that can be applied in any declared emergency situation. For example, the VISN is currently refining a mechanism that will provide for immediate activation of government purchase cards for multiple users in the event of another disaster. As I indicated earlier, VISN managers will work in close coordination with our national program offices to develop VHA's systemwide procedural guidance for disaster-related cost management.

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OIG Draft Report: Audit of Veterans Health Administration's Accounting and Oversight of Hurricane Katrina Costs (Project Number 2006-00595-R9-0057/WebCIMS 367524)

5. Hurricane Katrina and its aftermath have prompted increased scrutiny of our cost accounting processes at all organizational levels, and I am confident that in the unfortunate event of another national emergency, our medical facilities will be significantly better equipped to activate established operational procedures.

Thank you for your assistance is helping us to prioritize needed actions. If additional information is required, please contact Margaret M. Seleski, Director, Management Review Service (10B5), at 565-7638.

(original signed by:)

Michael J. Kussman, MD, MS, MACP

Attachment

VHA ACTION PLAN		
OIG Draft Report: Audit of Veterans Health Administration's Accounting and Oversight of Hurricane Katrina Costs		
(Project No. 2006-00595-R9-0057/WebCIMS 367524)		
Recommendations/ Actions	Status	Completion Date
<p>Recommended Improvement Action 1. We recommend that the Acting Under Secretary for Health:</p> <p>a. Ensure costs resulting from Hurricane Katrina are accurately identified, recorded, and reported.</p> <p><u>Concur</u></p> <p>VISN 16 and involved medical facilities continue to make significant progress in finalizing validation assessment of all Hurricane Katrina-related costs. Utilizing lessons learned from the Katrina disaster, the VISN will also work in close coordination with VACO program offices to develop standardized national operating procedures for system wide application in national emergency situations.</p> <p style="text-align: center;">In Process February 2007</p>		
<p>b. Ensure any non-Hurricane Katrina pharmaceuticals dispersed by temporary mobile health clinics are not included as disaster relief costs.</p> <p><u>Concur</u></p> <p>Hurricane-related prescription workload statistics for the mobile health clinics have subsequently clarified that almost 70 percent of the prescriptions were actually filled for non-veterans, who were not billed for the pharmaceuticals, following a decision by the Secretary. VISN 16 has recently completed an analysis of pharmaceutical costs for prescriptions dispensed to veterans from the mobile clinics. Based on the findings, \$641,237 of those costs will be re-designated as normal operating costs, and fund control adjustments will be made by the end of the First Quarter, Fiscal Year 2007.</p> <p style="text-align: center;">In Process January 2007</p>		

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VHA Action Plan/OIG Draft Report: **Audit of Veterans Health Administration's Accounting and Oversight of Hurricane Katrina Costs**

c. Ensure funds distributed under The Department of Defense, Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico, and Pandemic Influenza Act of 2006 are based on actual costs incurred.

Concur

VISN 16 and medical facility fiscal managers have carefully tracked and validated all distributed funds to ensure that they were utilized for actual costs incurred as a result of hurricane relief efforts. Accounting records were reviewed with the OIG auditors, and items in question were re-examined and validated, particularly in relation to costs associated with dispensing of prescriptions through the mobile health clinics.

Completed

d. Establish fund control points to account for disaster relief costs.

Concur

Disaster relief fund control points are now established in all VISN medical centers and other internal controls have been strengthened to ensure that the costs are tracked and validated.

Completed

Monetary Benefits in Accordance with IG Act Amendments

<u>Recommendation</u>	<u>Explanation of Benefit(s)</u>	<u>Better Use of Funds</u>
1a	<p>Ensure costs resulting from Hurricane Katrina are accurately identified, recorded, and reported. The \$13.7 million in overstated costs was comprised of routine medical costs, costs reported as both an obligation and expenditure, and estimated costs instead of actual costs. This could affect the availability of Gulf Coast Recovery Supplemental Appropriation funding.</p>	\$13.7 million

OIG Contact and Staff Acknowledgments

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Acknowledgments	Charles F. Chiarenza
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Thomas J. McPherson

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Report Distribution

VA Distribution

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