

VA Office of Inspector General

OFFICE OF AUDITS AND EVALUATIONS



Veterans Health Administration

*Audit of
Financial Management
and Fiscal Controls for
Veterans Integrated Service
Network Offices*

March 27, 2012
10-02888-128

ACRONYMS AND ABBREVIATIONS

CFO	Chief Financial Officer
DUSHOM	Deputy Under Secretary for Health for Operations and Management
ECF	Executive Career Field
FMS	Financial Management System
NUSF	Net Useable Square Feet
OCAMS	Office of Capital Asset Management and Support
OCFM	Office of Construction and Facilities Management
OIG	Office of Inspector General
OWMC	Office of Workforce Management and Consulting
PAID	Personnel and Accounting Integrated Data
VA	Veterans Affairs
VHA	Veterans Health Administration
VISN	Veterans Integrated Service Network

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Report Highlights: Audit of VHA's Financial Management and Fiscal Controls for Veterans Integrated Service Network Offices

Why We Did This Audit

The Veterans Health Administration's (VHA) 21 Veterans Integrated Service Network (VISN) offices oversee 152 VHA healthcare facilities and over 1,220 related community based outpatient clinics, nursing homes, and Vet Centers throughout the country. After 16 years, the VISN offices' expenses had increased over \$164.9 million, over 500 percent above the original estimate of \$26.7 million.

The audit assessed VISN office management controls and fiscal operations to determine if they promoted the proper stewardship of VA funds and resources; accountability, transparency, and effective oversight of VHA healthcare facilities; and compliance with VA policies. The audit resulted in two reports on the VISN offices. This report focuses on financial management and fiscal controls.

What We Found

VHA lacked budget formulation and execution controls and reliable staffing and expense data to monitor VISN offices and ensure the effective and efficient use of funds. As a result, VISN offices lacked adequate fiscal controls and accurate information to ensure transparency, accountability, compliance with policies, and the effective and efficient use of funds for areas such as travel, leased office space, and performance awards. VHA allowed its VISN offices to operate independently and maintained that their size did not merit the

establishment of separate fiscal controls. However, the growth in the offices' operational costs and the fiscal issues identified show that VHA needs to strengthen VISN office financial management and fiscal controls.

What We Recommended

We recommended the Under Secretary for Health implement a system of financial management and fiscal controls for the VISN offices.

Agency Comments

The Under Secretary for Health concurred with our findings and recommendations and provided appropriate action plans. We will follow up on the implementation of VHA's corrective actions.

A handwritten signature in black ink, reading "Belinda J. Finn".

BELINDA J. FINN
Assistant Inspector General
for Audits and Evaluations

TABLE OF CONTENTS

Introduction.....	1
Results and Recommendations	3
Finding 1 VHA Did Not Provide VISN Offices Adequate Fiscal Oversight.....	3
Finding 2 VISN Offices Lacked Adequate Fiscal and Administrative Controls for Selected Operational Areas	9
Appendix A Background	21
Appendix B Scope and Methodology.....	25
Appendix C Under Secretary for Health Comments	28
Appendix D OIG Contact and Staff Acknowledgments.....	33
Appendix E Report Distribution	34

INTRODUCTION

Objective

The audit assessed whether Veterans Health Administration (VHA) and Veterans Integrated Service Network (VISN) office officials effectively monitored VISN office operations. The audit assessed VISN office management controls and fiscal operations to determine if they promoted the proper stewardship of VA funds and resources; accountability, transparency, and effective oversight of healthcare facility operations and programs; and compliance with VA regulations and policies. This audit resulted in two reports on the operations of the VISN offices. This report addresses the VISN offices' financial management and fiscal controls.

Mission and Origin of VISN Offices

VHA established the VISN offices to improve access to medical care and ensure the efficient provision of timely, quality care to our Nation's veterans. In 1995, VHA submitted a plan to Congress called *Vision for Change* that restructured VHA field operations into VISNs. VHA estimated that 22 VISN offices could operate annually at a cost of about \$26.7 million or for approximately \$9.3 million less than the cost at that time to operate 4 medical regions. VHA specifically decentralized its budgetary, planning, and decision making functions to the VISN offices in an effort to promote accountability and improve oversight of daily facility operations.

Program Magnitude

The 21 VISN offices received \$35.4 billion and \$37.8 billion, respectively, in general purpose funding allocations in FYs 2010 and 2011 for their 152 healthcare facilities and their offices' operations. Based on data in VA's automated information systems, VHA's 21 VISN offices expended about \$164.9 million to support their own operations during FY 2010. VA's Personnel and Accounting Integrated Data (PAID) system reported that the VISN offices expended about \$124.9 million for the salaries and benefits of 1,098 staff. VA's Financial Management System (FMS) showed the offices expended an additional \$40.0 million (excluding centralized purchases made for healthcare facilities) for travel, rent, utilities, equipment, supplies, and services. Further, in FY 2011, PAID showed the VISN offices spent about \$202.5 million for the salaries, benefits, and related expenses of 1,495 staff.

Recent VISN Office Financial Management Changes

Prior to FY 2010, VHA did not require the VISN offices to account separately for their salaries and expenditures and allowed them to commingle their expenditures with those of the healthcare facilities in their regions. On October 1, 2009, VHA required the VISN offices to establish unique station numbers and fund control points (FMS accounts used to manage fund distributions and obligations) so their office expenditures could be monitored. As of FY 2011, VHA required the VISN offices to report their planned operating budgets.

***Data
Reliability
Issues
Affecting the
Audit***

When viewed within the context of the audit's objective and other available evidence, the VISN office data evaluated during the audit was sufficient to reach opinions, conclusions, and recommendations related to the VISN offices' operations. Nevertheless, the absence of accurate, complete, and reliable VISN office data and widespread lack of effective management controls increased the possibility that other reportable conditions affecting VISN office expenses may have existed at the time of our audit. More detailed information on the inaccurate expense data and data reliability issues is provided under Finding 1 and Appendix B.

RESULTS AND RECOMMENDATIONS

Finding 1 VHA Did Not Provide VISN Offices Adequate Fiscal Oversight

VHA lacked effective fiscal controls for its VISN offices, including budget formulation and execution processes and accurate and reliable financial data collection processes. Despite VA policies and procedures that promote sound fiscal control, VHA has not provided the VISN offices with effective fiscal oversight and ensured the implementation of effective fiscal controls at the VISN offices. While VHA fostered the autonomy of the VISNs, it overlooked the need for adequate fiscal controls and monitors at all levels of its organization, including the VISN offices. This lack of oversight occurred because VHA did not consider the VISN offices' fiscal activities to be significant enough when compared to those of its healthcare facilities to establish VISN office specific fiscal controls. As a result, VHA now lacks a VISN office financial management control system with which it can effectively evaluate and compare office performance, identify potentially problematic fiscal practices, and identify questionable and inefficient uses of funds.

Inadequate Budget Formulation and Execution Processes

Despite improvements initiated by VHA's Office of Finance in FY 2010, VISN offices still lacked adequate fiscal controls and accounting processes. VA financial policy requires its financial management system to have budget, accounting, and financial management reporting processes. These processes provide consistent information for budget formulation, budget execution, programmatic and financial management, and performance management. Budget formulation includes the analysis of the program performance needed to determine where an activity stands at present, where it is going, and whether alternative approaches can be used to better achieve objectives. Moreover, financial management systems capture and produce the financial information needed to measure program and financial performance and support budget and program management.

Despite these requirements, the Deputy Under Secretary for Health for Operations and Management's (DUSHOMs) office and VHA's Office of Finance had not implemented adequate budget formulation and execution processes for the VISN offices. Neither the DUSHOM's office nor VHA's Office of Finance had implemented any review and approval processes for the VISN office budgets. Moreover, they had not developed any guidance, policies, or processes to ensure the VISN offices developed accurate and reliable operating budgets and monitored their expenditures to stay within their budgets. As a result, VHA officials lacked the fiscal controls and data needed to effectively monitor the VISN offices'

performance and to review and compare the offices' performance relative to their budgets and expenditures.

VHA required the VISN offices to prepare and submit an operating budget for the first time in FY 2011, about 16 years after they were first established. However, discussions with VHA's Chief Financial Officer (CFO) and Deputy CFO disclosed that VISN Directors could still include any amount they deemed necessary in their fund control points to operate their offices. Similarly, every VISN Director could have a different philosophy regarding the distribution of the VISNs' medical care funding allocation, including the amount for the VISN offices' budget. The CFO stated that his office focused on outputs rather than inputs. He indicated that as long as the VISNs performed well relative to their performance measures and did not request additional medical care funding from his office, he was not concerned with how they spent funds.

During our site visits, we determined that VISN office staff generally formulated the offices' budgets based on historical information. However, VISN Directors had the flexibility to take additional funds from their other VISN-wide medical care accounts, such as reserves or equipment money, if the VISN office needed additional money. Furthermore, when VISN offices reported their FY 2011 operating budgets, VHA did not require them to itemize or justify the budget and did not monitor or hold them accountable for operating within their stated budgets. Consequently, in FYs 2010 and 2011, the VISN Directors retained the authority to redirect medical care funding from their healthcare facilities to their offices without any oversight despite the establishment of VISN office operating budgets.

***Inaccurate
Expense Data***

The DUSHOM's office and VHA's Office of Finance lack reliable expenditure data to monitor and evaluate VISN office operations. VA policy requires accounting and financial management information to be accurate and complete. Financial data are to be reported using uniform definitions to ensure consistency over time and allow the comparison of actual expenditures and costs with budgeted amounts. However, the VISN offices' expenditure data in VA's FMS and PAID systems were neither accurate nor complete because offices did not consistently capture their operating costs under the VISN office fund control points introduced in FY 2010. Some VISN offices included centralized purchases made on behalf of their healthcare facilities in their reported expenses. In addition, many offices still used healthcare facility fund control points to account for the salaries and other expenses of VISN office staff. As a result, we could not be sure that we identified all of the offices' staff and their related salaries and expenses.

We detected inconsistencies in the 21 VISN offices' staffing and related expense data but could only validate data for the 6 offices we visited. Even then, at these six VISN offices, we could not be certain that we had identified

and captured all of the VISN office staff maintained under the healthcare facilities' fund control points.

The VISN offices' failure to account for all of their staff under their fund control points in FMS and in the PAID staffing reports significantly reduced the reliability of their staffing and expenditure data. The VISN offices reported 1,098 staff in their FY 2010 PAID data even though they reported about 4,565 staff or about 316 percent more staff to the VA Secretary in FY 2009.¹ Consequently, the \$164.9 million in FY 2010 VISN office expenses reported in PAID and in FMS (adjusted to exclude expenses for centralized purchases) may be significantly understated because this data may not include the salaries and other expenses of up to 3,467 (76 percent) of the VISN office staff reported previously to the VA Secretary in FY 2009. Moreover, FY 2011 PAID information showed that the VISN office staffing totals had increased to 1,495 staff, but the total number of staff was still significantly less than the approximate 4,565 reported previously to the VA Secretary in FY 2009.

Based on our work, the reporting and accounting discrepancies in the number of VISN office staff are the result of the offices' confusion regarding who is a VISN office employee. An official in the DUSHOM's office stated that the VISN offices might be confused about how to account for "hoteling" staff the VISN offices house and pay for while detailed to support selected VHA healthcare initiatives. Based on the information provided by the VISN offices during the audit, the offices housed very few "hoteled" staff. The majority of the staff at the VISN offices assigned to support VHA programs and initiatives functioned as VISN office staff who were locally managed and evaluated by VISN managers.

Subsequently, we attributed the discrepancies in the number of VISN office staff to the VISN offices' confusion about accounting for "centralized" staff who performed administrative and support functions for all healthcare facilities in their respective VISNs. In many cases, VISN offices managed and/or paid staff who performed these functions for their VISNs' healthcare facilities, but not all of the VISN offices considered these "centralized" staff to be members of their office. As a result, VISN offices did not consistently report these positions and staff in PAID and FMS. Some accounted for the "centralized" staff under their healthcare facilities' fund control points while others accounted for them under their offices' fund control points.

¹ In FY 2009, the 21 VISN Directors provided VISN office staffing information along with other VISN-wide information such as geography, governance, and challenges to the then newly appointed VA Secretary.

**Inadequate
VISN Office
Fiscal
Monitors**

VHA did not monitor VISN office operating expenses to ensure expenditures were justified, represented the most effective and efficient use of limited medical care funding, and complied with VA regulations and policies. Government Accountability Office standards for internal control state that effective management control activities must occur at all levels and functions of an entity. Nevertheless, VHA has historically relied on the VISN offices to establish and implement their own fiscal monitors and controls. For example, the current DUSHOM and VHA's CFO considered the monitoring of the VISN offices' fiscal operations to be primarily the responsibility of the VISN Directors and VISN CFOs. VHA's attitude toward the VISN offices' fiscal operations appeared to stem from its historical view of the offices as small independent, managerial units, and the belief that their offices' operations were too small to merit the establishment of separate financial management controls.

A review of VISN office operating costs identified significant variances between offices. Further, the variances did not seem to have a strong relationship to variables such as the number of healthcare facilities in the VISN, complexity levels of the healthcare facilities in the VISNs, and the number of unique patients served.² Appendix A contains additional background information. Although we could not attest to the accuracy and reliability of VISN office expenditure data in VA's information systems, significant differences in the expenditures, similar to those discussed below, raised concerns:

- One VISN office that oversaw seven healthcare facilities of a higher complexity level with about 256,000 unique patients spent about \$5.9 million, while another VISN office that served about the same number of patients at the same number of facilities with lower complexity levels, spent \$9.7 million, or about 64 percent more.
- One VISN office spent \$2.6 million more than another VISN office, even though both offices oversaw healthcare facilities of about the same complexity, and the other VISN office oversaw five additional healthcare facilities with about 221,000 additional patients.

**Effects Of
Inadequate
Fiscal
Oversight**

Neither VHA nor the Office of Inspector General (OIG) can reliably evaluate the condition of the VISN offices' overall fiscal operations due to the absence of adequate financial management controls for VISN offices. The absence of budget formulation, budget execution, and expenditure controls, including the maintenance of accurate and reliable expense data, prevents an accurate and reliable assessment of the VISN offices' fiscal operations.

² VHA's Office of Quality and Safety defines complexity as characteristics of the patient population, clinical services offered (cardiac surgery is considered more complex than throat surgery), educational and research missions, and administrative complexities.

Disparities in the expenditures of the different VISN offices may be caused by several factors, such as geographical and regional differences between the VISNs, inaccuracies and inconsistencies in the PAID and FMS data, and operational inefficiencies within the VISN offices. However, VHA lacks the financial management information needed to discern whether the disparities between the offices are the result of legitimate regional cost differences, differing work requirements and needs, or operational inefficiencies. In effect, VHA cannot assess the overall reasonableness of the VISN offices' expenditures relative to their performance. Furthermore, VHA's lack of financial management and oversight for VISN offices also means that it lacks the controls needed to deter and identify problematic practices and questionable or inefficient uses of medical care funding at the VISN offices.

***Reasons for
Inadequate
Fiscal
Oversight***

Changes in VA and VHA management and the passage of over 16 years since the VISN offices' inception make it difficult to identify definitive causes for the lack of adequate fiscal oversight and controls for the VISN offices. Nevertheless, interviews with current VHA management officials and observations of current VISN office operations indicate that VHA's emphasis on decentralized management has facilitated the current lack of fiscal controls at the VISN offices. VHA has allowed the VISN offices to function as autonomous, decentralized VHA management structures vested with the full responsibility and authority to independently manage their regions' and offices' operations. Consequently, VHA has not felt it necessary to establish a comprehensive financial management control structure for the VISN offices.

Conclusion

Although VHA is not specifically required to account for VISN offices expenses, VHA, in our opinion, needs to implement an effective financial management control structure to ensure its VISN offices effectively and efficiently use funds that would otherwise be available for direct patient care and general administrative support requirements. At their inception, VHA estimated that the VISN offices would cost about \$26.7 million annually. However, after 16 years, the VISN offices' operating costs had grown to a minimum of \$164.9 million—over a 500 percent increase above VHA's original estimate. Further, this is probably a conservative estimate of the VISN offices' operating costs because the costs do not include the salaries and other expenses of staff who are still accounted for under the healthcare facilities.

VHA's decentralization of management and decision making to the lowest level possible at the VISN offices may provide a practical and effective model for the management and oversight of the day-to-day operations of its many, geographically dispersed healthcare facilities. However, the growth in the VISN offices' expenses over time emphasizes the need for VHA to comply with the Government Accountability Office standards on internal controls and to establish adequate fiscal oversight and controls at all levels of

its organization, including the VISN offices. More importantly, additional fiscal controls and improvements in data quality at the VISN offices are necessary in order for VHA to monitor and evaluate the VISN offices' performance relative to their operational costs. VISN offices also need to establish reasonable budgetary checks and balances over office expenditures in order to deter possible misuse and questionable uses of funds.

- Recommendations**
1. We recommended the Under Secretary for Health develop formal Veterans Integrated Service Network office budgetary guidance, budget planning and execution controls, and review and approval processes for significant Veterans Integrated Service Network office fund reallocations and/or expenditures that benefit their offices' administrative operations.
 2. We recommended the Under Secretary for Health develop guidance and implement monitors to ensure Veterans Integrated Service Network offices maintain accurate, complete, and reliable office data in the Financial Management System and Personnel and Accounting Integrated Data system.
 3. We recommended the Under Secretary for Health establish fiscal monitors for the Veterans Integrated Service Network offices to ensure the reasonableness of the offices' expenses relative to their budgets, operational needs, and performance outcomes.

**Management
Comments**

The Under Secretary for Health agreed with our findings and recommendations, and plans to address our recommendations by June 30, 2012. VHA will require the VISN offices to maintain operating budgets, and the DUSHOM to review and approve significant variances from the budgets and realignments in VISN funding. In addition, VHA will establish accounting guidance for VISN staff and centralized support functions and purchases in order to monitor budget execution against approved operating plans and to ensure the accuracy of data in VA automated information systems. The DUSHOM will be responsible for monitoring VISN office budgets, financial execution, operating needs, and performance outcomes; providing needed reviews and approvals; and taking appropriate corrective actions.

OIG Response

The Under Secretary provided a responsive action plan to address our recommendations. We will monitor the Department's progress and follow up on its implementation until all proposed actions are completed. Appendix C provides the full text of the Under Secretary's comments.

Finding 2 VISN Offices Lacked Adequate Fiscal and Administrative Controls for Selected Operational Areas

VISN offices lacked adequate fiscal and administrative controls to prevent the inefficient use of funds and deter the possible misuse of funds for travel, leased office space, and performance awards. The lack of accountability and transparency in the VISN offices' fiscal operations and, in some cases, the failure of VISN office staff to adhere to VA policies and procedures increased the potential for the waste and misuse of funds. Multiple factors contributed to the lack of adequate fiscal and administrative controls at the VISN offices.

VHA allowed the VISN offices to operate without adequate fiscal oversight and gave them control over the distribution of their healthcare facilities' medical care allocations as mentioned under Finding 1. At the same time, the VISN Directors and managers who controlled the offices' expenditures were not always aware of pertinent VA policy requirements nor were required to operate consistently in accordance with VA policies and regulations. Finally, VISN Directors also, in some instances, made questionable fiscal and administrative decisions and did not establish adequate administrative controls for their offices.

Inadequate Monitoring and Justification of VISN Office Travel

VHA lacks reasonable assurance that VISN offices effectively used travel funds. VISN office managers did not adequately monitor staff's travel and ensure all trips were justified. According to the available FY 2010 PAID and FMS data, travel constituted the VISN offices' third largest annual expenditure behind salaries and other contractual services. However, VHA lacked the ability to effectively monitor and review VISN office staff's travel because offices still accounted for some staff under their healthcare facilities station codes in FedTraveler instead of their offices. FedTraveler is VA's one-stop automated travel system where travelers obtain travel authorizations; make airline, hotel, and car rental reservations; and file for travel expense reimbursements.

FY 2010 FMS data for the 21 VISN offices showed that they spent approximately \$10.5 million for travel, but VISN office FedTraveler data only showed 8,245 VISN office staff trips totaling \$8.6 million (82 percent). The FMS data shows all of the trips billed to the VISN offices' FMS accounts. However, we had to extract the VISN offices' FedTraveler trip information from FedTraveler using the VISN offices' station codes. Thus, a VISN employee's trip billed to a VISN office's account in FMS would not be readily identifiable in FedTraveler if the employee's user profile in FedTraveler listed the employee under a healthcare facility's station code instead of a VISN office's station code. As a result, we believe the trip information associated with the remaining \$1.9 million (18 percent)

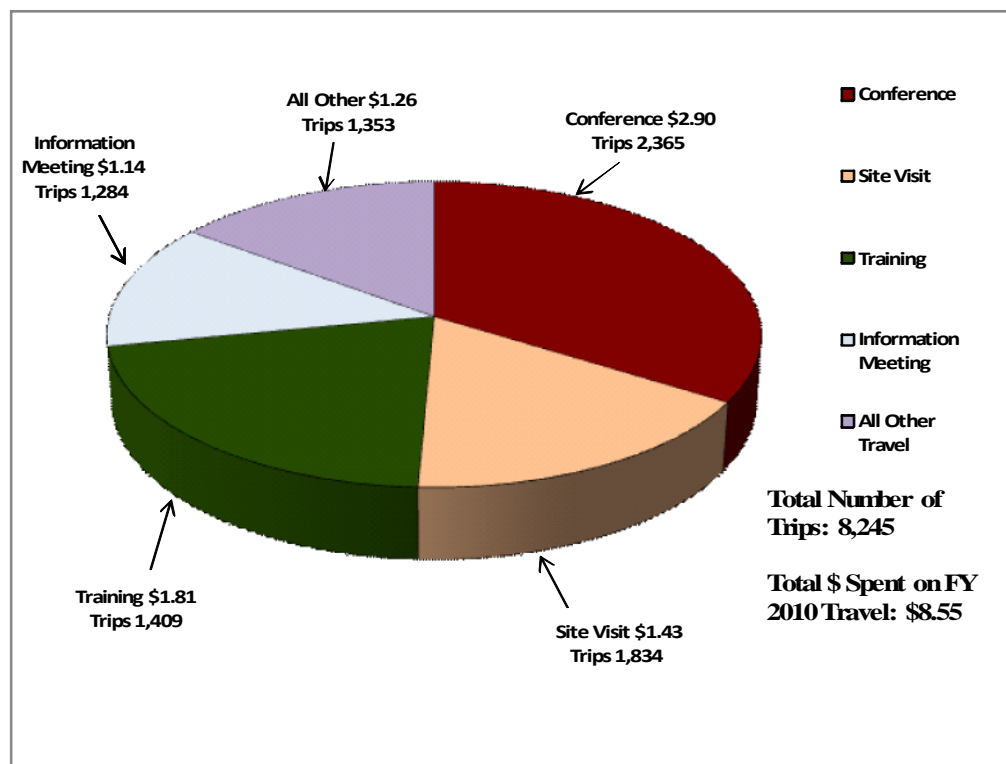
in VISN office travel is in FedTraveler, but commingled with that of the healthcare facilities. The commingling of the information reduced the transparency of the VISN offices' travel information and prevented the completion of a comprehensive national review of VISN office travel.

*Lack of
National
Oversight for
VISN Office
Travel*

Reviews of available FedTraveler FY 2010 data disclosed that VISN office staff traveled extensively for the stated purpose of attending conferences. VISN office staff made at least 2,365 trips totaling \$2.9 million (34 percent) to attend conferences and a minimum of 5,880 trips totaling \$5.6 million (66 percent) for training, informational meetings, site visits, invitational travel, speeches, and presentations. The figure shows the number of VISN office trips and total trip costs categorized by the stated purpose for the trip recorded in FedTraveler.

Figure

**VISN Offices' FY 2010 Travel Expenditure and Trip Information
(Dollar Figures are in Millions)**



Source: VA OIG

The amount of travel, especially to attend conferences, raised concerns about whether all of these trips were essential to the VISN offices' mission. However, we could not perform a systematic review of the issue because of inconsistencies in the recorded data. Neither VHA nor the 21 VISN offices had given staff guidance to ensure the consistent categorization of trips in FedTraveler. For example, VISN office staff traveling to attend a meeting at

a healthcare facility or headquarters categorized a trip as a "Conference" while another traveler categorized the same trip as a "Site Visit." Although the consistent use of FedTraveler could have promoted accountability, transparency, and the effective and efficient use of funds, VHA officials did not ensure the system's capabilities were effectively used to monitor and control travel for the VISN offices.

*Inadequate
Local
Monitoring of
VISN Office
Staff Travel*

Our site work also disclosed that local VISN officials did not always effectively monitor staff travel. Three of the six VISN offices we visited had not established local travel policies until immediately before or after we conducted our site visits. Moreover, managers at the six VISN offices visited did not always ensure supervisors verified the need for trips before travel clerks or other non-supervisory staff approved the trips in FedTraveler. As a result, VHA and managers at the VISN offices could not always provide reasonable assurance that the trips were justified. Three VISN offices had formal processes while the other three offices had informal processes whereby travelers notified their supervisors verbally or through email of their travel. Further, some travel clerks never knew if the supervisors had reviewed the justification and need for the travel before they approved trips in FedTraveler. Also, some travel clerks reviewed and approved their supervisor's travel, thus, creating a potential conflict of interest in the review process.

Although we only reviewed the travel practices of six VISN offices, the use of travel clerks and non-supervisory staff to review and approve travel was common across the offices. During FY 2010, 15 of the 21 VISN offices used travel clerks and non-supervisory staff to approve about 2,044 trips totaling about \$2.1 million in FedTraveler. The inadequate review and approval of travel by travel clerks and non-supervisory staff increases the risk of the improper use of program funds because the funds may not actually be used to accomplish appropriate work requirements. Supervisory reviews are a fundamental financial management control over expenditures.

*Inadequate
Monitoring of
VISN Office
Leases and
Related Costs*

VHA does not effectively monitor expenses related to the VISN offices' leased office space. Our review of the leases of 12 VISN offices (that initiated new leases or amended existing leases during FYs 2009 and 2010) disclosed the offices had obtained VA-required reviews and approvals. VA policy requires the VA Secretary to approve leases with over \$300,000 in annual un-serviced rent (rent excluding the cost of support services, such as janitorial services). Further, the policy requires VA's Office of Construction and Facilities Management (OCFM) to approve leases under \$300,000 with more than 10,000 net usable square feet (NUSF) and local officials to approve leases under 10,000 NUSF. Thus, VA does not require VISN offices to obtain additional reviews and approvals of any costs incurred after the initial lease, unless the office adds more than 10,000 NUSF to the lease.

Costs
Associated
With Leased
Office Space
Were Not
Closely
Monitored

VA's current review and approval processes for office space leases do not provide effective fiscal oversight and promote transparency and accountability in the VISN offices' use of funds. The 12 VISN offices complied with VA policy and obtained appropriate approvals of their initial 10-year leases (5 years base period with 5 option years). Moreover, 3 of the 12 VISN offices obtained approval from VHA to add less than 10,000 NUSF to their leased office space at a cost of \$3.5 million over 10 years even though they were not required to do so under VA policy. Nevertheless, existing VA policy gives VISN offices broad latitude to expend additional funds on leases after their initial review and approval.

Table 1 shows the total amount of the additional expenses that have or will be incurred over the 10-year life of the VISN office leases, but for which VA does not require any additional review and approval. We assigned VISN offices letters sequentially in Table 1 based on their total lease costs. Further, VISN offices "B," "D," and "E" obtained VHA's approval to add less than 10,000 NUSF to their leases although VA policy did not require it. Nevertheless, the total amount of the additional lease related expenses that did not require review and approval, in some cases, almost equaled the cost of the original lease.

Table 1. Additional Expenses Associated With VISN Office Leases After Their Initial Approval						
VISN Offices	Number of Leases	Cost of Initial Leases	Cost of Support Services	Cost of Additional Space	Tenant Improvement Cost	Total Additional Costs (Services+ Expansion+ Improvements)
A	1	\$5,520,330	\$3,397,480	\$0	\$1,589,858	\$4,987,338
B	3	1,336,457	766,540	2,809,941	151,073	3,727,554
C	1	2,440,053	1,742,900	0	179,134	1,922,034
D	2	2,255,492	1,410,310	471,992	146,008	2,028,310
E	2	2,522,000	779,900	252,200	749,123	1,781,223
F	1	3,622,750	0	0	222,812	222,812
G	2	2,973,070	0	558,610	0	558,610
H	1	2,999,510	0	0	2,257,860	2,257,860
I	3	1,398,083	198,860	0	0	198,860
J	1	185,664	91,536	0	12,375	103,911
K	1	993,973	452,740	0	0	452,740
L	1	542,745	346,700	0	0	346,700
Total	19	\$26,790,127	\$9,186,966	\$4,092,743	\$5,308,243	\$18,587,952

Source: VISN lease documents

VISN offices can spend whatever they deem necessary without any additional reviews and approvals on support services, renovations and improvements of the leased space, and additional space as long as it does not exceed 10,000 NUSF. The lack of oversight regarding these other expenses along with the VISN offices' ability to redirect funds to their offices from their healthcare facilities fund allocations increases the risk for questionable and inefficient uses of funds.

Although the initial office leases for the 12 VISN offices totaled about \$26.8 million, the leases' additional costs will add another \$18.6 million by the end of the 10-year period. Consequently, 9 of the 12 offices will spend \$9.2 million to service their office space over the 10-year life of their leases; 8 spent about \$5.3 million on office space improvements before they moved in; and 4 have committed an additional \$4.1 million to add space to their existing leases.

*VISN Offices
Were Not Held
to Space
Standards*

A comparison of the VISN offices' space plans against VHA space standards disclosed that 9 of the 12 reviewed offices exceeded VHA space standards, thus increasing their lease costs by over \$280,000 annually, or about \$2.8 million over the life of the leases. VHA's Office of Capital Asset Management and Support (OCAMS), formerly known as Capital Asset Management and Planning Service, developed space standards in FY 2009. These standards addressed VISN office leases in excess of 10,000 NUSF in order to meet General Services Administration space guidelines and to ensure consistency and fairness in the leasing of office space.

However, OCAMS did not disseminate this guidance to VISN offices if their leases were under 10,000 NUSF. In addition, OCAMS generally did not try to hold VISN offices to these standards. For example, OCAMS allowed two offices to have two VISN Director's offices that totaled 540 and 385 square feet, respectively, even though the standard stated the space should be about 200 square feet. In another case, OCAMS reviewed a space plan for over 10,000 NUSF and permitted the VISN office to acquire an additional 3,018 NUSF beyond what was allowed by the space standards for 4 conference rooms and 7 vacant offices at an additional annual cost of about \$76,000.³

OCAMS office acknowledged that it was not comfortable enforcing the space standards due to the grades of VISN Directors and that it relied on the VISN Directors to be responsible. In our opinion, the VISN offices expended additional funds on their leased office space without adequate oversight from VHA and the DUSHOM's office. The lack of fiscal oversight, transparency, and accountability for the expenses related to the

³ This same VISN office also spent \$152,375 to furnish these four conference rooms and seven vacant offices.

VISN offices' leased office space raises concerns that VHA has not adequately reviewed and considered the VISN offices' use of funds for leased office space despite the long-term and high-value financial commitments involved in these lease arrangements.

***Inadequate
Controls Over
VISN Office
Performance
Awards***

VHA does not effectively control and monitor the amount of funding VISN offices receive and use for performance awards (special contribution and annual performance awards). Each fiscal year, VHA's Office of Workforce Management and Consulting (OWMC) allocates funds to VISN offices and healthcare facilities for performance awards based on the number of senior, mid-level, and front-line managers they have identified in their Executive Career Field (ECF) Bonus Pools. OWMC relies strictly on the staffing information provided by the VISN offices and computes the offices' performance award allocations based on the number of staff the offices identify as members of the ECF Bonus Pool. VISN offices have the discretion to allocate more funds for performance awards than the amount set by the VHA ECF Bonus Pool allocation because they control their healthcare facilities' medical care funding allocations.

***ECF Bonus
Pool Allocations
Are Not Linked
to VISN Office
Performance***

The ECF Bonus Pool allocations the VISN offices receive for performance awards are not based on their offices' ECF performance measurement scores. VHA's performance management system embodied by the ECF system consists of three critical and two non-critical performance elements. The critical performance elements weighted more heavily in the VISN Directors' performance plans include several performance measures in the areas of clinical performance, business practices, and transformational core competencies. According to the OWMC Workforce, Planning, Performance and Awards Director, the intent of the ECF Bonus Pool is to support the fulfillment of ECF measures by rewarding managers whose offices and/or facilities successfully meet their ECF measures.

Nevertheless, the OWMC Workforce, Planning, Performance and Awards Director acknowledged that the OWMC uses the number of managers at the VISN offices to establish the ECF Bonus Pools because it provides a simple allocation methodology. Consequently, we found inconsistencies between ECF Bonus Pool allocations and VISN office performance measurement scores similar to those presented in the following example.

- The VISN office that received the highest ECF Bonus Pool allocation in FY 2010 of about \$181,000 met 89 percent of its critical performance measures and 97 percent of its non-critical performance measures. However, a comparably sized VISN office that met 93 percent of its critical performance measures and 89 percent of its non-critical performance measures received only about \$128,000 or \$53,000 (29 percent) less than the office that received the largest ECF Bonus Pool allocation. Moreover, the second VISN office served

about the same number of patients, had facilities of about the same complexity level, but oversaw two more healthcare facilities than the office that received the highest allocation.

Supplementation of ECF Bonus Pool Allocations

Sixteen VISN offices supplemented their \$2.0 million in FY 2010 ECF Bonus Pool allocations with an additional \$1.7 million from their medical care allocations. Thus, they issued performance awards totaling \$3.7 million to 705 VISN office staff. The remaining five VISN offices used about \$220,000 (31 percent) less than their \$716,000 in allocations for performance awards. Under VA's ECF Bonus Pool formula, the 21 VISN offices received ECF Bonus Pool allocations totaling \$2.7 million in FY 2010. Our discussion with VHA's CFO disclosed that the VISN Directors could add funds to their offices' ECF Bonus Pool as long as they did not request additional funds from VHA.

Table 2, provides performance award data for the 16 VISN offices including the total number and amount of the awards, the VISN office's average award amount, and the total amount used to supplement the ECF Bonus Pool allocation. In Table 2, we sequentially assigned the VISN offices letters based on the total amount of their performance awards reported in the PAID system under the VISN offices' station numbers.

The Total Performance Award Amount column in Table 2 provides a conservative estimate of the total dollars the 16 VISN offices may have used for performance awards because we could not identify the award costs of staff accounted for under the healthcare facilities' station numbers and fund control points. For example, one VISN office gave 47 of 55 staff listed in PAID under its station number about \$222,000 in awards. However, this amount does not include any awards the VISN office's managers may have given some of the 107 centralized and other VISN office employees accounted for under the healthcare facilities' station numbers.

Table 2. FY 2010 Performance Award Data for VISN Offices That Exceeded Their ECF Bonus Pool Allocations						
VISN Office	Number of Employees with Awards	Number of Awards	Average Award Amount	Total ECF Bonus Pool Allocation	Supplemental Medical Care Funding	Total Performance Award Amount
A	72	119	\$3,101	\$138,960	\$230,076	\$369,036
B	102	117	3,106	147,995	215,431	363,426
C	42	89	3,807	132,204	206,620	338,824
D	49	94	3,291	122,585	186,812	309,397
E	36	79	3,794	119,209	180,506	299,715
F	58	107	2,337	128,137	121,950	250,087
G	45	116	2,118	153,367	92,291	245,658
H	35	82	2,766	159,716	67,066	226,782
I	47	67	3,311	180,883	40,984	221,867
J	36	67	3,018	116,743	85,492	202,235
K	42	59	3,073	138,083	43,225	181,308
L	20	38	4,507	118,520	52,730	171,250
M	39	58	2,936	90,240	80,054	170,294
N	32	48	2,988	94,417	48,992	143,409
O	27	33	3,657	91,040	29,653	120,693
P	23	36	2,592	92,129	1,185	93,314
Totals	705	1,209	\$3,066	\$2,024,228	\$1,683,067	\$3,707,295

Source: VA PAID and OWMC ECF Bonus Pool Data

Similarly, we could not verify the accuracy and completeness of the award data for the remaining five VISN offices displayed in Table 3. However, the Total Performance Award Amount data for the five remaining VISN offices shows that they spent over \$221,000 less than their \$716,000 in FY 2010 ECF Bonus Pool allocations on performance awards.

Table 3. VISN Offices That Did Not Appear to Exceed Their ECF Bonus Pool Allocations						
VISN Office	Number of Employees With Awards	Number of Awards	Average Award Amount	Total ECF Bonus Pool Allocation	Total Performance Award Amount*	Difference: ECF Allocations Less Total Award Amount
A	37	48	\$3,392	\$181,135	\$162,827	\$18,308
B	30	55	1,907	133,180	104,880	28,300
C	16	35	2,900	152,929	101,485	51,444
D	26	27	2,759	116,668	74,500	42,168
E	16	24	2,131	132,318	51,142	81,176
Totals	125	189	\$2,618	\$716,230	\$494,834	\$221,396

Sources: PAID and OWMC ECF Bonus Pool Data

Finally, we noted that the ECF Bonus Pool allocations could also be calculated using inaccurate staffing data because OWMC does not verify the staffing data provided by the VISN offices. In at least one instance, one office we visited had erroneously included seven staff, including program support staff, in its ECF Bonus Pool.

A comparison of the average performance award amount for VISN office and VHA staff (excluding Senior Executive Service and physicians from both groups) found that award recipients at the 21 VISN offices averaged about \$3,000 per recipient while VHA-wide award recipients averaged about \$1,000.⁴ Thus, VISN office staff received award amounts that were about 200 percent higher than those of VHA-wide staff (200 percent difference = \$3,000 average VISN office staff award amount less \$1,000 average VHA-wide staff amount/\$1,000 average VHA-wide staff amount). Although many factors may contribute to this disparity in the award amounts, one major factor is the discretion that VISN Directors have to supplement their ECF Bonus Pool allocations with additional funds from the VISNs' medical care fund allocations to pay for performance awards.

*Inadequate
Local VISN
Office Award
Justifications
and Approvals*

At four of the six VISN offices visited, managers did not always properly justify and approve performance awards in accordance with VA policy. Fifty-three of the 265 (20 percent) awards we reviewed at the 4 VISN offices totaling about \$343,000 either lacked proper approvals and/or adequate justifications. VA policies require awards, including student loan

⁴ VA OIG Analysis of FY 2010 data derived from VHA Support Services Center and Resource Management's Human Resources Awards Report.

repayments, to be approved by an official at least one level higher than the recommending official and to be adequately justified. VA Handbook 5017 states special contribution awards and/or annual performance awards should be used to recognize an act, service, or performance exceeding normal job expectations. Therefore, justifications for special contribution awards and annual performance awards should describe a specific contribution or performance that benefits VA and includes specific supporting facts. VA Handbook 5007, which covers student loan repayments, also indicated that recommendations must include properly written determinations that the staff who receive the awards are highly qualified candidates or candidates who would likely leave Federal service if they did not receive the student loan repayment awards.

Nevertheless, the four VISN offices tended to use templates or generic language to justify annual performance awards and special contribution awards, including student loan repayments. The justifications used language such as the staff member *displayed outstanding leadership skills*, was *highly qualified*, and *communicates effectively*, without providing specific supporting examples or quantifiable support. For example, a brief justification for a \$4,000 special contribution award included only general statements, such as the staff person is a valued member and completed various tasks effectively and efficiently. Finally, at two of the six VISN offices we visited, seven awards, totaling about \$43,000, lacked approval from an appropriate higher official. For four of the seven awards ranging in value from \$1,500 to \$2,500, the same official—the VISN Director, Deputy VISN Director, or Chief Medical Officer—signed as both the recommending and approving official.

These deficiencies occurred because VISN Directors and/or senior-level managers relied on self-assessments and/or templates. They did not thoroughly review the awards before they processed them, and they were unaware of VA requirements stating that approving officials should be at least one grade higher than the recommending officials. Again, effective controls, such as supervisory reviews, are critical to ensuring adequate stewardship of funds expended.

**Effects of
Inadequate
Fiscal and
Administrative
Controls**

Inaccurate financial data for VISN offices, the lack of fiscal oversight, as well as the VISN offices' failure to adhere to VA policies, created a lax fiscal environment. The deficiencies related to the VISN offices' use of funds for travel, office space, and performance awards demonstrated a general lack of accountability and transparency in the offices' fiscal and administrative operations. The absence of adequate fiscal controls increased the risk of inefficiencies and the misuse of funds at the VISN offices. Moreover, the lack of fiscal controls may reduce the public's overall confidence in the effectiveness and efficiency of the VISN offices' operations because VHA

cannot adequately justify the offices' use of funds for their operations instead of direct patient care.

**Factors
Contributing
to Inadequate
Fiscal and
Administrative
Controls**

VHA's belief in decentralized management and the delegation of budgetary authority to the lowest level possible led to the current weaknesses in the VISN offices' local fiscal environment. Further, VHA's belief that VISN offices did not need specific controls due to their insignificant size relative to the healthcare facilities was also a major contributing factor. The effects of these beliefs on the VISN offices' financial management structures and practices is exemplified by the 15-year delay in the establishment of unique VISN office station numbers and fund control points and reporting of VISN office budgets. Consequently, VHA never provided adequate fiscal oversight to ensure VISN office officials implemented sound financial management and fiscal policies within their offices.

Conclusion

VHA needs to establish a comprehensive financial management control structure and improve the quality of data for the VISN offices to ensure their offices effectively and efficiently use funds and promote accountability and transparency in their fiscal operations. Although our audit examined selected aspects of the VISN office's operations, the lack of fiscal oversight at the national and local levels and related control deficiencies at the offices appear to be indicative of the VISN offices' overall management environment. Strengthened financial management and fiscal controls and accurate and complete data for the VISN offices would ensure the adequate justification of the VISN offices' use of medical care funds for travel, leased office space, performance awards, and other administrative activities where expenses are incurred in support of direct patient care.

- Recommendations**
4. We recommended the Under Secretary for Health establish management controls for Veterans Integrated Service Network office staff travel to include: the correct assignment of station codes in Veterans Integrated Service Network staff's FedTraveler user profiles; the issuance of guidance to ensure the consistent categorization of trip purpose; and the proper local review, justification, and approval of needed travel.
 5. We recommended the Under Secretary for Health ensure that the 15 Veterans Integrated Service Network offices review FYs 2010 and 2011 travel approved by non-supervisory staff; where indicated, take action regarding inappropriate travel; and provide a certification of the review's completion and a summary of the review's results to the VA Office of Inspector General.
 6. We recommended the Under Secretary for Health, in coordination with VA's Office of Construction and Facilities Management, develop policies and procedures to ensure the adequate review and approval of all

significant expenses related to the office space leases of Veterans Integrated Service Network offices.

7. We recommended the Under Secretary for Health develop policies and procedures to ensure Veterans Integrated Service Network offices adhere to space standards when they lease office space.
8. We recommended the Under Secretary for Health monitor Veterans Integrated Service Network offices' performance awards to ensure the reasonableness of award allocations and award amounts and the proper justification and approval of awards in accordance with VA policy.

**Management
Comments**

The Under Secretary for Health agreed with our findings and recommendations, and plans to address our recommendations by December 31, 2012. VHA and the VISN offices will initiate various actions to strengthen VISN travel administration, local policies, and review and approval processes. In addition, VHA has undertaken a review of the appropriateness of FYs 2010 and 2011 VISN travel and plans, where indicated, to take appropriate corrective action. VHA has also revised VISN travel practices to include a management process to certify the need for travel, and VHA will provide a copy of these certifications and a summary of its review results to the OIG. Furthermore, VHA will establish a review and approval process for expenses related to VISN office leases; guidelines for VISN office space; and periodic reviews of space utilization. Finally, VHA will also monitor the use of VISN office awards and ensure they are properly justified and approved.

OIG Response

The Under Secretary provided a responsive action plan to address our recommendations. We will monitor the Department's progress and follow up on its implementation until all proposed actions are completed. Appendix C provides the full text of the Under Secretary's comments.

Appendix A Background

Mission and Origin of VISN Offices

In 1995, VHA submitted a plan to Congress called *Vision for Change* that restructured VHA field operations from 4 medical regions to 22 VISN offices (currently 21). VHA initiated the reorganization to:

- Redistribute VHA healthcare resources to better meet veterans' needs.
- Encourage innovative approaches to improve veterans' access to VHA health care.
- Decentralize decision-making and operations.

According to the *Vision for Change*, the size and complexity of the individual VISNs would determine the VISN offices' staffing allocations. During the initial reorganization that formed the VISNs, VHA expected the VISN offices' to have between 7 to 10 full time equivalent staff and staffing to be the offices' largest recurring cost. VHA estimated that the VISN office management structure costs would be about \$26.7 million or approximately \$9.3 million less than the cost associated with the four medical regions in existence at that time.

Program Office Responsibilities and Current VISN Data

Currently, the DUSHOM's office in VHA oversees the VISN offices and provides the VISN Directors broad and general operational direction and guidance. In addition to budget and planning responsibilities, VISN offices provide guidance and oversight to healthcare facilities and advice to the DUSHOM's office in the following program areas:

- The system-wide ongoing assessment and review strategy
- Clinical quality management
- Capital asset management
- Safety and health
- Environmental and engineering programs

Moreover, the role of the VISN offices has evolved significantly due to the centralization and consolidation of service lines and the increased oversight needed for clinical and administrative areas for their 152 VHA healthcare facilities and over 1,220 related community based outpatient clinics, nursing homes, and Vet Centers throughout the country.

Table 4 provides current VISN data including the number of healthcare facilities in the VISN, average complexity-level, number of unique patient served, and total reported VISN office expenditures (excluding centralized expenses). The VISN offices' total expenditures may be understated because

the VISN offices did not always report all of their staff and related expenses under their offices' fund control points in FMS and PAID.

Table 4. FY 2010 VISN Data				
VISN Office	Healthcare Facilities	VISN-Wide Complexity	Unique Patients Served	Total Expenditures
17: Arlington, TX	5	High	278,269	\$16,003,551
08: Bay Pines, FL	7	High	543,991	12,739,429
09: Nashville, TN	7	High	286,688	10,053,959
18: Mesa, AZ	6	Medium	260,771	9,955,729
20: Vancouver, WA	7	Medium	255,066	9,689,359
04: Pittsburgh, PA	10	Low	314,881	9,232,004
11: Ann Arbor, MI	8	Low	263,085	8,477,794
23: Minneapolis, MN	9	Low	307,501	8,430,715
05: Linthicum, MD	4	High	143,035	8,368,568
03: Bronx, NY	8	Medium	183,332	7,413,147
16: Ridgeland, MS	11	Medium	482,348	7,312,061
06: Durham, NC	8	Low	314,403	7,193,000
07: Duluth, GA	10	Medium	360,672	6,742,984
10: Cincinnati, OH	5	Medium	215,898	6,457,053
22: Long Beach, CA	5	High	292,614	6,226,643
12: Hines, IL	7	High	256,392	5,937,757
21: Mare Island, CA	7	Medium	270,331	5,808,950
15: Kansas City, MO	9	Medium	240,675	5,673,070
19: Glendale, CO	6	Low	179,188	5,660,379
01: Bedford, MA	8	Low	246,432	4,740,552
02: Albany, NY	5	Low	138,028	2,874,332
Totals	152		5,833,600	\$164,991,034

Sources: VHA and VA's FMS

Other VA and VHA Program Offices

VA's Office of Finance is responsible for continually improving the quality of VA's financial services. It maintains stewardship of VA's resources and provides financial information, financial statements, and reports on VA's appropriations and funds (general, revolving, special, and deposit) for cost and obligation accounting. The Office of Finance establishes financial

policy for all VA financial entities, provides guidance on all aspects of financial management, and directs and manages the VA's financial operations and systems support, such as FMS (VA's core accounting system) and PAID (VA's payroll and human resource system).

VHA's CFO and VHA's Office of Finance provide budget formulation, planning, monitoring, and execution activities for VHA appropriations and accounts and perform the financial management and resource allocation planning function. In addition, VHA's CFO is responsible for the establishment and implementation of VHA policies and procedures on matters related to financial management and accounting, internal controls management, and systems' compliance with external and VA requirements and guidelines. VHA's Office of Finance provides fiscal guidance and policies to VISN Directors. However, the VHA CFO has no direct line authority over the VISN offices.

OCFM is a staff office under the Office of Acquisition, Logistics, and Construction. OCFM is responsible for the planning, design, and construction of all major construction projects greater than \$10 million. In addition, OCFM acquires real property for VA use through the purchase of land and buildings, as well as long-term lease acquisitions.

VISN offices that wish to lease office space over the 10,000 NUSF threshold must submit a lease package to OCFM. The lease package must include a justification to lease office space off of VA healthcare facility grounds, estimated lease cost and NUSF space for the VISN office, and a market analysis of the possible locations and leased space under consideration. After a lease package is reviewed, the Chief of Real Property sends the approved memo to the VISN Director. In addition, if the lease cost exceeds \$300,000 in annual un-serviced rent, the lease package is forwarded to the VA Secretary through OCFM.

OCAMS is a staff office under the DUSHOM. VA created OCAMS to provide VHA policy, guidance, oversight, and budget management for multiple programs including leasing. OCAMS also serves as the liaison between the VISN offices/healthcare facilities and VHA senior leadership on all capital asset functions for buildings, leases, and land. VISN offices that need more than 10,000 NUSF of leased space submit a space needs memo describing the amount of space and reason the leased space is needed to OCAMS. OCAMS reviews the space needs, compares it with the existing space standards, and then forwards the request to OCFM to review and approve the lease's provisions and costs.

OWMC office provides guidance and recommendations for VHA workforce management functions, which includes areas related to the ECF. The office provides guidance on the ECF management system, which governs most of

the VISN offices' staff performance appraisals and ratings, as well as recommendations on how to determine and allocate bonus pools for VISN office ECF employees. The ECF Bonus Pool is an annual award allocation given to VISN offices based on the number of ECF employees each office reports for a given year.

***E-Travel and
Management
Information
Systems***

VA uses FedTraveler, an online tool, to plan, book, track, approve, and reimburse employee travel. FedTraveler is part of the E-Gov travel initiative the Federal government launched in July 2002. FedTraveler provides VA a one-stop travel service where VA travelers can make their airline, hotel, and car rental reservations; file for travel expense reimbursements; and generally help the Government consolidate its travel to minimize travel costs.

PAID is a VA-wide automated records system that encompasses personnel, payroll, and related fiscal operations. It incorporates a payroll accounting and general ledger system that interfaces with VA's central accounting system, FMS. The PAID system also provides VA with an automated time and attendance system and allows it to maintain mandatory and optional data for all VA employees, such as information on employment status, payroll earnings for the tax year, and annual and sick leave balances. Automated reports from PAID provide information on payroll, time and leave units, tours of duty, timekeeping and supervisory certification, and overtime management. More specifically, PAID can generate reports for staffing, salary, and performance awards by station number.

FMS is a standardized, integrated, VA-wide system that supports the collection, processing, and dissemination of several billion dollars of financial information and transactions each fiscal year. On October 1, 2009, VHA required VISN offices to establish unique station numbers and fund control points (FMS accounts used to manage fund distributions and obligations) so that expenditures could be monitored.

Appendix B Scope and Methodology

Audit Scope

We conducted our audit work from November 2010 through December 2011. The planned review period for this audit was FY 2009 through FY 2010. Our audit primarily reviewed FY 2010 data for the 21 VISN offices including FMS fiscal data, PAID salary data, FedTraveler trip information, and detailed staffing information. We also assessed FYs 2009 and 2010 VISN office staff award information and lease information and related costs for VISN offices that renewed an existing office lease or established a new lease during FY 2009 or FY 2010. We could only review selected FY 2009 records, such as FY 2009 staffing reports submitted to the VA Secretary by the VISN offices, because the offices lacked auditable fiscal and personnel data prior to FY 2010. This occurred primarily because the VISN offices lacked the station numbers and fund control points with which to track staff and their related expenses until FY 2010.

Further, we selected a judgment sample of six VISN offices to visit based on variations in their reported expenditures, staffing levels, overall VISN-wide healthcare facility complexity levels, and VISN size (unique patients served and number of healthcare facilities). We assigned VISN-wide complexity levels of High, Medium, or Low based on the average complexity levels of the healthcare facilities within their VISNs. Table 5 shows the six VISN offices selected, the expenditure and staffing level data they initially reported to the OIG, and other information, such as VISN size, used for site selection. The staffing and expenditure data presented in Table 5 may differ from data in other sections of the report because the VISN offices reported this information in response to our requests at the start of the audit.

Table 5. VISN Office Site Selection Information					
VISN Office	Healthcare Facilities	VISN-Wide Complexity Levels	Unique Patients Served	Staffing Levels	FY 2010 Operating Budget
01: Bedford, MA	8	Low	246,432	30	\$3,840,000
06: Durham, NC	8	Low	314,403	78	10,809,688
08: Bay Pines, FL	7	High	543,991	110	10,766,825
16: Ridgeland, MS	10	Medium	482,348	67	8,510,244
17: Arlington, TX	5	High	278,269	93	8,325,000
22: Long Beach, CA	5	High	292,614	52	5,955,666

Sources: VHA

For the sites visited, we evaluated VHA and management controls for the VISN offices and procedures used to oversee operations. In addition, we analyzed reported staffing data and reviewed the annual performance and special contribution award documentation of staff who received cumulative annual awards of \$7,500 or more.

Methodology

We interviewed VA, VHA, and VISN office officials to gain an understanding of the controls used to monitor and oversee the VISN offices. We performed a comparative analysis of the VISN offices to determine whether offices with similar patient workloads and complexity levels had significantly different operational budgets, and within this context, how VHA assessed the effectiveness of the VISN offices' performance and operations. We administered a web-based survey to all 21 VISN Directors. We reviewed documentation and interviewed staff for selected financial transactions, leases, and awards to assess appropriateness and compliance with applicable VA policies and Federal regulations.

**Fraud
Detection**

Given the audit objective we assessed the risk of fraud as low. However, we included audit steps to identify potential fraudulent activities. We developed specific audit steps to determine what management controls, if any, were in place to identify potentially fraudulent VISN office transactions. Further, we continually reviewed and assessed selected financial transactions for appropriateness, such as travel expenditures and high dollar value transactions. We identified a small number of transactions with a higher risk for fraud and referred these transactions and related information to the OIG Office of Investigations for further evaluation.

**Data
Reliability**

To achieve the audit objective, we independently verified, validated, and assessed the reliability of VISN office provided and reported information in VA's automated information systems.

We obtained computer-processed data from FMS, PAID, and FedTraveler for FY 2010. For each VA system we used in our work, we (1) obtained information from the system owner or manager on its data reliability procedures; (2) reviewed system documentation; and (3) performed electronic testing of the databases to identify obvious errors in accuracy and completeness.

To test the reliability of FMS computer-processed data, we compared data to invoices and verified key fields such as purchase date, invoice total amount, vendor, and budget object code. We also performed extensive testing to verify expenditure totals for 21 VISN offices and when we found obvious discrepancies, such as centralized purchases for equipment, we confirmed discrepancies with VISN office financial staff, and made appropriate adjustments to transaction data used in our analysis.

In addition, to test the reliability of computer-processed data, we compared:

- PAID staffing data with VISN office provided staffing information and staffing data provided to the VA Secretary in FY 2009.
- Travel data in FMS and FedTraveler and available travel information such as trip expenditures, document identification numbers, and reasons for travel with source documents such as airline and hotel receipts.
- PAID employee awards and student loan repayment data with source documents, including Recommendation and Approval forms, Personnel Action forms, and Statements of Understanding.

We also interviewed VISN office staff, such as the CFOs, budget analysts, and human resource managers, to discuss data reliability at the six VISN offices visited.

Our testing disclosed that VISN office data contained in automated systems such as FMS, PAID, and FedTraveler were incomplete and unreliable. Inconsistencies and inaccuracies in VISN office administrative and fiscal data limited the extent to which we could review and analyze the data. However, this data, when viewed within the context of the audit objective and other available evidence, was sufficient to reach the opinions, conclusions, and recommendations made in this report.

**Government
Audit
Standards**

Our assessment of internal controls focused on those controls related to our audit's objective. We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. However, as discussed previously, the absence of accurate, complete, and reliable VISN office data and the widespread lack of effective management controls significantly increased our audit risk. Therefore, we cannot provide reasonable assurance as to the completeness of our findings.

Appendix C Under Secretary for Health Comments

Department of Veterans Affairs

Memorandum

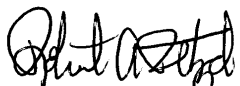
Date: March 19, 2012

From: Under Secretary for Health (10)

Subj: Office of Inspector General, Office of Audits and Evaluations Draft Report,
Audit of VISN Financial Management and Fiscal Controls (VAIQ 7205813)

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

1. I have reviewed the draft report and concur with all eight of the report's recommendations. Attached is the Veterans Health Administration's (VHA) corrective action plan for the report's recommendations.
2. Thank you for the opportunity to review the draft report. If you have any questions, please contact Linda H. Lutes, Director, Management Review Service (10A4A4) at (202) 461-7014.



Robert A. Petzel, M.D.

Attachment

VETERANS HEALTH ADMINISTRATION (VHA)

Action Plan

OIG Draft Report, OIG Draft Report, Audit of VISN Financial Management and Fiscal Controls (VAIQ 7205813)

Date of Draft Report: February 17, 2012

Recommendations/ Actions	Status	Completion Date
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Recommendation 1: We recommend the Under Secretary for Health develop formal Veterans Integrated Service Network Office budgetary guidance, budget planning and execution controls, and review and approval processes for significant Veterans Integrated Service Network office fund reallocations and/or expenditures that benefit their offices' administrative operations.

VHA Comments

Concur

In future VHA Operating Plan Call memoranda, VHA's Office of Finance will direct Veterans Integrated Service Networks (VISN) to provide separate VISN Office Operating Plans as subsets of the VISN Operating Plans. This will commence with the fiscal year (FY) 2012 Revised Operating Plan call letter, which is expected to be issued in the April to May 2012 timeframe. VHA's Office of Finance will provide the VISN Office Operating Plans to the Deputy Under Secretary for Health for Operations and Management (DUSHOM) for review and approval. After the DUSHOM approves the VISN Office Operating Plans, VHA's Office of Finance will provide monthly execution reports to the DUSHOM for each VISN Office showing the cumulative month to date obligations for payroll, travel, contracts, leases, and all other items. Each VISN will be required to provide explanations for significant variances from the approved VISN Office Operating Plan and obtain approval from the DUSHOM for any significant realignments of funding among the major categories of payroll, travel, contracts, leases, and other.

In process	June 30, 2012 for VISNs to submit VISN Office Operating Plans for each VISN Office Thereafter, VISNs submit monthly budget execution reports
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Recommendation 2: We recommend the Under Secretary for Health develop guidance and implement monitors to ensure Veterans Integrated Service Network offices maintain accurate, complete, and reliable office data in the Financial Management System and Personnel and Accounting Integrated Data system.

VHA Comments

Concur

VHA's Office of Finance will develop policy that provides guidance for accounting for VISN staff, centralized facility support units, and centralized purchases. Execution will be monitored against approved VISN Office and VISN Operating Plans and to ensure the Financial Management System and the Personnel and Accounting Integrated Data system are accurate, complete and reliable for VISN offices through monthly reports to the DUSHOM.

In process

June 30, 2012

Recommendation 3: We recommend the Under Secretary for Health establish fiscal monitors for the Veterans Integrated Service Network offices to ensure the reasonableness of the offices' expenses relative to their budgets, operational needs, and performance outcomes.

VHA Comments

Concur

See the response to Recommendation 1 in regard to submission, review, and approval of VISN Office Operating Plans. VHA's Office of Finance will provide monthly reports on the obligation of funds against the VISN Office and VISN Operating Plans to the DUSHOM as specified in response to Recommendation 1. The DUSHOM will monitor the financial execution reports, operational needs and performance outcomes, communicate any approval/disapproval where appropriate to the VISN Directors, and where necessary, take any required corrective actions deemed appropriate.

In process

June 30, 2012 for VISNs to submit VISN Office Operating Plans for each VISN Office. Thereafter, VISNs submit monthly budget execution reports.

Recommendation 4: We recommend the Under Secretary for Health establish management controls for Veterans Integrated Service Network office staff travel to include: the correct assignment of station codes in Veterans Integrated Service Network staff's FedTraveler user profiles; the issuance of guidance to ensure the consistent categorization of trip purpose; and the proper local review, justification, and approval of needed travel.

VHA Comments

Concur

The DUSHOM will reissue the *VA Financial Policies and Procedures for Travel Administration Volume XIV- Chapter 1*. This national policy provides clear definition for trip purpose. The VISN will be required to certify that all VISN staff have the correct station codes assigned in their FedTraveler user profiles, and each VISN will have local policy outlining the requirement for supervisory review/approval for travel. The VISN Director/designee will do random audits of 25 trips a quarter for two consecutive quarters, and periodically thereafter as deemed necessary, to ensure proper approvals, justifications, and trip purposes are documented.

In process

December 31, 2012

Recommendation 5: We recommend the Under Secretary for Health ensure that the 15 Veterans Integrated Service Network offices review FYs 2010 and 2011 travel approved by non-supervisory staff; where indicated, take action regarding inappropriate travel; and provide a certification of the review's completion and a summary of the review's results to the VA Office of Inspector General.

VHA Comments

Concur

VHA will undertake appropriate review of the FY 2010 and 2011 travel practices for the VISN Offices to determine appropriateness of travel and in instances of inappropriately approved travel take appropriate corrective action. In a revision of VISN travel practices, VHA will institute a certification process for VISN and VHA management officials and provide such certifications and a summary of the travel review results to the VA Office of Inspector General.

In process

September 30, 2012

Recommendation 6: We recommend the Under Secretary for Health, in coordination with VA's Office of Construction and Facilities Management, develop policies and procedures to ensure the adequate review and approval of all significant expenses related to the office space leases of Veterans Integrated Service Network offices.

VHA Comments

Concur

VHA will collaborate with the Department of Veterans Affairs (VA) Office of Construction and Facilities Management to establish and follow an approval process for VISN office lease-related expenses that include VA and VHA Central Office review and approval prior to execution.

In process

September 30, 2012

Recommendation 7: We recommend the Under Secretary for Health develop policies and procedures to ensure Veterans Integrated Service Network offices adhere to space standards when they lease office space.

VHA Comments

Concur

The DUSHOM will establish guidelines for VISN Office space requirements and will implement periodic reviews of space utilization by VISNs.

In process

September 30, 2012

Recommendation 8: We recommend the Under Secretary for Health monitor Veterans Integrated Service Network offices' performance awards to ensure the reasonableness of award allocations and award amounts and the proper justification and approval of awards in accordance with VA policy.

VHA Comments

Concur

The DUSHOM will establish limits for performance awards for each VISN and will monitor use of these awards on a quarterly basis to ensure the proper justification and approval of awards.

In process

June 30, 2012

Veterans Health Administration

March 2012

Appendix D **OIG Contact and Staff Acknowledgments**

OIG Contact	For more information about this report, please contact the Office of Inspector General at (202) 461-4720.
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Acknowledgments	Janet Mah, Director Edesha Basa John Carnahan Milan Gokaldas Andrew Hamilton Andrea Lui Kelly Perry Corina Riba Leslie Yuri
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