



DEPARTMENT OF VETERANS AFFAIRS
OFFICE OF INSPECTOR GENERAL

Office of Audits and Evaluations

VETERANS HEALTH ADMINISTRATION

Financial Controls and
Payments Related to
VA-Affiliated Nonprofit
Corporations: Cincinnati
Education and Research for
Veterans Foundation

AUDIT

REPORT #18-00711-42

JANUARY 16, 2020



The mission of the Office of Inspector General is to serve veterans and the public by conducting effective oversight of the programs and operations of the Department of Veterans Affairs through independent audits, inspections, reviews, and investigations.

In addition to general privacy laws that govern release of medical information, disclosure of certain veteran health or other private information may be prohibited by various federal statutes including, but not limited to, 38 U.S.C. §§ 5701, 5705, and 7332, absent an exemption or other specified circumstances. As mandated by law, the OIG adheres to privacy and confidentiality laws and regulations protecting veteran health or other private information in this report.

**Report suspected wrongdoing in VA programs and operations
to the VA OIG Hotline:**

www.va.gov/oig/hotline

1-800-488-8244



Executive Summary

The VA Office of Inspector General (OIG) conducted this audit to evaluate the merits of a hotline complaint sent to the Inspector General in May 2018. The complaint alleged that the executive director of the Cincinnati Education and Research for Veterans Foundation (CERV), a VA-affiliated nonprofit corporation (NPC), used the CERV credit card inappropriately for personal expenses. In addition, the OIG examined more broadly whether CERV had adequate controls in place for ensuring proper expenditures, and whether the CERV board of directors provided adequate oversight of CERV expenditures.

The OIG also assessed whether the Cincinnati VA Medical Center (VAMC) had controls for making certain that VA payments to CERV were appropriate, and if Cincinnati VAMC responsible officials provided adequate oversight of these payments.

The VA-affiliated NPC program was established in 1988 to facilitate approved VA research projects at VA medical facilities nationwide. The NPC program was revised in 1999 to allow NPCs to facilitate funding to support VA-approved research and education activities. NPCs may administer funds from a variety of sources other than VA, including other federal agencies, private organizations, and universities.

CERV was established in 1991 to facilitate the medical research and education activities at the Cincinnati VAMC. In fiscal year 2017, CERV reported revenues of approximately \$314,000 in government funding; about \$11,000 in additional funds were provided by VA. CERV also received \$768,000 from nongovernmental sources for a total of approximately \$1.1 million. Approximately 18 professionals support CERV's research activities. Areas of research include posttraumatic stress disorder, traumatic brain injury, cancer, diabetes, and cardiovascular disease.

What the Audit Found

The OIG did not substantiate the allegation that the CERV executive director used the CERV credit card inappropriately. The OIG reviewed 18 months of credit card activity and found no evidence to support the allegation. In addition, during the testing of CERV expenditures, the OIG noted that some CERV financial controls appeared effective, such as the treasurer's review of bank statements and the CERV finance committee's quarterly reports to the board of directors. However, the OIG identified other controls that were inadequate or absent, resulting in CERV expenditures of about \$12,000 from a sample of transactions made from January 2017 through June 2018 that lacked the supporting documentation required by policy. In addition, the OIG noted one example of a small, but unallowable, credit card expense. The improper expenditures occurred because the CERV board of directors did not provide adequate oversight, and portions

of CERV's policies were ineffective or had procedural gaps. For example, CERV policies did not require board of directors' approval for reimbursements to the executive director.

In addition, the OIG estimated the Cincinnati VAMC made approximately \$435,000 in improper payments to CERV from January 2014 through April 2018. This occurred because the Cincinnati VAMC Research and Development (R&D) Budget Office staff did not comply with VA policy. The OIG reviewed 30 statistically selected invoices and found that none included supporting documentation, such as payroll distribution reports or time cards. As a result, these payments were improper according to Office of Management and Budget guidance. The OIG concluded that Cincinnati VAMC R&D Budget Office's invoice review procedures did not comply with VA internal controls to ensure services were performed in accordance with the agreement before approving invoices for payment.

The problem was compounded by the absence of required periodic supervisory reviews of approved invoices. According to the responsible supervisor, periodic reviews of approved invoices were not done because the supervisor relied on subordinates to approve invoices accurately. If the Cincinnati VAMC continues to make inappropriate payments associated with Intergovernmental Personnel Act agreements at the rate identified and with a similar value of payments, improper payments made over the next five years could total approximately \$503,000.

The Cincinnati VAMC's internal controls and oversight of payments to CERV fell short of requirements. Because of its noncompliance, the Cincinnati VAMC had no assurance that CERV invoice amounts were valid or accurate. Continued lack of compliance with VA internal controls puts taxpayer funds at risk. Areas for improving controls and the board of directors' oversight are recommended.

What the OIG Recommended

The OIG recommended that the Cincinnati VAMC director ensure CERV's board of directors establishes policies that require responsible officials to verify adequate supporting documentation before approving expenditures. The OIG also recommended the Cincinnati VAMC director makes certain that CERV's board of directors, or responsible officials, approve reimbursements to the executive director.

In addition, the OIG recommended that the Cincinnati VAMC director establish procedures to ensure R&D Budget Office staff review VA-affiliated nonprofit corporation invoices to confirm services were performed or the goods have been received in accordance with Intergovernmental Personnel Act agreements prior to payment. Finally, the OIG recommended the Cincinnati VAMC director establish procedures that require the R&D Budget Office supervisor to conduct periodic reviews of VA-affiliated nonprofit corporation invoices authorized for payment by staff, as required by VA Financial Policies and Procedures (Volume VIII, Chapter 1A).

Management Comments

The Cincinnati VAMC director concurred with the recommendations and provided responsive comments. Regarding Recommendation 1, the director stated CERV updated its policies to include the board of directors' review and approval of supporting documentation for expenses. Although the Cincinnati VAMC director reported that actions in response to Recommendation 1 were completed, the evidence provided was not sufficient to close the recommendation at this time. Regarding Recommendation 2, the director delegated authority to the associate chief of staff of research to conduct two quarterly reviews in March and May of 2020 to ensure that the board of directors approved CERV reimbursements to the executive director. However, before the OIG closes this recommendation, evidence of actions planned beyond May 2020 must be presented to ensure there is appropriate oversight of future expense reimbursements to the CERV executive director.

Regarding Recommendation 3, the director stated procedures were updated to require the Cincinnati VAMC research budget analyst to approve for payment only invoices that include all appropriate documentation. While the Cincinnati VAMC director reported actions in response to Recommendation 3 were completed, the evidence provided was not sufficient to close the recommendation at this time. Regarding Recommendation 4, the director reported that as part of the quarterly reviews mentioned above, the research administrative officer or associate chief of staff of research will review all CERV Intergovernmental Personnel Act agreement-related invoices to ensure proper documentation is included. However, before the OIG closes this recommendation, evidence of actions planned beyond May 2020 also must be provided to provide assurances that there are appropriate procedures for periodic supervisory reviews of invoices approved for payment by staff.

The OIG will follow up on the planned actions and will close the recommendations when sufficient documentation has been provided illustrating corrective actions have been implemented.



LARRY M. REINKEMEYER
Assistant Inspector General
for Audits and Evaluations

Contents

Executive Summary	i
Abbreviations	v
Introduction.....	1
Results and Recommendations	4
Finding 1: Some CERV Controls Appeared Effective, but Other Inadequate Controls and Oversight Resulted in Unsupported and Unallowable Expenditures	4
Recommendations 1–2.....	7
Finding 2: Cincinnati VAMC’s Inadequate Controls and Oversight Resulted in Improper Payments to CERV	9
Recommendations 3–4.....	11
Appendix A: Scope and Methodology.....	12
Appendix B: Statistical Sampling Methodology	14
Appendix C: Monetary Benefits in Accordance with Inspector General Act Amendments	17
OIG Contact and Staff Acknowledgments	22
Report Distribution	23

Abbreviations

CERV	Cincinnati Education and Research for Veterans Foundation
IPA	Intergovernmental Personnel Act
NPC	nonprofit corporation
OIG	Office of Inspector General
R&D	research and development
VAMC	Veterans Affairs medical center
VHA	Veterans Health Administration



Introduction

The VA Office of Inspector General (OIG) conducted this audit to evaluate the merits of a hotline complaint sent to the Inspector General in May 2018. The complaint alleged that the executive director of the Cincinnati Education and Research for Veterans Foundation (CERV), a VA-affiliated nonprofit corporation (NPC), used the CERV credit card inappropriately for personal expenses. The OIG also examined more broadly whether CERV had adequate controls for ensuring proper expenditures and whether the board of directors provided adequate oversight of CERV expenditures.

In addition, the OIG assessed whether the Cincinnati VA Medical Center (VAMC) had controls in place for making certain that VA payments to CERV were appropriate, and if VAMC responsible officials provided adequate oversight of these payments.

Cincinnati Education and Research for Veterans Foundation

CERV was established in 1991 to facilitate research and education activities at the Cincinnati VAMC. CERV is located on the VAMC campus in Cincinnati, Ohio. Approximately 18 professionals support CERV's research activities. Areas of research include posttraumatic stress disorder, traumatic brain injury, cancer, diabetes, and cardiovascular disease. In fiscal year 2017, CERV reported revenues of approximately \$314,000 in government funding; about \$11,000 additional funds were provided by VA. CERV also received approximately \$768,000 from nongovernmental sources for a total of approximately \$1.1 million.¹

VA-Affiliated Nonprofit Corporations

The VA-affiliated NPC program was established under the Veterans' Benefits and Services Act of 1988 (Public Law 100-322) solely to facilitate VA-approved research projects at VA medical facilities nationwide. The NPC program was revised in 1999 to allow NPCs to facilitate funding to support VA-approved research and education activities.² NPCs may administer funds from a variety of sources other than VA, including other federal agencies, private organizations, and universities. In fiscal year 2017, VA-affiliated NPCs collectively employed 2,520 personnel and an additional 2,163 active principal investigators. As of Fiscal Year 2017, there were 83 VA-affiliated NPCs in 44 states, Puerto Rico, and the District of Columbia with combined

¹ Fiscal Year 2017 data were the most recently available for the audit. According to the Nonprofit Program Office, the NPC 2018 consolidated annual report will be submitted to Congress in December 2019.

² Veterans Millennium Health Care and Benefits Act, Pub. L. No. 106-117 § 204, 113 Stat. 1562 (1999).

assets valued at approximately \$283 million, including investments, accounts receivable, and equipment.

VA and affiliated NPCs collaborate on mutually beneficial research, education, and training activities through the use of Intergovernmental Personnel Act (IPA) agreements. VA funds all or a portion of the salary and fringe benefits for employees working on VA-approved projects under IPA agreements.³

Governance of Nonprofit Corporations

Delegated by the Secretary of Veterans Affairs, the under secretary for health may authorize the establishment of NPCs. VA-affiliated NPCs are governed by a board of directors and overseen by VA in accordance with applicable federal and state laws and regulations, as well as Veterans Health Administration (VHA) policy.⁴

The NPC statutory members of the board of directors include the VAMC director and other top VAMC officials: the chief of staff, associate chief of research, and associate chief of education. The board of directors must also include at least two members who are not federal government employees who have expertise of benefit to the corporation. According to VHA policy, statutory board members “need to ensure the NPC furthers the best interest of VA.”⁵ The NPC board of directors is responsible for overseeing research funds.

The board of directors appoints an NPC executive director with the concurrence of the VAMC director, as delegated by the under secretary for health. The executive director is responsible for the operations of the NPC and has specific duties and responsibilities prescribed by the board of directors, such as approving purchases and expenditures of funds. VHA Handbook 1200.17 provides procedures and instructions governing NPCs. The handbook indicates VA is responsible for ongoing oversight of NPCs.

VA Oversight of Nonprofit Corporations

VA oversight of NPCs is performed by the Nonprofit Program Office, the Nonprofit Program Oversight Board, and VHA’s chief financial officer.

Nonprofit Program Office: This office serves as the liaison between VHA and NPCs. The Nonprofit Program Office provides oversight, guidance, and education to NPCs to ensure

³ Fringe benefits include social security, workers’ compensation, and retirement plan costs, among other things.

⁴ 38 U.S.C. § 7363; VHA Handbook 1200.17, *Department of Veterans Affairs Nonprofit Research and Education Corporations Authorized by Title 38 U.S.C. §§ 7361–7366*, April 27, 2016, revised May 9, 2017, according to VA website.

⁵ VHA Handbook 1200.17.

compliance with applicable regulations and VA policies affecting NPC operations and financial management. The Nonprofit Program Office staff report to the VHA Office of Research and Development (R&D) chief R&D officer.

The Nonprofit Program Office conducts triennial on-site audits. These limited evaluations include reviews of annual audited financial statements, NPC-completed internal control questionnaires, and follow-up on previous Nonprofit Program Office recommendations. Additional areas of review may include the examination of cash disbursements, bank reconciliations, IPA agreements, and payroll records. The Nonprofit Program Office is also responsible for performing off-site NPC reviews, reviewing annual reports submitted by each NPC, and compiling report data for VA's annual report to Congress.⁶

Nonprofit Program Oversight Board: This board serves as VA's senior management oversight for the activities and programs of VA-affiliated NPCs. The Nonprofit Program Oversight Board's responsibilities focus on financial and ethical issues, and consistency with VA policy and interests related to VA-affiliated NPCs. The Nonprofit Program Oversight Board makes recommendations through the under secretary for health and other senior VA leaders regarding changes to, and implementation of, VA policies relating to NPCs.

VHA Chief Financial Officer: The VHA chief financial officer exercises financial oversight of NPCs by reviewing Nonprofit Program Office activities and independent audits of NPCs.

⁶ Off-site reviews are evaluations performed away from the NPC location. For example, NPC documents may be evaluated at the location of the Nonprofit Program Office.

Results and Recommendations

Finding 1: Some CERV Controls Appeared Effective, but Other Inadequate Controls and Oversight Resulted in Unsupported and Unallowable Expenditures

The OIG did not substantiate the allegation that the CERV executive director used the CERV credit card inappropriately for personal expenses. The OIG reviewed an 18-month period of credit card activity and found no evidence to support the allegation. In addition, during testing of CERV expenditures, the OIG noted that some CERV financial controls appeared effective, such as the treasurer's review of bank statements and the CERV finance committee's quarterly reports to the board of directors.

However, the OIG identified other controls that were inadequate or absent, resulting in unsupported expenditures of approximately \$12,000 out of a sample of transactions totaling about \$257,000. In addition, the OIG found one unallowable expense of negligible value. These improper expenditures occurred because portions of CERV's policies were ineffective or had procedural gaps, and the CERV board of directors did not provide adequate oversight.

What the OIG Did

To evaluate the allegation that the CERV executive director used the CERV credit card inappropriately, the OIG reviewed applicable laws, regulations, VHA and CERV policies, CERV board of directors meeting minutes, and CERV expenditure records. The OIG also interviewed senior officials and staff at CERV, the Cincinnati VAMC, and the Nonprofit Program Office.

To evaluate whether adequate controls were in place for CERV expenditures, and if the board of directors provided oversight of CERV expenditures, the OIG tested a sample of CERV bank, brokerage, and credit card transactions.

Personal Use of CERV Credit Card Not Substantiated

The OIG did not substantiate the allegation that the CERV executive director used the CERV credit card for personal expenditures. The OIG reviewed a nonstatistical sample of CERV credit card transactions from January 2017 through June 2018 and did not find personal use took place.

CERV Internal Controls Over Expenditures Were Mostly Effective

CERV is subject to VHA policy, which specifies that NPCs have a written policy providing sufficient internal controls to protect its assets and meet the requirements of an external audit. In

addition, NPCs are required to create and maintain financial records in accordance with the accounting procedures established by the NPC.⁷

The OIG found CERV policies included controls for bank transactions and a requirement to track and explain budget changes to the board of directors. One of CERV's internal controls involves a finance committee that is required to report to the board of directors regularly. The CERV finance committee consists of the board of directors' treasurer, CERV's accountant, Cincinnati VAMC finance staff, and non-VA members with financial expertise. According to CERV's accountant, bank reconciliations are provided to the finance committee at each finance meeting. In addition, the CERV treasurer, who is also a chief internal auditor at a local bank, told the OIG that as a member of the finance committee, the treasurer reviews bank statements for anomalies.

CERV's policies further require

- The executive director and finance committee chair to report to the board quarterly with year-to-year comparisons and explanations of budget variances;
- A CERV advisory board member or the board treasurer to review bank statement reconciliations;
- Supporting documentation to accompany any request for use of funds, and the executive director and chair of the board of directors to determine the expenditure of funds;
- The CERV accountant to review documentation such as purchase orders for appropriateness, and the CERV accountant, executive director, or both to review all invoices and sign and date the documents approving all purchases; and
- The executive director or the chair of the board of directors for CERV to sign checks under \$10,000, and both the executive director and chair of the board of directors to sign checks of \$10,000 or more.⁸

Some CERV Internal Controls Were Ineffective or Absent

While CERV had mostly effective controls, the OIG found expenditures amounting to about \$12,000 that lacked supporting documentation and one additional unallowable expense of negligible value.

Although VHA requires CERV to have sufficient internal controls to protect its assets, CERV policies do not require verification of adequate supporting documentation prior to approval of expenditures.

⁷ VHA Handbook 1200.17.

⁸ Checks under \$100 may be signed by a designee of the executive director if the designee is a manager or an exempt status employee of CERV.

The OIG reviewed a sample of CERV bank and credit card transactions from January 2017 through June 2018, totaling approximately \$257,000, for compliance with VHA and CERV policies. The OIG identified three of 15 bank transactions and 14 of 50 credit card transactions that lacked supporting documentation. The following examples illustrate instances in which supporting documents were not available during the audit and CERV policy requirements were ineffective.

Example 1

The OIG noted a purchase order was absent for a laptop bought by CERV. Subsequently, CERV provided a store receipt for the purchase. CERV policies require a purchase order for all purchase requests.

Example 2

A travel reimbursement request for a conference did not include required documentation, such as a copy of the program announcement, agenda, meeting invitation, or presentation materials. In addition, CERV's combined Authorization and Expense Reimbursement form was signed only by the executive director as both traveler and supervisor. CERV policies specify that expense reimbursements for travel be signed by a supervisor. This example also illustrates a lack of segregation of duties.

During interviews, the executive director and chair of the board of directors, who serve as the approving officials, said they relied on the accountant to determine the adequacy of supporting documentation. As illustrated in the examples, this control was not sufficient and does not constitute adequate oversight.

In addition, the OIG noted one example of a negligible, but unallowable, credit card expense.

Example 3

The CERV executive director purchased alcohol for a negligible amount with a CERV credit card, and the entire credit card bill was paid by CERV. Although the executive director knew that the expense was unallowable under CERV policy and noted on the receipt that the alcohol purchase should be deducted from the reimbursement on the receipt, the expense was processed and was not deducted from the reimbursement. The OIG observed that CERV's Authorization and Expense Reimbursement form does not specify the estimated total costs of travel, actual costs paid directly by CERV, or amounts to be reimbursed to the traveler. The CERV accountant noted the alcohol reimbursement was a clerical error. CERV policy does not permit reimbursement for alcohol.

CERV policies are flawed because they do not specify how the board of directors oversees the executive director. For example, CERV policies do not require the board of directors' approval of reimbursements to the executive director. The OIG noted another VA-affiliated NPC's policy required board approval of executive director reimbursements. The CERV board of directors provides oversight as the governing body, and its members are responsible for ensuring that internal controls are sufficient.

Conclusion

The OIG did not substantiate the allegation that the CERV executive director used the CERV credit card inappropriately for personal expenses however, the audit team identified other controls that were inadequate or absent, resulting in expenditures of approximately \$12,000 that lacked supporting documentation. Although the OIG concluded that some internal controls established by CERV policies protect its assets, as evidenced by the small amount of unsupported expenditures found during the audit, the OIG also identified areas where controls and board of directors' oversight could be improved.

Recommendations 1–2

1. The Cincinnati Veterans Affairs Medical Center director ensures the Cincinnati Education and Research for Veterans Foundation's board of directors establishes policies that require responsible officials to verify adequate supporting documentation before approving expenditures.
2. The Cincinnati Veterans Affairs Medical Center director ensures the Cincinnati Education and Research for Veterans Foundation's board of directors, or responsible officials, approve reimbursements to the executive director.

Management Comments

The Cincinnati VAMC director concurred with Recommendations 1 and 2. The director stated CERV updated its policies to include the board of directors' review and approval of supporting documentation for expenses. In addition, the director delegated authority to the associate chief of staff of research to conduct two quarterly reviews of expenditures in March and May of 2020 to make certain that the board of directors has approved the expenses and reimbursements for the executive director. Appendix D provides the full text of VHA's comments.

OIG Response

The action plans provided by the Cincinnati VAMC director for Recommendations 1 and 2 are responsive to OIG recommendations. Although the director reported that actions were completed for Recommendation 1, the evidence provided was not sufficient to close the recommendation at this time. Regarding Recommendation 2, the response did not include details about controls that

will be implemented to provide adequate oversight of the review and approval of reimbursements to the executive director after May 2020. Before the OIG closes this recommendation, evidence of actions planned beyond May 2020 will need to be provided to ensure there is appropriate oversight of future expense reimbursements. The OIG will follow up on implementation of the planned actions and will close the recommendations when sufficient documentation has been provided that illustrates corrective actions have been implemented.

Finding 2: Cincinnati VAMC's Inadequate Controls and Oversight Resulted in Improper Payments to CERV

The OIG estimated the Cincinnati VAMC made approximately \$435,000 in improper payments to CERV from January 2014 through April 2018, based on the results of testing a statistical sample of invoices. The OIG reviewed 30 invoices and found that none included supporting documentation, such as payroll distribution reports or time cards. The improper payments occurred because the Cincinnati VAMC's R&D Budget Office staff did not comply with VA policy regarding verifying receipt of services before approving invoices for payment. Lack of compliance with VA policy was compounded by the absence of periodic supervisory reviews of approved invoices.

What the OIG Did

To evaluate whether Cincinnati VAMC had sufficient controls and if officials provided adequate oversight of VA payments to CERV, the OIG reviewed applicable laws, regulations, VA policies, and local procedures. The audit team also interviewed staff at CERV, the Cincinnati VAMC, and the Nonprofit Program Office. A review was completed of a sample of Cincinnati VAMC and CERV IPA agreements and corresponding billing records submitted by CERV to Cincinnati VAMC. The OIG also obtained data from VA's Financial Management System on payments made by Cincinnati VAMC to CERV from January 2014 through April 2018. The OIG adjusted the population of payments to account for payments not related to IPAs. From the adjusted population of about 150 payments totaling approximately \$466,000, there were 30 payments statistically selected for testing.

Cincinnati VAMC Payments to CERV Lacked Supporting Documentation

Cincinnati VAMC made payments of approximately \$435,000 to CERV that were improper because they lacked supporting documentation, such as payroll distribution reports or time cards. The OIG found the Cincinnati VAMC's R&D Budget Office staff did not verify services were performed before approving CERV invoices for payment.

An improper payment is "any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements." Furthermore, "when an agency's review is unable to discern whether a payment

was proper as a result of insufficient or lack of documentation, this payment should also be considered an improper payment.”⁹

VA oversight of payments to CERV is governed by VA financial policy, which requires a review of invoices to determine whether services were performed and invoices were for lawful and proper amounts before payment.¹⁰ However, the OIG found no supporting documentation for any of the corresponding sample invoices tested. For example, there were no payroll distribution reports or time cards. Documentation may include records noting the actual number of hours or days worked, or whether the time invoiced included annual or sick leave.

The improper payments occurred because the Cincinnati VAMC’s R&D Budget Office invoice review procedures did not comply with VA internal controls to ensure services were performed in accordance with the IPA agreement prior to payment. A staff member in the R&D Budget Office informed the OIG that procedures for invoice review included determining that funding was available and that the billing period matched the effective period on the IPA agreements. According to the CERV executive director, Cincinnati VAMC’s R&D Budget Office staff did not ask or require CERV to provide any supporting documentation with invoices. As a result, the Cincinnati VAMC had no assurance that CERV invoiced amounts were valid and accurate before processing payment.

The lack of compliance by the Cincinnati VAMC’s R&D Budget Office staff with VA policy was compounded by the absence of periodic supervisory reviews of approved invoices as required by VA financial policy.¹¹ According to the responsible supervisor, periodic reviews of approved invoices were not done because the supervisor trusted subordinates to have a process to accurately review and approve invoices. The OIG determined from the sample that if the Cincinnati VAMC continues to make inappropriate payments associated with IPA agreements at the rate identified and with a similar value of payments, improper payments made over the next five years could total approximately \$503,000.

Conclusion

The Cincinnati VAMC’s compliance with internal controls and oversight of payments to CERV fell short of requirements. Because of noncompliance, the Cincinnati VAMC had no assurance that CERV invoice amounts were valid or accurate. Adequate review of invoice-supporting documentation and routine supervisory review of approved payments would provide greater assurance that services have been received. Continued lack of compliance with VA internal

⁹ Office of Management and Budget Memo M-18-20, “Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement,” June 26, 2018.

¹⁰ VA Financial Policies and Procedures, vol. VIII, chap. 1A, sec. 010201.01, B, October 2013.

¹¹ VA Financial Policies and Procedures, vol. VIII, chap. 1A, sec. 010203, C, requires supervisors to periodically review invoices approved by subordinates to ensure compliance with policy, October 2013.

controls puts taxpayer funds at risk for loss and could place an additional \$503,000 at risk of improper payments over the next five years.

Recommendations 3–4

3. The Cincinnati VA Medical Center director establishes procedures to ensure Research and Development Budget Office staff review VA-affiliated nonprofit corporation invoices to make certain services were performed or the goods have been received in accordance with Intergovernmental Personnel Act agreements prior to approving invoices for payment.
4. The Cincinnati VA Medical Center director establishes procedures to ensure the Research and Development Budget Office supervisor conducts periodic reviews of the VA-affiliated nonprofit corporation invoices authorized for payment by staff as required by VA Financial Policies and Procedures, Volume VIII, Chapter 1A.

Management Comments

The Cincinnati VAMC director concurred with Recommendations 3 and 4. The director reported that procedures were updated to require that the Cincinnati VAMC research budget analyst approve for payment only invoices that include all appropriate documentation. In addition, the director reported that the research administrative officer or associate chief of staff of research will provide two quarterly reviews of all CERV IPA agreement-related invoices in March and May of 2020 to ensure proper documentation is included. Appendix D provides the full text of the VHA's management comments.

OIG Response

The action plans provided by the Cincinnati VAMC director for Recommendations 3 and 4 are responsive to OIG recommendations. Although the director reported actions were completed for Recommendation 3, the evidence provided was not sufficient to close the recommendation at this time. Regarding Recommendation 4, the response did not include procedures that have been, or will be, established to ensure that the R&D Budget Office supervisor conducts periodic reviews of the VA-affiliated nonprofit corporation IPA invoices authorized for payment by staff. Before the OIG closes this recommendation, evidence of actions planned beyond May 2020 will need to be provided to ensure there are appropriate procedures for periodic supervisory reviews of invoices approved for payment. The OIG will follow up on implementation of the planned actions and will close the recommendations when sufficient documentation has been provided that illustrates corrective actions have been implemented.

Appendix A: Scope and Methodology

Scope

The OIG conducted its work from February 2019 through November 2019. The scope of the audit focused on determining the merits of a hotline complaint alleging violations of law and VA policy at CERV, a VA-affiliated NPC located at the Cincinnati VAMC. The OIG visited CERV, the Cincinnati VAMC, and VA's Office of R&D. The OIG also met with Nonprofit Program Office staff in Washington, DC.

The OIG reviewed relevant information, including applicable laws and regulations, and VA policies and procedures. The audit team interviewed and obtained relevant documentation from Cincinnati VAMC and CERV officials. In addition, the team reviewed prior audit findings, governing board of directors' meeting minutes, CERV accounting records, and IPA agreements.

As part of the audit, the OIG obtained data from VA's Financial Management System on payments made by Cincinnati VAMC to CERV from January 2014 through April 2018. From the adjusted population of about 150 payments totaling approximately \$466,000, there were 30 payments statistically selected for testing. The OIG also obtained CERV expenditure records from January 2017 through June 2018.

Methodology

To evaluate the allegations and assess internal controls, the OIG reviewed applicable laws, regulations, VA policies, and local procedures. The OIG observed invoice processing; interviewed senior officials and staff at the Cincinnati VAMC, the Nonprofit Program Office, and CERV; and examined relevant accounting records. To determine whether the Cincinnati VAMC processed CERV invoices in accordance with law and VA policies, the OIG tested 30 statistically selected payments made by Cincinnati VAMC totaling approximately \$96,000 after the OIG adjusted the population of payments to account for payments not related to IPAs.

Fraud Assessment

The OIG assessed the risk that fraud, violations of legal and regulatory requirements, and abuse could occur during this audit. The audit team exercised due diligence and remained alert for fraud indicators. The results of prior audits, evaluations, reviews, and investigations conducted by the OIG, VA, and the Government Accountability Office were considered in assessing the risk that fraud could occur and not be detected. The OIG also reviewed CERV expenditure documentation for potential fraud indicators.

Data Reliability

The OIG relied on computer-processed data from VA's Financial Management System. To assess the reliability of these data, the OIG interviewed Cincinnati VAMC and CERV officials to validate source documentation. To test for reliability, the OIG determined whether any data were missing from key fields or were outside the time frame requested. The OIG also assessed whether the data contained obvious duplication of records, alphabetic or numeric characters in incorrect fields, or illogical relationships among data elements. The OIG also compared the data extracted from VA's Financial Management System to documentation and financial records obtained from the Cincinnati VAMC and CERV. The OIG concluded that the computer-processed data obtained from VA's Financial Management System were sufficiently reliable to support the audit objectives, conclusions, and recommendations.

Government Standards

The OIG's assessment of internal controls focused on those controls relating to the audit objectives. The OIG conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that the OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on audit objectives. The OIG believes the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

Appendix B: Statistical Sampling Methodology

To determine whether the Cincinnati VAMC processed CERV invoices in accordance with law and VA policies, the OIG sampled invoice records submitted by CERV and paid by the Cincinnati VAMC. The OIG used statistical sampling to quantify the extent of payments that were made improperly by the Cincinnati VAMC to CERV.

Population

After OIG excluded payments determined to be outside the scope of the audit, specifically not related to IPA agreements, the estimated population included about 150 payments made by the Cincinnati VAMC to CERV from January 2014 through April 2018 (audit period) totaling approximately \$466,000. The OIG used information extracted from VA's Financial Management System to identify the population of payments made by the Cincinnati VAMC to CERV.

Sampling Design

The OIG statistically selected a stratified sample of 30 payments totaling approximately \$96,000 made to CERV during the period of January 2014 through April 2018. Numbers were rounded based on the overall weighted average results of the statistical analysis. Estimates may not sum exactly due to rounding.

IDEA data analysis software was used to facilitate the selection of payments, with payments having an equal chance of being selected, which allows the projections over the whole population and by type. In addition, a random sampling approach was used, based on a design precision of 7 percent of the number of payments in the population, a 90 percent confidence level, and an expected error rate of no more than 10 percent of the total.

Weights

The OIG calculated estimates in this report using weighted sample data. Samples were weighted to represent the population from which they were drawn. The OIG used the weights to compute estimates. For example, the OIG calculated the error rate point estimates by summing the sampling weights for all sample records that contained the error, then dividing that value by the sum of the weights for all sample records.

Projections and Margins of Error

The point estimate (e.g., estimated error) is an estimate of the population parameter obtained by sampling. The margin of error and confidence interval associated with each point estimate are measures of the precision of the point estimate that account for the sampling methodology used. If the OIG repeated this audit with multiple samples, the confidence intervals would differ for each sample but would include the true population value 90 percent of the time.

The OIG statistician employed statistical analysis software to calculate the weighted population estimates and associated sampling errors. This software uses replication methodology to calculate margins of error and confidence intervals that correctly account for the complexity of the sample design.

The sample size was determined after reviewing the expected precision of the projections based on the sample size, potential error rate, and logistical concerns of the sample review. While precision improves with larger samples, the rate of improvement does not significantly change as more records are added to the sample review.

Figure B.1 shows the effect of progressively larger sample sizes on the margin of error.

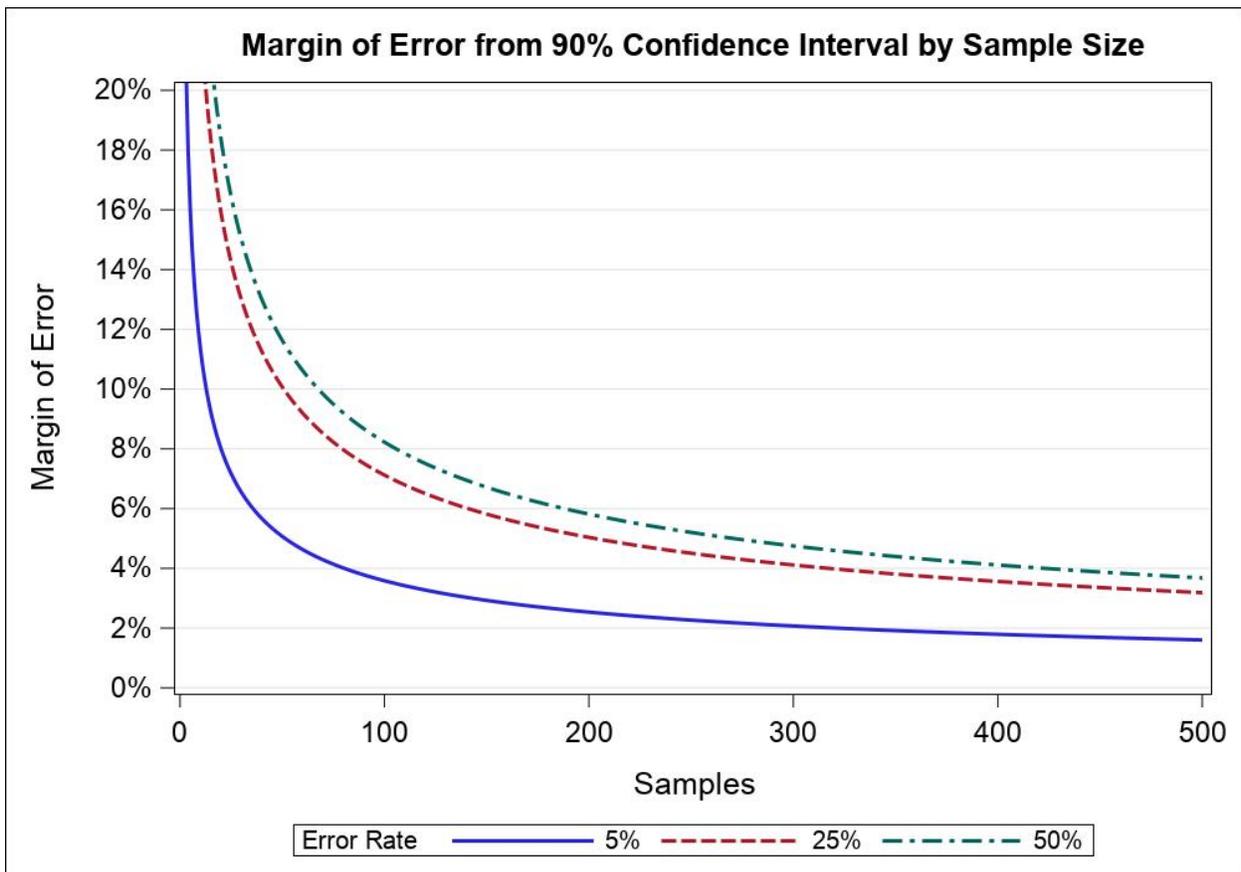


Figure B.1. Effect of sample size on the margin of error

Source: OIG statistician's analysis

Table B.1 details the projected improper payments based on analysis of the statistical sample. Based on the sample results, the OIG estimated Cincinnati VAMC improperly paid approximately \$435,000 to CERV without documentation of evidence that CERV performed the services for the Cincinnati VAMC it claimed during the scope period. The OIG also estimated that the Cincinnati VAMC could make an additional \$503,000 in improper payments to CERV over the next five years if the Cincinnati VAMC continues to make inappropriate payments

associated with IPA agreements at the rate identified and with a similar value of payments. Because the audit time frame covered more than one year, projections were annualized based on the number of months covered by the audit period. (The \$435,000 identified in the scope period projects to an annual average of about \$101,000 per year. This annual amount projected over five years totals about \$503,000.)

**Table B.1 Statistical Estimations Summary for Payments
by Cincinnati VAMC to CERV**

NPC location	Projection	Margin of error based on 90% confidence interval	90% confidence interval		Total sample size	Count from sample
			Lower limit	Upper limit		
Cincinnati VAMC	\$435,000	\$37,600	\$398,000	\$473,000	30	30

Source: OIG statistical analysis of Cincinnati VAMC invoice payment records. Numbers were rounded based on the overall weighted average results of the statistical analysis. Estimates may not sum exactly due to rounding.

Appendix C: Monetary Benefits in Accordance with Inspector General Act Amendments

Recommendations	Explanation of benefits	Better use of funds	Questioned costs
1–2	Potential monetary loss associated with unsupported expenditures by CERV.		\$12,000
3–4	Improper payments due to Cincinnati VAMC staff approving invoices for payment to CERV without adequate documentation from January 2014 through April 2018. ¹²		\$435,000
3–4	Estimated five-year future costs associated with Cincinnati VAMC staff inappropriately approving invoices for payment to CERV without adequate documentation. ¹³		\$503,000
	Total		\$950,000

Source: OIG staff analysis

Note: Numbers were rounded and may not sum exactly. Numbers for improper payments were based on the overall weighted average results of the statistical analysis.

¹² None of the statistically selected 30 payments evaluated included documentation to support the payments, which means the payments reviewed represented improper payments.

¹³ Because the audit time frame covered more than one year, projections were annualized based on the number of months covered by the audit period. (The \$435,000 identified in the scope period projects to an annual average of about \$101,000 per year. This annual amount projected over five years totals about \$503,000.) The OIG determined from the sample that if the Cincinnati VAMC continues to make inappropriate payments associated with IPA agreements at the rate identified and with a similar value of payments, improper payments made over the next five years could total approximately \$503,000.

Appendix D: Management Comments

Department of Veterans Affairs Memorandum

Date: December 5, 2019

From: Medical Center Director, Cincinnati VA Medical Center, Cincinnati OH (539/00)

Subj: OIG Draft Report of the Financial Controls and Payments Related to VA-Affiliated Nonprofit Corporations: Cincinnati Education and Research for Veterans Foundation.

To: Network Director, VISN 10 (10N10)

1. I concur with the findings and recommendations of the Office of the Inspector General draft report for the Financial Controls and Payments Related to VA-Affiliated Nonprofit Corporations: Cincinnati Education and Research for Veterans Foundation.
2. Please find the facility response to each recommendation.

(Original signed by)

Mark Murdock, MHA, FACHE, Medical Center Director

Department of Veterans Affairs Memorandum

Date: December 6, 2019

From: Network Director, Veterans Integrated Service Network 10 (10N10)

Subj: OIG Draft Report of the Financial Controls and Payments Related to VA-Affiliated Nonprofit Corporations: Cincinnati Education and Research for Veterans Foundation.

To: Director, St. Petersburg Audit Operations Division (52SP)

1. I concur with the findings and recommendation of the Office of the Inspector General draft report for the Financial Controls and Payments Related to VA-Affiliated Nonprofit Corporations: Cincinnati Education and Research for Veterans Foundation (CERV).
2. Please find the facility response to each recommendation attached.

(Original signed by)

Ronald E. Stertzbach for RimaAnn O. Nelson

Recommendation

1. The OIG recommended the Cincinnati VA Medical Center Director ensure the Cincinnati Education and Research for Veterans Foundation's board of directors establishes policies that require responsible officials to verify adequate supporting documentation before approving expenditures.

Facility: Concur

Target date for completion: Completed 11/18/19

Facility response: CERV amended their policies to include Board of Directors review and approval of supporting documentation for expenses.

Recommendation

2. The Cincinnati VA Medical Center Director ensure the Cincinnati Education and Research for Veterans Foundation's board of directors, or responsible officials, approve reimbursements to the executive director.

Facility: Concur

Target date for completion: 6/1/2020

Facility response: The Medical Center Director delegates authority to the Associate Chief of Staff of Research to conduct a quarterly review in March and May of 2020 of expenditures to ensure that the Board of Directors has approved the expenses and reimbursements for the executive director.

Recommendation

3. The Cincinnati VA Medical Center Director establish procedures to ensure research and development budget office staff review the VA-affiliated nonprofit corporation's invoices to ensure services were performed or the goods have been received in accordance with Intergovernmental Personnel Act agreements prior to payment.

Facility: Concur

Target date for completion: Completed 11/18/19

Facility response: Updated procedures require that the Cincinnati VAMC Research Budget Analyst only approve payment of invoices that include all appropriate documentation (e.g. time cards, receipts, etc.)

Recommendation

4. The Cincinnati VA Medical Center Director establish procedures to ensure research and development budget office supervisor conducts periodic reviews of the VA-affiliated nonprofit corporation's invoices authorized for payment by staff as required by VA Financial Policies and Procedures, Volume VIII, Chapter 1A.

Facility: Concur.

Target date for completion: 6/1/2020

The Research Administrative Officer or ACOS/R will provide quarterly reviews in March and May of 2020 of all CERV IPA invoices to ensure proper documentation is included.

For accessibility, the original format of this appendix has been modified to comply with Section 508 of the Rehabilitation Act of 1973, as amended.

OIG Contact and Staff Acknowledgments

Contact	For more information about this report, please contact the Office of Inspector General at (202) 461-4720.
----------------	---

Audit Team	Timothy J. Crowe, Director Martin Barberini Josie Carver Charles F. Chiarenza Angela Ferguson Valerie Kimball Mark Mullery Nelvy Viguera Butler
-------------------	--

Report Distribution

VA Distribution

Office of the Secretary
Veterans Benefits Administration
Veterans Health Administration
National Cemetery Administration
Assistant Secretaries
Office of General Counsel
Office of Acquisition, Logistics, and Construction
Board of Veterans' Appeals
Director, VISN 10: VA Healthcare System
Director, Cincinnati VA Medical Center
Veterans Health Administration Office of Research and Development
Veterans Health Administration Chief Financial Officer
Director, Veterans Health Administration Nonprofit Program Office

Non-VA Distribution

House Committee on Veterans' Affairs
House Appropriations Subcommittee on Military Construction, Veterans Affairs,
and Related Agencies
House Committee on Oversight and Reform
Senate Committee on Veterans' Affairs
Senate Appropriations Subcommittee on Military Construction, Veterans Affairs,
and Related Agencies
Senate Committee on Homeland Security and Governmental Affairs
National Veterans Service Organizations
Government Accountability Office
Office of Management and Budget
U.S. Senate: Sherrod Brown, Robert Portman
U.S. House of Representatives: Steve Chabot, Warren Davidson, Michael Turner,
Brad Wenstrup

OIG reports are available at www.va.gov/oig.