

VA Office of Inspector General

OFFICE OF AUDITS AND EVALUATIONS



# Veterans Health Administration

*Review of  
Alleged Continued Misuse  
of VA Funds To Develop  
the Health Care Claims  
Processing System*

September 6, 2017  
15-05020-278

# ACRONYMS

CBO	Chief Business Office
FY	Fiscal Year
HCPS	Health Care Claims Processing System
IT	Information Technology
MS&C	Medical Support and Compliance
OIG	Office of Inspector General
VA	Department of Veterans Affairs
VHA	Veterans Health Administration

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# TABLE OF CONTENTS

Review of Alleged Continued Misuse of VA Funds To Develop the Health Care Claims Processing System.....	1
Appendix A Scope and Methodology.....	3
Appendix B VA Antideficiency Act Memo to GAO .....	4
Appendix C Management Comments.....	6
Appendix D OIG Contact and Staff Acknowledgments.....	7
Appendix E Report Distribution .....	8



# Review of Alleged Continued Misuse of VA Funds To Develop the Health Care Claims Processing System

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## Why We Did This Review

The VA OIG evaluated the merits of two confidential OIG Hotline allegations received after we published the *Review of Alleged Misuse of VA Funds To Develop the Health Care Claims Processing System* in March 2015.<sup>1</sup> The complainants alleged that the Chief Business Office (CBO) continued to spend about \$11 million of medical support and compliance (MS&C) appropriations on Health Care Claims Processing System (HCPS) development from August through September 2014. This was despite being told by the OIG during an April 2014 meeting of the OIG, CBO, and Financial Services Center that they should have used the Information Technology (IT) Systems appropriation.

## Background

In March 2015, we published the *Review of Alleged Misuse of VA Funds To Develop the Health Care Claims Processing System*. The report was based on work we conducted from March through December 2014, and focused on the Veterans Health Administration's (VHA) obligation of more than \$96 million in MS&C funds to support the development of HCPS. In that report, we substantiated that CBO staff violated appropriations law by improperly obligating a total of \$92.5 million of MS&C appropriations to finance the development of HCPS. We reported that CBO staff violated appropriations law and recommended that the VA Interim Under Secretary for Health establish oversight mechanisms, seek the return all MS&C appropriations, deobligate all current MS&C funds, and obtain appropriate funding for HCPS development. VA provided acceptable action plans in response to our recommendations.

## What We Found

We confirmed that CBO spent MS&C funds to support HCPS during the OIG's previous review, conducted from March through December 2014. This was prior to the OIG's official notification to VA in December 2014 that a potential Antideficiency Act violation had occurred. We confirmed that OIG personnel informed the former Deputy Chief Business Officer of the potential violation of appropriations law at an April 2014 meeting. However, CBO staff did not alter their spending patterns after learning of the potential violation. In addition, the OIG did not formally notify the former Interim Under Secretary for Health of the potential violation until the draft report was issued in December 2014.

On August 26, 2016, the VA Secretary issued an Antideficiency Act letter to the Comptroller General of the United States. The VA Secretary acknowledged that the IT Systems

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<sup>1</sup> Report No. 14 00730-126, March 2, 2015.

appropriation—the specific and exclusive appropriation available for developing, enhancing, and modernizing IT systems used in the administration of VHA activities—was not used in HCPS development as required. The letter stated that the VHA Chief Business Office violated appropriations law by improperly obligating a total of \$92.5 million of funds appropriated to the MS&C account to finance the development of HCPS. VA attempted to adjust its accounts to charge the HCPS development costs to the IT Systems account, rather than the MS&C account. However, the proper fiscal year IT Systems accounts lacked sufficient funds for the time periods in question to fully correct the error.

In total, about \$12.6 million of additional MS&C funds were spent for HCPS development in October 2014. This \$12.6 million expenditure of funds was part of the \$18.7 million that remained obligated as of August 2014, and was included in the \$92.5 million violation that we reported in our March 2015 report.

### **What We Recommended**

The VA Secretary reported the violation of the Antideficiency Act as required by section 1351 of Title 31, United States Code. According to the memo, the matter was referred to VA's Office of Accountability Review to determine if administrative action should be taken against any current staff in CBO. Therefore, we make no recommendations in this report. See Appendix B for the letter reporting a violation of the Antideficiency Act.

### **Agency Comments**

The Interim Under Secretary for Health stated that once the VHA had completed FY 2014 obligations, it made no further obligations for the HCPS. Further, VHA did not continue to obligate and spend MS&C funds to support HCPS after October 2014.



**LARRY M. REINKEMEYER**  
Assistant Inspector General  
for Audits and Evaluations

## Appendix A Scope and Methodology

### **Scope**

We conducted our review work from November 2015 through April 2017. Our focus for this review was on the CBO continuing to spend MS&C appropriations for HCPS development. We did not evaluate or validate the progress of HCPS development or the reasonableness of the cost of the HCPS development.

### **Methodology**

To conduct our review, we examined applicable VA criteria and Federal regulations to determine whether MS&C appropriations could be used for IT development. We interviewed key VA and VHA personnel. We reviewed and analyzed financial and contract documentation and Financial Services Center contractor invoices. We also reviewed other key documentation, such as Service Level Agreements, which were formal agreements that defined the service, product, performance measures, and cost to develop HCPS. Furthermore, we obtained documentation to identify the total amount of MS&C appropriations that the CBO spent.

### **Fraud Assessment**

The team assessed the risk that fraud, violations of legal and regulatory requirements, and abuse could occur during this audit. The team exercised due diligence in staying alert to any fraud indicators by taking actions such as:

- Soliciting the OIG's Office of Investigations for indicators
- Assessing the opportunity and motivation for fraud

### **Data Reliability**

To test for reliability, we compared the amount of MS&C appropriations spent to the invoiced amounts. We did not identify significant discrepancies. Thus, we concluded the data were sufficiently reliable for the purposes of our review.

### **Government Standards**

We conducted this review in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*.

## Appendix B VA Antideficiency Act Memo to GAO

THE SECRETARY OF VETERANS AFFAIRS  
WASHINGTON

August 26, 2016

The Honorable Gene Dodaro  
Comptroller General of the United States  
Government Accountability Office  
Washington, DC 20548

Dear Mr. Comptroller:

This letter is to report a violation of the Antideficiency Act, as required by section 1351 of Title 31, United States Code (U.S.C.).

A violation of section 1341(a) occurred in the Department of Veterans Affairs (VA) Medical Support and Compliance (MS&C) account (36-0152) in the amount of \$92,542,998.62. The violation occurred between fiscal years (FYs) 2010 and 2014 in connection with MS&C funds that were obligated toward an intra-agency agreement with the VA Franchise Fund for the development of the Health Care Processing System (HCPS). The Veterans Health Administration (VHA) did not use the required Information Technology (IT) Systems account (36-0167) to fund the development of HCPS. The previous two VHA Deputy Chief Business Officers (DCBO) were the officers responsible for the violation.

The HCPS is an automated system that, when fully developed, will replace VHA's existing Fee Basis Claims System. The VHA Chief Business Office (CBO) violated appropriations law by improperly obligating a total of \$92,542,998.62 of funds appropriated to the MS&C account to finance the development of HCPS. Section 1301 of Title 31, U.S.C. (i.e., the Purpose Statute) states that "appropriations shall be applied only to the objects for which the appropriations were made except as otherwise provided by law." The IT Systems account was the specific and exclusive appropriation available for developing, enhancing, and modernizing IT systems used in the administration of VHA activities, pursuant to the provisions of the Consolidated Appropriations Act, 2010 (Public Law 111-117); the Department of Defense and Full-Year Continuing Appropriations Act, 2011 (Public Law 112-10); the Consolidated Appropriations Act, 2012 (Public Law 112-74); the Consolidated and Further Continuing Appropriations Act, 2013 (Public Law 113-6); and the Consolidated Appropriations Act, 2014 (Public Law 113-76). Therefore, the use of the MS&C appropriations during the period of FYs 2010-2014 to fund HCPS design, governance, acquiring IT infrastructure, HCPS, and system development was a violation of the Purpose Statute. VA received a clean audit opinion during the fiscal years in which the violation occurred.

The VHA DCBO, who served from FYs 2010-2012, obligated approximately \$21.3 million of MS&C appropriations, and the VHA DCBO for Purchased Care, who served from FYs 2012-2014, obligated approximately \$71.2 million of MS&C appropriations for HCPS. These funds were obligated in the MS&C account in an effort to hasten the delivery of the claims processing capability of HCPS and, therefore, manage Veterans medical care services more efficiently. There is no evidence that these employees knowingly or willfully violated the law.

In its March 2, 2015, report entitled "Veterans Health Administration: Review of Alleged Misuse of VA Funds to Develop the Health Care Claims Processing System" (14-00730-126), VA's Office of Inspector General found that the VHA CBO violated appropriations law and recommended that the VA Under Secretary for Health establish oversight mechanisms, seek the return all MS&C appropriations, deobligate all current MS&C funds, and obtain appropriate funding for HCPS development. VA attempted to adjust its accounts to charge the HCPS development costs to the IT Systems account, rather than the MS&C account. However, the proper fiscal year IT Systems accounts lacked sufficient

funds for the time periods in question to fully correct the error. As a result, VA violated both the Purpose Statute and the Antideficiency Act.

At this time, VA's Office of Information and Technology, with input from all affected VA Administrations and Staff Offices, including the Office of General Counsel, is updating policy guidance to clearly identify what constitutes IT and non-IT expenditures, to include a definition in accordance with appropriations law for staff to use when obligating funds. This guidance will update and replace current guidance and various memoranda that have been issued over the past ten years. It will be used by VA finance and contracting staff as obligations are incurred. In addition, the VA Office of Management is in the process of updating the Department's fund control regulations to provide greater clarity and ensure proper guidance is available for operational fiscal staff. Also, the VHA Chief Financial Officer will establish oversight mechanisms to ensure that VHA complies with the updated Departmental guidance and obligates all MS&C funds in accordance with appropriation law and VA policy.

The VA Under Secretary for Health has referred this matter to the VA Office of Accountability Review to determine if administrative action should be taken against any current staff in CBO.

Identical reports will be submitted to the President, the President of the Senate, and the Speaker of the House of Representatives.

Sincerely,

*(Original signed by:)*

Robert A. McDonald

Enclosure\*

*\*OIG Note: The enclosure was not included in this report. Copies may be obtained from the OIG Information Officer.*

*For accessibility, the format of the original documents in this appendix has been modified to fit in this document*



## Appendix C Management Comments

### Department of Veterans Affairs Memorandum

Date: July 31, 2017

From: Acting Under Secretary for Health (10)

Subj: OIG Draft Report, Review of Alleged Continued Misuse of VA Funds to Develop the Health Care Claims Processing System (VAIQ 7815157)

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

1. Thank you for the opportunity to review and comment on the Office of Inspector General draft report, Review of Alleged Continued Misuse of VA Funds to Develop the Health Care Claims Processing System.
2. Once the Veterans Health Administration (VHA) had completed fiscal year 2014 obligations, we made no further obligations for the Health Care Claims Processing System (HCPS). Further, VHA did not continue to obligate and spend Medical Support and Compliance funds to support HCPS after October 2014.
3. If you have any questions, please email Karen Rasmussen, M.D., Director, Management Review Service at [VHA10E1DMRSAction@va.gov](mailto:VHA10E1DMRSAction@va.gov).

*(Original signed by:)*

Poonam Alaigh, M.D.

*For accessibility, the format of the original documents in this appendix has been modified to fit  
in this document*

## Appendix D **OIG Contact and Staff Acknowledgments**

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Contact	For more information about this report, please contact the Office of Inspector General at (202) 461-4720.
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Acknowledgments	Gregg Gladhill, Director Sherry Fincher Heather Jones
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## **Appendix E Report Distribution**

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