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VETERANS HEALTH ADMINISTRATION

Financial Management Practices Can Be Improved to Promote the Efficient Use of Financial Resources

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Executive Summary

One strategic goal of the VA Office of Inspector General (OIG) is to facilitate stewardship of taxpayer dollars. To accomplish this goal, the OIG identifies VA resources at risk of fraud, waste, or abuse and makes recommendations to reduce this risk and promote responsible use of VA's appropriated funds. In fiscal year (FY) 2015, CliftonLarsonAllen LLP (CLA), the OIG's contracted auditor of VA's consolidated financial statements, reported that the lack of consolidated financial management authority in the Veterans Health Administration (VHA) can lead to communication and coordination difficulties, duplication of efforts, inefficiencies, and inconsistencies in how financial management policies are executed and monitored. CLA further stated that VHA's financial management structure was fragmented, with financial personnel reporting through various chains of authority. CLA made repeat recommendations in its FY 2015 through FY 2018 audits that the VHA executive in charge evaluate VHA's financial management reporting structure to ensure VHA's Office of the Chief Financial Officer (CFO) has the necessary authority to oversee all accounting, budgeting, and financial management activities relating to all VHA programs and operations. This includes directing, managing, and providing policy guidance and oversight of all VHA financial management business processes, key financial activities, and operations.[1]

Similarly, the OIG has reported weaknesses with VHA's financial oversight, demonstrating that VHA has not established adequate controls to detect, prevent, or reduce the risk of fraud, waste, and abuse of its medical centers' financial resources. A prime example of the types of financial oversight issues generally found by the OIG were discussed in the report *Critical Deficiencies at the Washington DC VA Medical Center*, which noted

- Financial and inventory systems producing inadequate data, lacking effective internal controls, and yielding no assurances that funds were appropriately expended; and
- Methods used by the Veterans Integrated Service Network (VISN) and VHA Central Office to oversee the medical center were either inadequate or did not include data on key aspects of medical center operations.[2]

One of the outcomes of the Washington DC VA Medical Center review was the need to examine the role of VHA and VISNs in assessing medical center financial performance. Prompted by

[1] In its FY 2019 audit of VA's consolidated financial statements, CLA reported "VA has not adequately designed and [implemented] the appropriate controls...to remediate the financial reporting risks associated with a decentralized reporting structure." Consequently, "[T]he lack of an entity level control, including the decentralized reporting structure...has led to systemic and pervasive control deficiencies that impedes [*sic*] the Department's ability to process, summarize, and report reliable financial information in a timely manner."

[2] VA OIG, *Critical Deficiencies at the Washington DC VA Medical Center*, 17-02644-130, March 7, 2018.

these concerns, the OIG initiated this audit to determine whether VHA established adequate financial management practices at VA Southeast Network (VISN 7) and VA Great Lakes Health Care System (VISN 12) to promote the efficient use of their medical centers' financial resources.

What the Audit Found

The OIG found that VHA's financial management practices did not include financial controls, such as a set of performance indicators, to promote the efficient use of financial resources at its VISNs and medical centers. The absence of such controls occurred, in part, because VHA lacked an effective financial management structure to reasonably ensure controls were established to achieve financial efficiency in its operations. This lack of financial controls weakens VHA's ability to readily assess whether its VISNs and medical centers are using funds in a cost-effective manner to prevent wasteful spending.

VHA's Financial Management Does Not Include Controls to Promote Efficiencies at VISNs and Medical Centers

Financial management requirements establish management's responsibility for developing controls to reasonably assure that financial assets are safeguarded against waste, loss, unauthorized use, and misappropriation; financial reports are reliable; and obligations comply with applicable laws. Strong financial management is the foundation of financial efficiency and reduces the risk that financial resources will be vulnerable to fraud, waste, and abuse.

VHA's financial management activities are primarily focused on monitoring planned versus actual obligations of appropriated funds, addressing budget excesses and shortfalls, and providing reliable financial reporting in support of financial statement preparation with the primary goal of ensuring all funds are expended. VHA established a limited set of financial controls by requiring various financial reports and self-certifications to monitor these financial management activities. The reports and self-certifications help support a determination that financial reporting is reliable and that VHA complies with generally accepted accounting principles, which helps ensure VA receives an unmodified "clean" opinion on its financial statements.[3]

While these financial management activities are important, they focus primarily on budget allocation and execution and financial statement preparation. They do not include controls, such as a set of performance indicators, that can be used by VISNs and medical centers to assess areas susceptible to risk or wasteful spending, thereby promoting financial efficiencies. Additionally, these financial management activities do not allow VHA to perform a comprehensive nationwide

[3] A clean audit opinion finds that the financial statements present fairly, in all material respects, the financial position of the audited entity in accordance with generally accepted accounting principles.

assessment of whether VISNs and medical centers used their financial resources efficiently while reducing the risk of fraud, waste, and abuse.

According to VHA's deputy CFO, when VHA assesses VISN performance, it considers several clinical factors but none of those are used specifically to assess financial performance. Moreover, according to the deputy, financial controls such as performance indicators, cannot be developed because each medical center differs in size, medical services provided, and patient demographics. Thus, in the deputy's view, the needs for each medical center would be different. The deputy justified the lack of financial performance indicators by saying that a clean independent audit of the financial statements indicates the effective use of funds.

However, the independent auditor's report does not evaluate whether VHA uses funds effectively. The report's stated purpose is to provide the independent auditor's opinion on whether the financial statements present the financial position of VA in compliance with generally accepted accounting principles. Without a set of financial controls, such as performance indicators, VHA cannot perform a comprehensive nationwide assessment to determine whether VISNs and medical centers used their financial resources efficiently while reducing the risk of fraud, waste, and abuse. Consequently, VISNs and their medical centers may not be making the most prudent use of their funds.

Financial Performance Indicators Can Help Assess VISN and Medical Center Financial Performance

VHA could develop financial controls, such as financial performance indicators, that can be used by VISNs and medical centers to assess areas susceptible to risk or wasteful spending. Without a set of financial indicators for VISNs and medical centers, VHA lacks the capability to fully assess the effectiveness of operations. To highlight the usefulness of developing a set of financial performance measures, the OIG selected items for comparison that VHA can access for all VISNs and medical centers. The following items were selected based on reviews of literature on industry-wide standards and interviews with VHA and VISN finance staff, and other government agencies:

- Prime vendor contract utilization
- Medical staff overtime compared with medical staff workload
- Administrative staff overtime compared with administrative staff workload

The OIG chose prime vendor contract utilization as one possible key performance indicator since a low rate of prime vendor use could indicate that the VISNs are overpaying to purchase medical and surgical supplies. The OIG found that from FY 2018 to FY 2019, four out of 18 VISNs consistently trended toward meeting, and eventually exceeding, the Medical/Surgical Prime Vendor-Next Generation goal. This suggests that the four VISNs may be efficient in their

medical and surgical supply expenditures. Aggregating for all VISNs, VHA could use this information (such as best practices employed by VISNs meeting the required goal) to ensure greater use of the Medical/Surgical Prime Vendor-Next Generation contract. In contrast, the remaining 14 VISNs fluctuated but ultimately stayed below the prime vendor goal. With so many VISNs below the prime vendor goal, there is a need for VHA to ensure VISNs increase their use. Prime vendor usage information will allow VHA to identify material decreases in use and explore the reasons for them.

Similarly, a high rate of overtime use could indicate that medical centers are not effectively managing their workload or resources. The OIG analyzed medical and administrative staff overtime costs compared with medical and administrative staff workload for complexity level 1c medical centers in VISNs 7 and 12.[4] The OIG then compared the VISNs' use of overtime with VHA's national average, which was used as a baseline. The results for medical staff overtime compared with medical staff workload suggest that the James A. Lovell Federal Health Care Center (in VISN 12) disproportionately relied on overtime for its medical staff, when compared with other medical centers of the same operational complexity.

In addition, the results for administrative staff overtime cost compared with administrative staff workload suggest some inconsistency in the healthcare centers' use of overtime within VHA and even in the same VISN. Moreover, some medical centers are disproportionately using overtime for administrative staff when compared with other facilities of the same operational complexity. VHA could collect this information across all medical centers and try to identify and mitigate trends that result in excessive use of overtime.

The OIG selected these measures to demonstrate that financial performance indicators can be developed to allow VHA and its VISNs to identify inefficiencies that could indicate wasteful spending and enhance VHA's stewardship of taxpayer funds. VHA-wide financial performance indicators could also highlight trends that VHA may not have otherwise identified, leading to VHA developing best practices to enhance financial efficiency in its operations.

VHA's CFO Structure Does Not Promote Effective Financial Oversight of VISNs and Medical Centers

VHA did not establish appropriate financial controls because it lacks an effective financial oversight structure that explicitly delegates the responsibility for financial controls in a manner that would promote the efficient use of funds in its operations. The VHA CFO serves as the principal financial advisor, supporting the under secretary for health and the deputy under

[4] Columbia VA Health Care System (VISN 7), Central Alabama VA Health Care System (VISN 7), and James A. Lovell Federal Health Care Center (VISN 12). VHA characterizes medical center complexity as follows: 1a is considered most complex; 1b, 1c, 2, and 3 are least complex. VHA bases complexity on medical center and program characteristics including patient population, education and research, and the number of intensive care units.

secretary for health for operations and management (DUSHOM). However, the VHA CFO has no direct authority in VHA's current reporting structure to provide effective oversight of VISN and medical center financial management activities. VHA's decision to decentralize its budgetary, planning, and decision-making functions to the VISNs left that authority to the DUSHOM.

Federal guidelines state that agency chief executive officers, such as the CFO, have a responsibility to lead agency management functions, including efforts to set agency goals, review progress, and adjust as needed to ensure the agency's management functions effectively support the agency's goals and objectives.[5] Moreover, CFOs are required to develop and maintain a financial management system, including internal controls, that complies with internal control standards.[6] The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* provides the overall framework for establishing and maintaining an effective internal control system.[7] The standards state that management is responsible for assigning responsibilities to enable the organization to operate in an effective and efficient manner. These authorities promote aligning VISN and medical center CFOs under one authoritative position, and then consolidating all CFO responsibilities under that same position, to establish the authority needed to improve accountability and the ability to oversee all VHA financial activities.

Under VHA's current reporting structure, VISNs 7 and 12 perform their financial management functions inconsistently. Moreover, these VISNs do not conduct oversight that promotes financial efficiency. The OIG found that oversight by VISNs 7 and 12, similar to the VHA Office of Finance, focused on activities associated with reliable financial reporting, allocating financial resources, addressing budget excesses and shortfalls, and monitoring planned versus actual obligations of appropriated funds. Because each VISN developed its own practices, VHA cannot easily perform a comprehensive assessment of how efficiently its VISNs and medical centers use their funds.

Without an effective financial management structure, VHA will have difficulty establishing the financial controls needed to monitor the efficient use of funds. The lack of financial controls, including performance indicators, makes it especially challenging for VHA to perform a nationwide assessment of whether VISNs and medical centers use their financial resources efficiently while reducing the risk of fraud, waste, and abuse. VHA needs to take a more focused and proactive role to ensure that its VISNs have adequate controls in place to help their medical centers use operating funds in a cost-effective manner.

[5] OMB Circular A–11, "Preparation, Submission, and Execution of the Budget," December 18, 2019.

[6] Chief Financial Officers Act of 1990, Pub. L. No. 101–576, § 902(a)(3) (1990).

[7] GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G, September 2014.

What the OIG Recommended

The OIG recommended the under secretary for health establish key performance indicators that align with medical center operations and can be used to assess the efficient use of operating funds.[8] The under secretary should also specify the office responsible for establishing financial controls that address the efficient use of funds at VISNs and medical centers. In addition, the under secretary should require VHA to establish and publish organizational charts that identify the appropriate financial management reporting lines of authority and to develop familiarization training on the reporting lines of authority at the VISN and medical center levels, as appropriate.

Management Comments

The executive in charge, Office of the Under Secretary for Health, concurred with all the recommendations and submitted corrective action plans. The executive in charge requested the closure of recommendation 2. Based on the information provided, the OIG considers this recommendation closed. The OIG will monitor implementation of planned actions for recommendations 1 and 3 and will close these recommendations when VHA provides sufficient documentation demonstrating progress in addressing the issues identified.

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[8] Recommendations directed to the under secretary for health were submitted to the executive in charge, who has the authority to perform the functions and duties of the under secretary for health.

Contents

Abbreviations

CFO	chief financial officer
CLA	CliftonLarsonAllen LLP
DUSHOM	deputy under secretary for health for operations and management
FY	fiscal year
GAO	Government Accountability Office
OIG	Office of Inspector General
OMB	Office of Management and Budget
VHA	Veterans Health Administration
VISN	Veterans Integrated Service Network

Introduction

The VA Office of Inspector General (OIG) conducted this audit to determine whether the Veterans Health Administration (VHA) established adequate financial management practices at Veterans Integrated Service Networks (VISNs) 7 and 12 to promote the efficient use of financial resources at their medical centers.

Background

VHA is America's largest integrated healthcare system with a medical care budget of approximately $84.1 billion in fiscal year (FY) 2020.[9] VHA provides care at approximately 1,240 healthcare facilities with over nine million enrolled veterans. VHA medical centers offer a wide range of medical care including surgery, critical care, mental health, orthopedics, pharmacy, radiology, and physical therapy. Some medical centers also offer advanced services such as organ transplants and plastic surgery. During FY 2019, VHA treated approximately 6.4 million patients, completed about 88.1 million outpatient visits, and processed approximately 603,000 admissions, which resulted in approximately 8.8 million inpatient bed days of care.

The OIG has repeatedly identified and reported weaknesses with VHA's financial oversight, demonstrating that VHA has not established adequate controls to detect, prevent, or reduce the risk of fraud, waste, and abuse of its medical centers' financial resources.[10] The control deficiencies within VHA have at times led to the misuse of funds, budget shortfalls, and Antideficiency Act violations.

Deputy Under Secretary for Health for Operations and Management

According to VA's Functional Organization Manual, the deputy under secretary for health for operations and management (DUSHOM) is responsible for providing operational direction and guidance to the VISNs, including their administrative functions.[11] The DUSHOM is also responsible for 24 VHA clinical and administrative program offices that ensure VHA policies

[9] VA FY 2020 Budget Submission to Congress, vol. II, *Medical Programs and Information Technology Programs*.

[10] VA OIG, *Audit of Financial Management and Fiscal Controls for Veterans Integrated Service Network Offices*, 10-02888-128, March 27, 2012; VA OIG, *Audit of Management Control Structures for Veterans Integrated Service Network Offices*, 10-02888-129, March 27, 2012; VA OIG, *Critical Deficiencies at the Washington DC VA Medical Center*, 17-02644-130, March 7, 2018; VA OIG, *Review of Alleged Misuse of VA Funds to Develop Health Care Claims Processing System*, 14-00730-126, March 2, 2015; VA OIG, *Review of South Texas Veterans Health Care System's Management of Fee Care Funds*, 11-04359-80, January 10, 2013; VA OIG, *Insufficient Oversight of VA's Undelivered Orders*, 17-04859-196, December 16, 2019.

[11] VA, *Functional Organization Manual,* version 5, 2019. The Office of the Deputy Under Secretary for Health for Operations and Management operates more than 1,200 healthcare facilities, serving nine million enrolled veterans each year.

and regulations are executed and supported to fulfill the operating needs of VHA field operations. The DUSHOM reports to the principal deputy under secretary for health.

Office of Finance

The VHA Office of Finance is commonly referred to as the Office of the Chief Financial Officer (CFO). The Office of the CFO also reports to the principal deputy under secretary for health and has overarching responsibility for VHA budget development, funding allocation, and monitoring VISNs' use of funds. In addition, the office guides and oversees financial management and accounting operations and maintains VA's Managerial Cost Accounting System. The CFO serves as the principal financial advisor to the under secretary for health and provides support to the DUSHOM on financial matters.

However, the VHA CFO does not have the authority to direct or coordinate VHA's financial management activities. VHA's network and medical center financial management functions are currently managed by two groups: the VHA CFO and 18 VISN CFOs. Each CFO has separate responsibilities and management reporting lines that converge in the office of the principal deputy under secretary for health, as shown in figure 1.

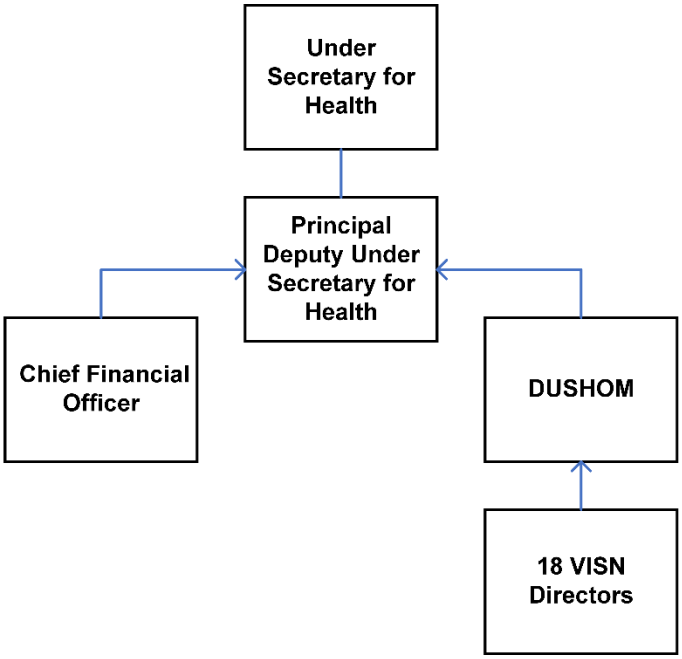


***Figure 1**. Abbreviated VHA organization chart.*

Source: Functional Organization Manual*, Description of Organization Structure, Missions, Functions, Tasks, and Authorities, version 5, 2019.*

Veterans Integrated Service Networks

VHA is divided into 18 VISNs, each a shared system of care working together to better meet local healthcare needs and provide veterans greater access to care. VHA established VISN offices to improve access to medical care and ensure timely, quality care to the nation's veterans.[12] In 1995, VHA decentralized its budgetary, planning, and decision-making functions to the VISN offices to promote accountability and improve oversight of daily medical center operations. When VHA created VISNs, it gave VISN directors the autonomy and authority to develop and implement their own local management procedures. Consequently, VISN directors make decisions independently concerning the financial management practices they employ to ensure their medical centers use financial resources cost-effectively and prevent wasteful spending. Each VISN has a CFO who is responsible for the network's financial management activities and reports to the VISN's deputy director. Unlike the Office of the VHA CFO, VISNs are aligned under the DUSHOM. To determine whether VHA established adequate financial management practices to assess the efficient use of funds at VISNs, the audit team conducted audit work at the VA Southeast Network (VISN 7) and VA Great Lakes Health Care System (VISN 12).[13]

VA Southeast Network (VISN 7)

VISN 7, in Duluth, Georgia, is the fourth-largest network in VHA. It delivers medical care to approximately 649,000 enrolled veterans in Alabama, Georgia, and South Carolina. VISN 7 provides oversight to eight hospitals and 57 community-based outpatient clinics. VISN 7's CFO reports to the VISN 7 deputy director and provides financial management oversight to the eight medical centers. Each medical center has a CFO responsible for the financial management activities at the medical center. VISN 7's medical care budget in FY 2019 was approximately $4.3 billion.

VA Great Lakes Health Care System (VISN 12)

VISN 12 is in Westchester, Illinois. It provides healthcare services to veterans who reside in Illinois, Indiana, Michigan, and Wisconsin. VISN 12 provides oversight to eight medical centers, 38 community-based outpatient clinics, eight nursing homes, and six domiciliaries. To monitor and oversee financial management operations, the former VISN 12 director aligned all financial management functions under the VISN 12 CFO, who provides financial management oversight to the eight medical centers. The VISN CFO has two deputy finance managers responsible for overseeing the financial management functions at their assigned medical centers. At each of the

[12] VHA, *Vision for Change: A Plan to Restructure the Veterans Health Administration*, 1995.

[13] VISNs 7 and 12 were selected because they consistently had among the highest budget variances and their performance had not significantly improved for the two years of data reviewed by the audit team. Full details of the scope and methodology are in appendix A.

medical centers, the deputy finance managers depend on assistant finance officers, accountants, and budget analysts to oversee the day-to-day financial activities of the medical centers. VISN 12's medical care budget in FY 2019 was approximately $3.4 billion.

The two VISNs have different structures to address financial management. VISN 7 relies on medical center CFOs. VISN 12 organized its finance team as a finance product line. VISN 12 consolidated fiscal activities and aligned all fiscal functions under the VISN 12 CFO and two deputy finance managers (northern and southern tier), who depend on assistant finance officers, accountants, and budget analysts at each medical center.

Results and Recommendations

Finding: VHA and VISN Financial Management Practices Do Not Promote the Efficient Use of Financial Resources at Medical Centers

VHA did not establish financial management procedures to promote the efficient use of financial resources at its VISNs and medical centers. VHA established a limited set of financial controls by requiring various financial reports and self-certifications that focus on specific activities such as monitoring planned versus actual obligations of appropriated funds, addressing budget excesses and shortfalls, and achieving reliable financial reporting. While these controls are important for budget execution and financial reporting, they do not include controls, such as performance indicators, to promote financial efficiency and reasonably assure that financial assets are safeguarded against waste, loss, unauthorized use, and misappropriation.

The absence of such controls occurred, in part, because VHA lacked an effective financial management structure to reasonably ensure controls were established to achieve financial efficiency within its operations. VHA has not explicitly defined or delegated responsibility for financial controls in a manner that would promote the efficient use of funds in its operations. VHA's financial management practices do not provide the capability to readily assess whether its VISNs and medical centers use their funds in a cost-effective manner to prevent wasteful spending. Without an effective oversight structure which includes financial controls to monitor the efficient use of funds, VISNs and medical centers are susceptible to fraud, waste, and abuse of funds. Establishing an effective VHA financial oversight structure that includes controls that the VISNs and medical centers can use to assess areas susceptible to risk should help promote the efficient use of funds. This would also provide VHA with an assessment of VISN and medical center performance and whether corrective actions need to be taken.

What the OIG Did

The OIG selected VISNs 7 and 12 and eight of their medical centers for on-site reviews.[14] The OIG used multiple sources of information, including applicable laws and regulations, VA financial policies and procedures, prior contractor studies, and OIG and Government Accountability Office (GAO) reports. In addition, the OIG reviewed literature on government and private industry best practices and interviewed personnel from other government agencies to gain insights on best practices. The OIG obtained testimonial and documentary information from

[14] Sites were selected based on (1) risk, by assessing VHA's FY 2016 and FY 2017 allocations reports provided by the VHA Office of Finance, and (2) a combination of quantitative attributes, such as the budget variance rates for FY 2016 and FY 2017, and qualitative factors such as a medical center's level of complexity.

program officials and staff in the Office of the DUSHOM, VHA Office of Finance, VISNs 7 and 12, and 12 of their medical centers.

As part of the audit, the OIG collected and reviewed VHA-reported data for comparing salaries, the amount of overtime recorded, the number of administrative and clinical staff, and medical supply for VHA and the 18 VISNs. The data were retrieved through the VHA Support Service Center, the Pyramid Analytics data query tool, and the Supply Chain Common Operating Picture.

This report is organized into the following sections:

- Federal Requirements Mandate Financial Management Controls
- VHA's Financial Management Does Not Include Controls to Promote Efficiencies at VISNs and Medical Centers
- Financial Performance Indicators Can Help Assess VISN and Medical Center Financial Performance
- VHA's CFO Structure Does Not Promote Effective Financial Oversight of VISNs and Medical Centers
- VISN Financial Management Does Not Promote Financial Efficiency

These financial management practices are necessary to reasonably ensure VA financial policy objectives are met. Moreover, effective and well-communicated financial management procedures help achieve financial management objectives, such as preventing wasteful spending.

Federal Requirements Mandate Financial Management Controls

Effective federal financial management includes planning, budgeting, execution, and oversight of an agency's operations. The Office of Management and Budget (OMB) states that federal managers have an obligation to ensure that every dollar spent delivers results for the American people.[15] In other words, federal managers must work to achieve the goal of financial efficiency in their operations. To achieve financial efficiency, federal regulations and standards have established executive branch agency requirements for internal accounting and administrative controls to safeguard assets and prevent fraud, waste, and abuse of taxpayer funds. The following requirements mandate the need for VHA to establish financial controls, such as key performance indicators, to help achieve financial efficiency for its VISNs and medical centers.[16]

[15] OMB Circular A-11, "Preparation, Submission, and Execution of the Budget," December 2019.

[16] According to Healthcare Insights LLC, key performance indicators are performance measures chosen by an organization as representative of the most important outcomes to achieve key objectives. Organizations use key performance indicators to measure the results of their policies, practices, and procedures.

Federal Managers Financial Integrity Act

The Federal Managers Financial Integrity Act of 1982 requires executive agencies to perform ongoing evaluations of the systems of internal accounting and administrative control.[17] The act requires the GAO to prescribe standards of internal control in the federal government, and GAO defined internal control to provide reasonable assurance of achieving the three objectives:

1. Effectiveness and efficiency of operations[18]
2. Reliability of financial reporting
3. Compliance with regulations and laws

Furthermore, the act requires executive agencies to provide reasonable assurance that funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation.

Chief Financial Officers Act of 1990

The CFO Act of 1990 was enacted to improve financial management and established the authority and functions of the CFO. To significantly decrease annual losses of "billions of dollars through fraud, waste, abuse, and mismanagement," the act made each agency CFO responsible for overseeing all financial management activities for agency programs and operations. In addition, the CFO is responsible for developing and maintaining a financial management system, including internal controls, that complies with internal control standards.[19]

Office of Management and Budget Circular

According to OMB Circular A-11, agency chief executive officers, such as the CFO, have a responsibility to lead agency management functions. This responsibility includes setting agency goals, reviewing progress, and adjusting as needed "to ensure that the agency's management functions are effective in supporting agency goals and objectives." Moreover, high-performance public-sector organizations "implement performance management systems that engage leaders in regularly reviewing progress toward their goals." As part of these performance management systems, leaders establish clear roles and responsibilities, conduct regular reviews of progress, and act based on evidence.[20]

[17] Federal Managers Financial Integrity Act of 1982, Pub. L. No. 97-255 (1982).

[18] GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G, September 2014. "Efficient operations produce the intended results... in a manner that minimizes the waste of resources."

[19] Chief Financial Officers Act of 1990, Pub. L. No. 101–576, §§ 102(a)(3), 902(a)(2), and 902(a)(3) (1990).

[20] OMB Circular A-11.

Government Accountability Office Standards for Internal Control

The GAO's *Standards for Internal Control in the Federal Government* provides the overall framework for establishing and maintaining an effective internal control system.[21] Internal controls are intended to help managers achieve desired results through effective oversight of public resources. Furthermore, they provide managers with the criteria for designing, implementing, and operating an effective internal control system. The standards also state that it is management's responsibility to set the entity's objectives, implement controls, and then evaluate those controls as part of the overall internal control system. In addition, management should design appropriate types of control activities, such as establishing performance measures and indicators, for the organization's control system. Furthermore, the standards state that management is responsible for establishing an organizational structure with an understanding of the overall responsibilities and assigning those responsibilities to enable the organization to operate in an effective and efficient manner, comply with applicable laws and regulations, and reliably report quality information.

VA Financial Policy

Similarly, VA financial policy establishes management's responsibilities "for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations."[22] According to the policy, "management officials, such as VHA's CFO, fiscal officers, chiefs of finance activities, and chief accountants, are responsible for ensuring compliance and implementing the financial policies established by VA's CFO." The policy mandates that VHA incorporate, into organization-wide policy, the procedures necessary to ensure effective and efficient operations. VA financial policy also points out that the Government Performance and Results Act of 1993 requires agencies to establish performance indicators for each program and to assess relevant program outputs and outcomes as a basis for comparing actual results with established goals.[23]

VA policy establishes management responsibility for implementing internal controls to ensure efficient operations, reliable financial reporting, and compliance with law and regulation. Accordingly, VHA has a mandate to affect those types of internal controls. That mandate to VHA is especially significant because of the magnitude of financial resources provided to VHA and the efficient use of financial resources will result in efficient provision of care.

[21] GAO, *Standards for Internal Control in the Federal Government*.

[22] VA Financial Policies and Procedures, vol. 1, chap. 5, "Management Accountability and Responsibility for Internal Controls," November 2010.

[23] VA Financial Policies and Procedures, vol. XIII, chap. 3, "Managerial Cost Accounting," July 2010.

VHA's Financial Management Does Not Include Controls to Promote Efficiencies at VISNs and Medical Centers

VHA's financial management activities are primarily focused on monitoring planned versus actual obligations of appropriated funds, addressing budget excesses and shortfalls, and reliable financial reporting in support of financial statement preparation with the primary goal of ensuring all funds are expended. To monitor these aspects of the VISNs' financial performance, VHA established a limited set of financial controls by requiring various financial reports and self-certifications:

- **Operating plan or VISN obligation report.** The VHA Office of Finance requires VISNs to submit an operating plan (sometimes referred to as the VISN obligation report) to monitor how VISNs and medical centers plan to use their funds. The report shows the medical center's planned versus actual obligations. The report was intended to (1) determine whether funds were used before they expired, (2) identify any projected budget shortfall, and (3) ensure excess funds were reallocated based on the medical centers' needs. VHA requires VISNs to explain any variances of plus or minus 5 percent of the planned operating expenses identified in the operating plan. Thus, the focus is more on the obligation and reallocation of funds rather than using operating funds in a cost-effective manner to prevent wasteful spending.
- **Annual statements of assurance.** The VHA Office of Finance requires VISNs and medical center leaders to submit annual statements of assurance as a mechanism to support the VA Secretary's overall statement of assurance for financial statement reporting. The statements of assurance are designed to provide reasonable assurance that (1) financial statements are reported in accordance with regulatory and statutory guidance, (2) internal controls are adequate and effective to provide reasonable assurance that the organization's controls over financial management achieved intended objectives, and (3) inventory values match and balance those in the medical center's accounting system as of fiscal year end.[24]
- **Managerial cost accounting certification.** The VHA Office of Finance requires medical centers and VISNs to submit the managerial cost accounting certification as an assertion that reported data for budget formulation are reliable. This self-certification is intended to provide reasonable assurance that costs were accurately reflected and all costs in the operating ledger of VA's financial management system were reconciled with the managerial cost accounting system. The focus was more on ensuring costs were accurately reflected to support the

[24] VA Financial Policies and Procedures, "Management Accountability and Responsibility for Internal Controls."

distribution of funds at the beginning of the fiscal year, rather than using operating funds in a cost-effective manner to prevent wasteful spending.

- **Financial indicators.** The VHA Office of Finance requires that financial indicators be reported in areas such as the aging of open obligations, purchase card reconciliations, and the capitalization of fixed assets. According to VA policy, the purpose of the indicators is to evaluate and promote improvement in financial management.[25] In addition, these measures are designed to ensure the fair presentation of VHA's financial statements. Like the preceding certifications, the focus is on the fair presentation of VHA's financial statements, not on the use of operating funds in a cost-effective manner to prevent wasteful spending.
- **Financial quality assurance reviews.** The VHA Office of Finance requires financial quality assurance reviews to provide reasonable assurance that fiscal year-end data are sufficient to help minimize the number of findings in VA's financial statement audits. The reviews cover nine areas and are used for internal review and evaluation of VHA's financial management operating activities.[26] Like the review of the financial indicators, the focus is on the fair representation of the financial statements, not on the use of operating funds in a cost-effective manner to prevent wasteful spending.[27]

While these financial management activities are important, they focus primarily on budget allocation and execution and financial statement preparation. They do not include establishing controls, such as performance indicators, that can be used by VISNs and medical centers to assess areas susceptible to risk or wasteful spending, thereby promoting financial efficiencies. Consequently, VISNs and their medical centers may not be making the most prudent use of their funds. According to VHA's deputy CFO, when VHA assesses VISNs' performance, it considers several clinical factors but none of those are used specifically to assess financial performance. Moreover, according to the deputy, financial controls such as performance indicators cannot be developed because each of the medical centers differ in size, medical services provided, and patient demographics. Thus, in the deputy's view, the needs for each medical center are different.

In contrast to the deputy's statement, VHA has developed over 400 clinical performance measures, despite having approximately 170 medical centers that vary by size, medical services provided, and patient demographics, to promote comparability between medical centers. The use of such clinical performance measures demonstrates that financial performance indicators could

[25] VHA Directive 1024, *Financial Indicators*, February 2016.

[26] The nine review areas are local management; agent cashier; payroll administration and employee accounts; personal funds of patients; voucher audit; accounting; general post fund; property, plant, and equipment; and employee travel.

[27] VHA Directive 1733, *VHA Financial Quality Assurance Reviews*, September 2017.

likely be developed to assess, in greater detail, the financial performance of VHA's medical centers.

VHA's deputy CFO further justified the lack of financial performance indicators by saying that a clean independent audit of the financial statements indicates the effective use of funds. However, the independent auditor's report does not evaluate whether VHA uses funds effectively. Rather, the stated purpose of the report is to provide the independent auditor's opinion on whether the financial statements present the financial position of VA, in compliance with generally accepted accounting principles.[28]

The deputy CFO noted that an organization may be financially sound but not effectively caring for its patients. Patient care is always the highest priority, but that does not negate the need for the effective use of financial resources and efficient processes. Assessing the effective use of funds should enhance patient care, as dollars found to be wasted in one area can be used to greater effect in another area.

Financial Performance Indicators Can Help Assess VISN and Medical Center Financial Performance

VHA could develop financial controls, such as financial performance indicators, that VISNs and medical centers could use to assess areas susceptible to risk of fraud, abuse, or wasteful spending.

The OIG asked the deputy CFO if VHA considered using costs, such as pharmaceutical and supply costs, to facilitate a comparison of costs nationally, by VISN, or medical center. The deputy CFO stated that, in the past, VHA tried benchmarking and scorecards for clinical purposes but the effort was never completed. The deputy CFO stated financial management is not a science, but an art and that

> We don't have anything that looks specifically at financial metrics.... We look at several factors, including quality of patient care. If you want to see how effective the VISN is you take many things into account, not just their finances.

Although many factors do go into assessing VISN effectiveness, metrics that specifically address the effective use of financial resources is a factor that impacts the assessment of VISN effectiveness. By not requiring indicators that focus on financial efficiencies, the overall financial effectiveness at VISNs and medical centers cannot be adequately assessed.

To highlight the usefulness of developing a set of financial performance measures, the OIG selected items for comparison that VHA can access for all VISNs and medical centers. The items

[28] A clean audit opinion finds that the financial statements present fairly in all material respects the financial position of the audited entity in accordance with generally accepted accounting principles.

were selected based on reviews of literature on industry-wide standards, interviews with VHA and VISN finance staff, and other government agencies.

To compare VISNs 7 and 12 against VHA overall, the OIG used the following data for the selected items:

- Prime vendor contract utilization
- Medical staff overtime compared with medical staff workload
- Administrative staff overtime compared with administrative staff workload

The OIG selected prime vendor contract utilization as one possible key performance indicator since a low rate of prime vendor utilization could indicate that the VISNs are overpaying to purchase medical and surgical supplies.[29] Similarly, an over-reliance on staff overtime could indicate that the medical centers are not effectively managing their workload or resources.

The purpose of selecting these measures was to demonstrate that a set of financial performance indicators can be developed to allow VHA and its VISNs to identify inefficiencies that could indicate wasteful spending and enhance VHA's stewardship of taxpayer funds. VHA-wide financial performance indicators could also highlight trends that VHA may not have otherwise identified, thereby leading to VHA developing best practices to enhance financial efficiency in its operations.

Prime Vendor Contract Utilization

VHA established the Medical/Surgical Prime Vendor Program as a method to reduce supply management costs and decrease administrative, order-processing, and invoice costs.[30] In November 2017, GAO reported the program was VA's effort to standardize supply item purchasing requirements to achieve greater clinical consistency and cost avoidance by leveraging VA's substantial buying power when making competitive awards. The program restricts ordering to a "formulary"—a list of specific items from which medical centers are allowed to make purchases. Standardization narrows the range of items purchased to meet a given need to improve VHA's buying power, simplify supply chain management, and provide clinical consistency. For example, a hospital network might find that it purchases 100 varieties of bandages but ultimately determines—with input from clinicians—that it can narrow those

[29] VISNs are required to use the Medical/Surgical Prime Vendor contract, with a goal of using it for at least 40 percent of all medical and surgical dollars spent. The prime vendor program provides a customized distribution system to meet or exceed facility requirements by providing an efficient, cost-effective, just-in-time distribution catalog-ordering process.

[30] VHA Memorandum, "Supply Chain Management Performance Improvement Through Increased Use of the Medical/Surgical Prime Vendor Program," June 2015.

choices down to 10 varieties to fill most needs, which would provide greater consistency and allow the hospital to negotiate lower prices.[31]

If the prime vendor utilization rate is low, the VISNs could be overpaying to purchase medical and surgical supplies. In June 2015, VHA directed the VISNs to use the medical surgical prime vendor for at least 40 percent of all medical and surgical dollars spent. Accordingly, the OIG chose prime vendor contract use as one possible key performance indicator and graphically depicted the usage data from FY 2018 through FY 2019. Figure 2 illustrates that VHA is consistently underutilizing the prime vendor contract that was put in place nationally to purchase medical and surgical supplies at more favorable prices.

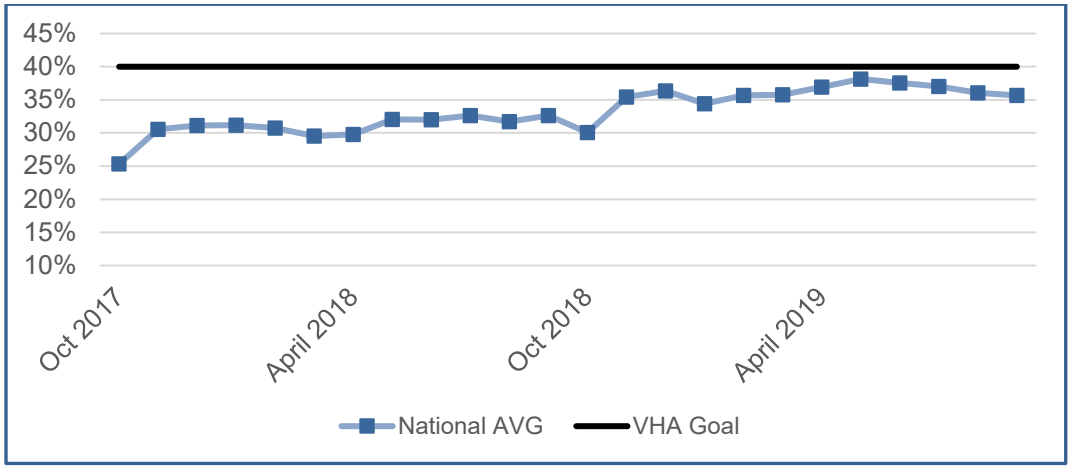


Figure 2. *VHA national average percentage of prime vendor utilization.*

Source: VA OIG analysis of VA's Supply Chain Common Operation Picture application report "Budget Object Class 2632 Medical/Surgical Prime Vendor Utilization Report."

Figure 3 demonstrates that four out of 18 VISNs in VHA consistently trended toward meeting, and eventually exceeding, the Medical/Surgical Prime Vendor-Next Generation goal. As shown in the figure, VISN 7 is one of the four VISNs that met or exceeded the goal for prime vendor use.

[31] GAO, *Improvements in Buying Medical and Surgical Supplies Could Yield Cost Savings and Efficiency*, GAO-18-34, November 2017.

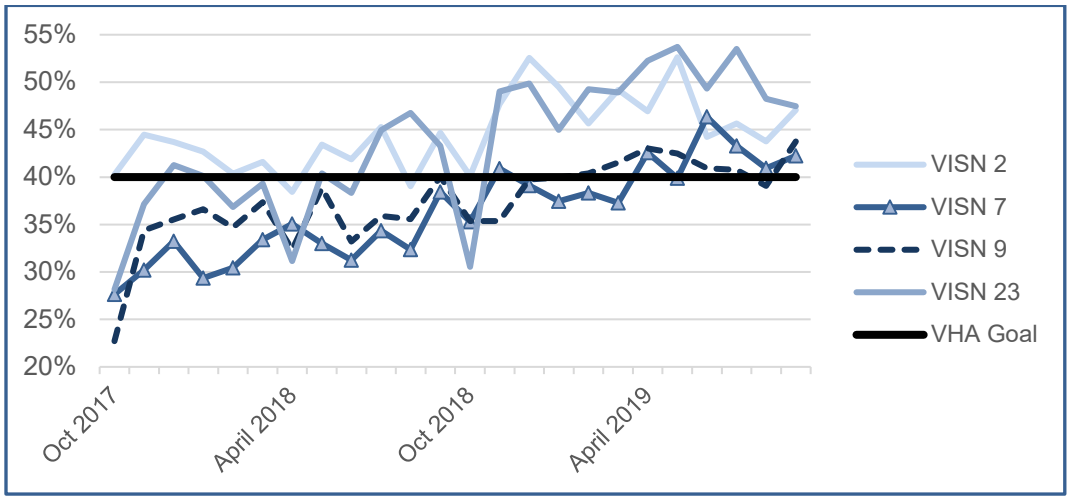


Figure 3. *VISNs performing above the VHA goal for average percentage of prime vendor utilization. Source: VA OIG analysis of VA's Supply Chain Common Operation Picture application report "Budget Object Class 2632 Medical/Surgical Prime Vendor Utilization Report."*

This suggests that VISN 7 and three other VISNs may be efficient in their medical and surgical supply expenditures. If this information were aggregated across all VISNs, VHA could use this information (such as best practices employed by VISNs meeting the goal) to ensure greater use of the Medical/Surgical Prime Vendor-Next Generation contract.

Figure 4 represents the remaining 14 VISNs that fluctuated but ultimately stayed below the prime vendor goal.[32] Four of these are singled out in the figure; the other 10 appear in the background as intertwined gray lines.

[32] VISNs 1, 4, 5, 6, 8, 10, 12, 15, 16, 17, 19, 20, 21, and 22.

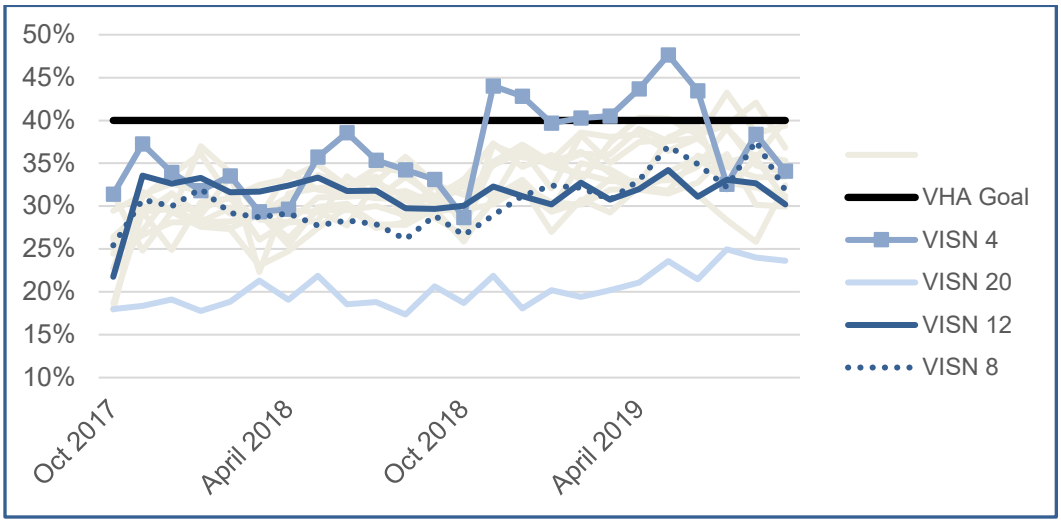


Figure 4. *VISNs performing below the VHA goal for of prime vendor utilization.*

Source: VA OIG analysis of VA's Supply Chain Common Operation Picture application report, "Budget Object Class 2632 Medical/Surgical Prime Vendor Utilization Report."

As illustrated in the figure, VISN 12 is one of the 14 VISNs that did not meet or exceed the goal for prime vendor use. VISN 4 met or exceeded the goal from November 2018 through June 2019 and started to decline in July 2019. VISNs' low rates of prime vendor use suggest VISNs are paying more for medical and surgical supplies than needed.

With so many VISNs below the prime vendor goal, there is a need for VHA to ensure VISNs increase their use. In addition, this type of information could identify material decreases or fluctuations in prime vendor use and allow VHA to explore the reasons for the changes. This effect is further illustrated in a GAO report, which indicated that for VA to achieve its goal of $150 million in cost avoidance, it must increase use of the Medical/Surgical Prime Vendor-Next Generation Program.[33]

Medical Staff Overtime Cost Versus Medical Staff Workload

VA directives state that overtime is to be used only when necessary operations cannot be performed through planned coverage by on-duty personnel during their regular non-overtime basic workweek.[34] Despite this guidance, three OIG reports detail instances of weak controls or the excessive use of overtime.[35] Additionally, the high rate of overtime use can indicate that the medical center is not effectively managing its workload or its resources. In some situations, using

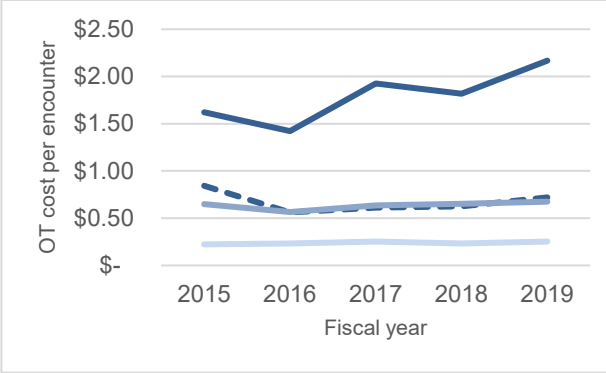
[33] GAO, *Improvements in Buying Medical and Surgical Supplies Could Yield Cost Savings and Efficiency*.

[34] VA Handbook 5011/23, *Hours of Duty and Leave*, November 20, 2012.

[35] VA OIG, *Improper Coding and Unnecessary Overtime at the Central Texas Veterans Health Care System*, 18-03159-74, May 2, 2019; *VA OIG, Mismanagement of the VA Executive Protection Division*, 17-03499-20, January 17, 2019; VA OIG, *Alleged Misuse of Overtime and Compensatory Time and Improper Telework at the Hunter Holmes McGuire VA Medical Center*, 18-02137-34, December 12, 2018.

overtime might be more efficient than hiring additional staff who are not fully utilized, but that analysis cannot be done without reviewing overtime data.

The OIG analyzed overtime for VISN 7 and two of its complexity level 1c medical centers and VISN 12's one complexity level 1c medical center.[36] The OIG then compared the VISNs' use of overtime to VHA's national average. As shown in figure 5, for FY 2019, the Central Alabama VA Health Care System's *overtime cost per encounter* for medical staff was about 7 percent higher than the VHA national average. For the same period, the *workload per medical staff* was about 8 percent lower than the national average (figure 6).



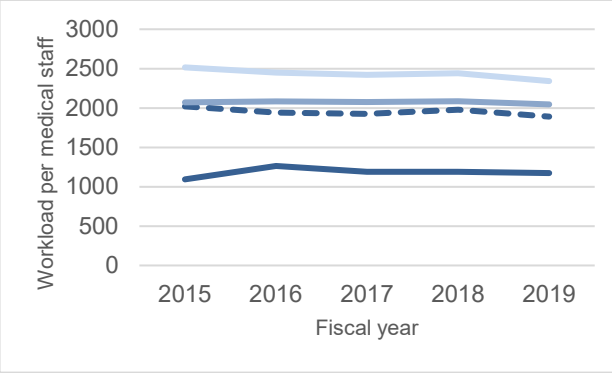


Figure 5. *Average medical staff overtime cost.* ***Figure 6.*** *Average medical staff workload.*

Source: VA OIG analysis of VHA's Service Support Center reports.

For FY 2019, the James A. Lovell Federal Health Care Center's *overtime cost per encounter* for medical staff was 221 percent higher than the VHA national average (figure 5). Over the same period, the James A. Lovell Federal Health Care Center's *workload per medical staff* was about 43 percent lower than the VHA national average (figure 6).[37] In contrast, for FY 2019 the Columbia VA Health Care System's *overtime cost per encounter* for medical staff was about 63 percent lower than the VHA national average. Over the same period, the *workload per medical staff* was about 15 percent higher than the VHA national average.

[36] Figures 5–8 represent the Columbia VA Health Care System (VISN 7), Central Alabama VA Health Care System (VISN 7), and James A. Lovell Federal Health Care Center (VISN 12)—complexity level 1c medical centers. VHA characterizes medical center complexity as follows: 1a is considered most complex; 1b, 1c, 2, and 3 are least complex. Comparisons are drawn with the other centers grouped by their respective VISN and by the same complexity. VHA bases complexity on medical center and program characteristics including patient population, education and research, and intensive care units. *Overtime cost per encounter* is calculated by taking the overtime cost in dollars and dividing it by the number of inpatient and outpatient encounters. VHA defines an *encounter* as a professional contact between a patient and a practitioner responsible for diagnosing, evaluating, and treating the patient's condition.

[37] *Workload per medical staff* is calculated by dividing the number of patients by the number of medical staff.

There may be an explanation for some of the numbers, but at least on their face, the figures suggest that the James A. Lovell Federal Health Care Center is disproportionately using overtime for its medical staff, compared with other medical centers of the same operational complexity. VHA could collect this information across all medical centers, seek explanations as appropriate, and try to identify and mitigate trends that result in excessive overtime.

Administrative Staff Overtime Cost Versus Administrative Staff Workload

Recognizing that productivity can vary by job type, the OIG made the same overtime cost-workload comparison for administrative staff. Similar to the OIG observation for medical staff overtime, the team identified, as shown in figure 7, that for FY 2019 the Central Alabama VA Health Care System *overtime cost for administrative staff* was about 53 percent higher than the VHA national average. However, figure 8 shows that for the same period, the healthcare system's *workload per administrative staff* was about 27 percent lower than the VHA national average.

Similarly, for FY 2019 the James A. Lovell Federal Health Care Center's *overtime cost for administrative staff* was about 230 percent higher than the VHA national average (figure 7). Yet the James A. Lovell Federal Health Care Center's *workload per administrative staff* was about 35 percent lower than the VHA national average (figure 8).[38] In contrast, for FY 2019 the Columbia VA Health Care System *overtime cost for administrative staff* was about 57 percent lower than the VHA national average while its *workload per administrative staff* was about 32 percent higher than the VHA national average.

[38] *Workload per administrative staff* is calculated by dividing the number of patients by the number of administrative staff.

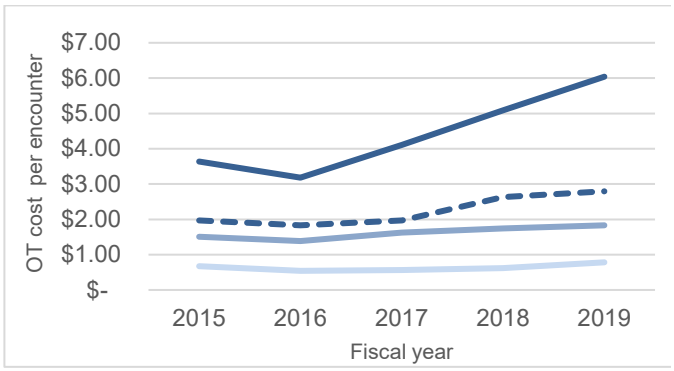


Figure 7. *Average administrative staff overtime cost by encounter for complexity level 1c medical centers.*

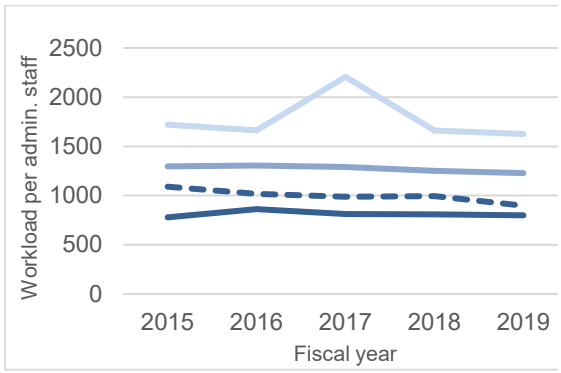


Figure 8. *Workload/average encounters per administrative staff for complexity level 1c medical centers.*

Source: VA OIG analysis of VHA's Service Support Center reports.

As previously noted in the discussion of figures 5 and 6, there may be logical explanations for these numbers. Nevertheless, the figures again suggest some inconsistency in healthcare facilities' use of overtime within VHA and even in the same VISN. Similarly, some healthcare facilities are using overtime for administrative staff more than other facilities of the same operational complexity.

As demonstrated in the figures above, a set of financial performance indicators can be used to identify performance trends that, at a minimum, require explanation and could indicate wasteful spending. GAO reported that performance indicators can help set objectives, measure progress toward achieving selected national outcomes, assess conditions and trends, and communicate more effectively on complex issues.[39]

The OIG is not advocating the use of these particular measures but is illustrating that VHA can use a set of financial performance indicators to monitor its VISNs and medical centers, and the effective deployment of financial resources could result in improved medical care.

VHA's CFO Structure Does Not Promote Effective Financial Oversight of VISNs and Medical Centers

Over the years, the OIG and its contracted financial statements auditor, CliftonLarsonAllen LLP (CLA), have reported that VHA's decentralized and fragmented structure adversely impacts financial oversight and accountability. For example, in 2012, the OIG reported that VHA had not felt it necessary to establish a comprehensive financial management control structure for the

[39] GAO, *A Call for Stewardship: Enhancing the Federal Government's Ability to Address Key Fiscal and Other 21st Century Challenges*, GAO-08-93SP, December 2007.

VISNs because VHA emphasized decentralized management. This led to a lack of fiscal controls at VISN offices.[40] Furthermore, in 2018, the OIG reported financial oversight issues such as

- Financial and inventory systems producing inadequate data, lacking effective internal controls, and yielding no assurances that funds were appropriately expended; and
- Methods used by the VISN and VHA Central Office to oversee the Medical Center that were either inadequate or did not include data on key aspects of Medical Center operations.[41]

Additionally, in its audit of VA's FY 2015 consolidated financial statements, CLA reported VA's decentralized CFO organizational structure as a significant deficiency. CLA further stated that VHA's financial management structure was fragmented, with financial personnel reporting up through various chains of authority. In FY 2016, CLA elevated the significant deficiency to a material weakness. CLA has continued to report the CFO organizational structure as a material internal control weakness through the latest FY 2019 financial statement audit. CLA maintains that VA's long history of decentralization and lack of financial management accountability in its CFO organizational structure has led to continued challenges with entity-level accounting, financial management, oversight, and financial reporting controls. According to CLA, the decentralized financial management and reporting structure could increase the risk of gaps in internal control over financial reporting. Moreover, necessary communication, coordination, duplication of efforts, and accountability across internal organizational boundaries could be more difficult to achieve. Accordingly, CLA made repeat recommendations in its FY 2015 through FY 2018 audits that the VHA executive in charge evaluate VHA's financial management reporting structure to ensure VHA's CFO office has the necessary authority to oversee all VHA accounting, budgeting, and financial management activities relating to all VHA programs and operations. This includes directing, managing, and providing policy guidance and oversight of all VHA financial management business processes, key financial activities, and operations.[42]

VHA's lack of an effective financial oversight structure impeded the establishment of appropriate financial controls that would promote the efficient use of funds in its operations. The VHA CFO serves as the principal financial advisor, supporting the under secretary for health and the DUSHOM. However, the VHA CFO has no direct authority in VHA's current reporting structure to provide direction and effective oversight of VISN and medical center financial

[40] VA OIG, *Audit of Financial Management and Fiscal Controls for Veterans Integrated Service Network Offices*, 10-02888-128, March 27, 2012.

[41] VA OIG, *Critical Deficiencies at the Washington DC VA Medical Center*.

[42] CLA reported, in its FY 2019 audit of VA's consolidated financial statements, "VA has not adequately designed and implemented the appropriate controls to remediate the financial reporting risks associated with a decentralized reporting structure." Consequently, "the lack of an entity level control, including the centralized reporting structure has led to systemic and pervasive control deficiencies that impede the Department's ability to process, summarize, and report reliable financial information in a timely manner."

management activities. VHA's decision to decentralize its budgetary, planning, and decision-making functions to the VISNs left that authority to the DUSHOM.

The OIG conducted interviews, analyzed program documents, and reviewed existing VA organizational charts to obtain an understanding of the overall financial oversight chain of command. Based on analysis and understanding of the reporting relationships, the OIG developed an illustration of VHA's financial oversight structure. The DUSHOM, VHA Deputy CFO, and VISN CFOs agreed with the OIG's illustration.

Figure 9 provides the OIG's depiction of the financial oversight structure and the alignment of VISNs, the DUSHOM, and VHA Office of Finance.

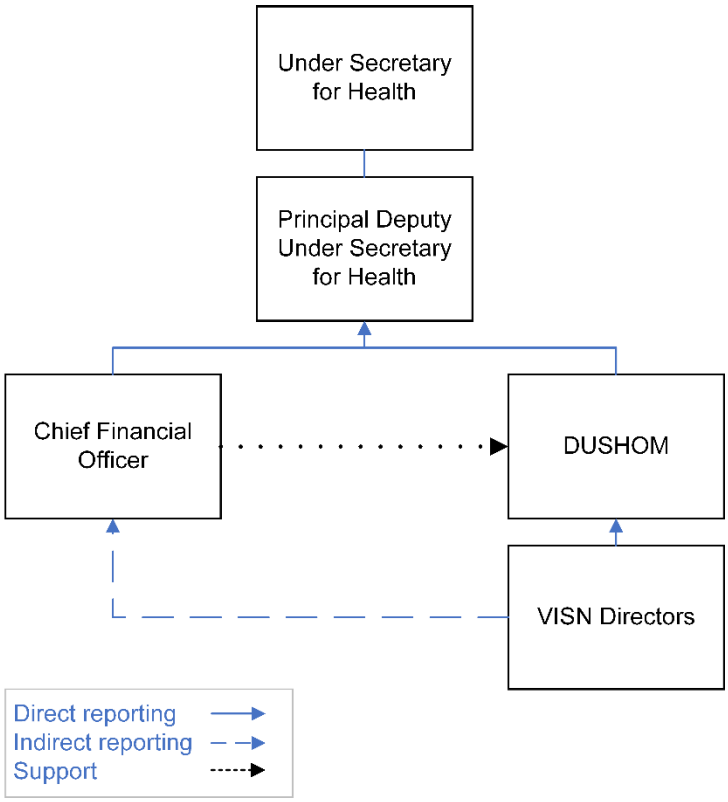


Figure 9. *OIG depiction of VHA's financial management oversight structure.*
Source: VA OIG analysis.

VISN and medical center CFOs are not in the VHA CFO's chain of command. They are aligned under the DUSHOM. Accordingly, the VHA CFO does not have direct authority or oversight of VISN and medical center financial management practices. This structure promotes decentralization and encourages the VISNs to function independently, hindering the VHA CFO's ability to drive improvements in financial efficiency and effectiveness.

This structure also limits VHA's ability to improve its financial management practices. Because one key position, or office, does not have direct authority over all VISN and medical center

financial management activities, assigning accountability and managing financial risks across VHA are challenging. According to OMB Circular A-11, agency chief executive officers, such as the CFO, have a responsibility to lead agency management functions, including efforts for setting agency goals, reviewing progress, and adjusting as needed to ensure the agency's management functions are effectively supporting the agency's goals and objectives.[43] In addition, the CFO Act of 1990 requires the CFO develop and maintain a financial management system, to include internal controls, that comply with internal control standards.[44] Furthermore, GAO's *Standards for Internal Control in the Federal Government* provide the overall framework for establishing and maintaining an effective internal control system.[45] The standards state that management is responsible for establishing an organizational structure with an understanding of the overall responsibilities and assign those responsibilities to enable the organization to operate in an effective and efficient manner.

These authorities suggest that aligning VISN and medical center CFOs under one authoritative position, and then consolidating all CFO responsibilities under that same position, could possibly establish the authority needed to improve accountability and the ability to oversee all VHA financial activities. Under VHA's current reporting structure, there is no consistency in how VISNs 7 and 12 perform their financial management functions. Moreover, these VISNs do not conduct effective oversight that promotes financial efficiency.

VISN Financial Management Does Not Promote Financial Efficiency

The OIG found that the oversight provided by VISNs 7 and 12, like that of the VHA Office of Finance, focused on activities associated with reliable financial reporting, allocating financial resources, addressing budget excesses and shortfalls, and monitoring planned versus actual obligations of appropriated funds.

Both VISNs had an established governance structure consisting of an Executive Leadership Council and committees responsible for key processes. The Executive Leadership Council provides leadership to the chartered committees. It is also responsible for integrating the work of the committees and making recommendations to the VISN director. Executive Leadership Council members include VISN executives, program managers, and medical center executive leaders such as directors, associate directors, chiefs of staff, and assistant directors. Most of the committees, such as the Integrated Ethics Committee, Leadership Development Committee, and the Research Oversight Committee, do not conduct work that has a direct impact on the VISNs' financial management practices.

[43] OMB Circular A-11.

[44] Chief Financial Officers Act of 1990, § 902.

[45] GAO, *Standards for Internal Control in the Federal Government*.

Absent VHA establishing controls for VISNs to assess whether their medical centers used their financial resources efficiently, VISNs 7 and 12 developed their own practices for monitoring their medical centers.

According to the acting VISN 7 CFO, VISN 7 relies primarily on the Resources and Contracting Committee and efficiency and productivity meetings to ensure that its medical centers use their operating funds in a cost-effective manner to prevent wasteful spending. The acting VISN 7 CFO told the OIG that VISN leaders selected operational and financial performance data, based on experience and institutional knowledge, used by the Resources and Contracting Committee and by the VISN during efficiency and productivity meetings.

Resources and Contracting Committee Meetings

The Resources and Contracting Committee's main role is to provide financial advice and recommendations about how to allocate resources to fulfill VISN 7's mission. For example, the committee recommends allocations for information technology, logistics, acquisitions, and capital improvements.[46] The committee is chaired by a medical center associate director and cochaired by the VISN 7 CFO. Other members include the VISN deputy network director, a medical center chief of staff, and associate directors.[47]

Each month, the committee reviews a standardized set of operational performance data, summarized by medical center, to monitor how well VISN 7 medical centers are performing. The performance data include budget status and a comparison of the operating plan to actual obligations to monitor budget execution, as well as personnel numbers and vacancies.

The data also track monthly VISN and medical center medical care collections as well as annual drug and laboratory costs. While some of this data can be related to financial performance, the data collected and reviewed give a very limited view of whether the VISN and medical centers are using their funds in a cost-effective manner to prevent wasteful spending.

In contrast, VISN 12 leaders relied on management meetings and the cost-effectiveness analysis conducted at one of its medical centers. VISN 12 also established a finance committee that reports and makes recommendations to the Executive Leadership Council. The finance committee is responsible for developing VISN 12's budget allocation methodology, developing and maintaining the operating plan, and assisting the Executive Leadership Council with making financial decisions. The VISN 12 finance staff informed the OIG that they also reviewed, on an ad hoc basis, cost avoidance summaries that were intended to help assess certain programs where a medical center could have potentially reduced costs.

[46] VA Southeast Network (VISN 7), Resources and Contracting Committee Charter, sec. IV, "Responsibilities," March 2017.

[47] VA Southeast Network (VISN 7), Resources and Contracting Committee Membership Roster, October 2017.

Efficiency and Productivity Meetings

VISN 7 officials planned on conducting efficiency and productivity meetings with each of the VISN's medical centers every other month. According to the acting VISN 7 CFO, these meetings are the primary vehicle VISN 7 uses to evaluate whether medical centers are using funds in a cost-effective manner to prevent wasteful spending.

VISN 7 officials use a report template to conduct each meeting. Included in the template are items such as leadership vacancies, leadership site visits, and equal employment opportunity cases and settlements. The template also includes some items that have financial impact, such as cost information for outpatient clinics and inpatient treating specialties, use of the prime vendor contract, and overtime use.

Prior to the meetings, VISN 7 leaders analyze financial and operational performance by using data and reports such as "clinic stop code" (outpatient) and "treating specialty" (inpatient) reports maintained by the VHA Support Service Center. This analysis provides data for discussions with the medical center leaders. The acting VISN 7 CFO told the OIG that VISN leaders use the outpatient and inpatient reports to identify the largest unfavorable cost variances between each medical center and national averages. VISN 7 leaders then discuss these areas with each medical center during efficiency and productivity meetings so medical centers can take corrective actions to achieve more efficient and effective operations.

Subsequent to the OIG's work, VISN 12 implemented efficiency reviews like those done by VISN 7. The reviews are designed to show areas of opportunity for potential cost savings by making comparisons with national averages and other medical centers. The OIG's analysis concluded that the VISN's newly implemented efficiency reviews are a step in the right direction. However, information needed to determine whether the medical centers realized any financial improvements was not available because the reviews were too new.

Cost Avoidance Summaries

VISN 12 officials also told the OIG that medical center financial staff developed ad hoc cost avoidance summaries that were intended to help assess certain programs where medical centers could potentially reduce their costs. If cost savings are identified, the medical center directors have the discretion to redirect those funds. However, the OIG could not quantify the amount of any potential cost savings because VISN 12 does not track the cost avoidance savings that are identified at a medical center.

Although both VISN 7 and VISN 12 had implemented procedures for identifying opportunities for improvement, the OIG found their efforts were employed on an irregular and ad hoc basis. For example, although VISN 7 officials said they used efficiency and productivity meetings as its primary mechanism for evaluating whether medical center operations were efficient, it only conducted a little over 50 percent of its planned meetings. Similarly, VISN 12 conducted regular

meetings, established a finance committee, and developed ad hoc cost avoidance summaries. However, these methods did not help assess whether VISN 12 and its medical centers used their funds in a cost-effective manner to prevent wasteful spending.

While these activities are an important part of financial management, VHA does not take a focused and proactive role to ensure that its VISNs have adequate controls in place to help their medical centers use their operating funds in a cost-effective manner. The issues identified by the OIG highlight how the lack of accountability and effective governance inherent in VHA's decentralized financial oversight structure limited the effectiveness of the VISNs' efforts to ensure that their medical centers used their financial resources in a cost-effective manner to prevent wasteful spending.

Conclusion

VHA's current financial management practices do not allow it to readily assess whether its VISNs and medical centers use their funds in a cost-effective manner to prevent wasteful spending. Apart from the medical/surgical prime vendor metrics, VHA has not required a set of financial performance indicators that VISNs and medical centers can use to ensure their financial resources are being used efficiently and to help reduce the potential for fraud, waste, and abuse. In contrast to using specific financial performance metrics, VISNs 7 and 12 compared their medical centers' costs for inpatient and outpatient activities to national averages.

Because each VISN has developed its own local practices, it is difficult for VHA to perform a comprehensive assessment of how efficiently its VISNs and medical centers are utilizing their funds. The OIG acknowledges that VHA instituting a level of consistent oversight should not preclude VISNs from establishing additional measures to monitor financial efficiencies within their networks.

VHA has an opportunity to strengthen its financial management oversight and increase the likelihood that its VISNs and medical centers will operate in an effective and efficient manner. Oversight efforts could be strengthened if VHA were to develop and implement financial controls to promote the efficient use of funds. Financial performance indicators could be used to develop a comparison of financial performance across VHA's 18 VISNs and 170 medical centers.

Currently, VHA is not positioned to assess VISNs' financial performance. Consequently, VHA may not have the capability to determine when medical center operations are deficient; not adequately serving the needs of veterans and their families due to weak financial management. Until VHA implements an effective financial management structure with clear reporting lines of responsibility, it cannot focus on establishing accountability or financial controls to assess the efficient use of funds. The OIG concludes that VHA and the VISNs will continue to be at risk of wasteful spending of appropriated funds.

Recommendations 1–3

The OIG made three recommendations to the executive in charge, Office of the Under Secretary for Health:[48]

1. Establish financial controls, such as key performance indicators, that align with medical center operations and can be used to assess the efficient use of operating funds.
2. Specify the accountable Veterans Health Administration office responsible for establishing financial controls to ensure Veterans Health Administration's financial management activities promote the efficient use of funds at Veterans Integrated Service Networks.
3. Require the Veterans Health Administration to establish and publish organizational charts that identify the appropriate financial management reporting lines of authority and to develop familiarization training on the reporting lines of authority at the VISN and medical center levels, as appropriate.

Management Comments

The executive in charge, Office of the Under Secretary for Health, concurred with recommendations 1–3 and provided acceptable action plans for all recommendations. For recommendation 1, the executive in charge updated VHA's Governance Board structure with updated priorities for VHA leadership. One role outlined for the Governing Board is to "*Develop enterprise-wide goals and priorities based on the direction set forth by the USH*," which includes the efficient use of funds. The Governance Board will use the approved structure to establish financial controls to assess the efficient use of operating funds and report regularly to the VHA assistant under secretary for health for operations and the VHA chief financial officer.

For recommendation 2, the executive in charge noted that one of the roles VHA's updated Governance Board structure outlined is for the Governing Board to "*Develop enterprise-wide goals and priorities based on the direction set forth by the USH,"* which includes the enhancement of efficient use of funds. VHA considers this recommendation fully implemented and requested closure.

For recommendation 3, the executive in charge stated VHA will work within the current Governing Board to establish and publish documentation identifying approved organizational structures for financial reporting lines of authority and training associated with the approved structures.

[48] Recommendations directed to the under secretary for health were submitted to the executive in charge, who has the authority to perform the functions and duties of the under secretary for health.

OIG Response

The executive in charge, Office of the Under Secretary for Health, provided acceptable action plans for each recommendation and requested the closure of recommendation 2. Based on the information provided, the OIG considers recommendation 2 closed. The OIG will monitor implementation of planned actions and close recommendations 1 and 3 when VHA provides sufficient evidence demonstrating corrective actions are complete.

Appendix A: Scope and Methodology

Scope

The OIG conducted audit work from June 2018 through July 2020. The audit focused on evaluating whether VHA established financial management practices at VISNs 7 and 12 to promote the efficient use of its medical centers' financial resources. The OIG selected VISNs 7 and 12 and eight of their medical centers (shown in table A.1) for on-site reviews.[49]

Table A.1. VISN Site Visit Locations

VISN	Medical Center	Location
7	Atlanta VA Health Care System	Decatur, GA
7	Charlie Norwood VA Medical Center	Augusta, GA
7	Columbia VA Health Care System	Columbia, SC
7	Tuscaloosa VA Medical Center	Tuscaloosa, AL
12	Edward Hines Jr. VA Hospital	Hines, IL
12	Jesse Brown VA Medical Center	Chicago, IL
12	Oscar G. Johnson VA Medical Center	Iron Mountain, MI
12	William S. Middleton Memorial Veterans Hospital	Madison, WI

Source: OIG analysis of VHA's FY 2016 and 2017 end-of-year allocation data.

The OIG reviewed multiple sources of information, including applicable laws and regulations, VA financial policies and procedures, prior contractor studies, and OIG and GAO reports. In addition, the OIG reviewed literature on government and private industry best practices and interviewed personnel from other government agencies and private industry to gain insights on best practices. The OIG obtained testimonial and documentary information from program officials and staff in the Office of the DUSHOM, VHA Office of Finance, VISNs 7 and 12, and 12 of their medical centers.

As part of the audit, the OIG collected and reviewed VHA-reported data for comparing salaries, the amount of overtime recorded, the number of administrative and clinical staff, and medical

[49] Sites were selected based on (1) risk, by assessing VHA's FY 2016 and FY 2017 allocations reports provided by the VHA Office of Finance, and (2) a combination of quantitative attributes, such as the budget variance rates for FY 2016 and FY 2017, and qualitative factors such as a medical center's level of complexity. VISNs 7 and 12 consistently had among the highest variances, and their performance had not significantly improved for the two years of data reviewed by the audit team.

supply for VHA and the 18 VISNs. The data were retrieved through the VHA Support Service Center, the Pyramid Analytics data query tool, and the Supply Chain Common Operating Picture.

Methodology

To determine whether VHA established adequate financial management practices to promote VISN oversight and accountability of medical center financial resources, the OIG reviewed program documentation and interviewed the DUSHOM and VHA CFOs at all levels to discuss roles and responsibilities and the controls in place at their medical centers to prevent fraud, waste, and abuse of funds. The OIG also interviewed other fiscal staff, such as budget analysts, medical center directors and associate directors, and clinical staff on topics related to the audit objective. In addition, the OIG submitted questionnaires to the VISN 7 four medical centers' CFOs and the VISN 12 CFOs throughout the network to assess the oversight of medical centers.

To determine whether financial management operations promoted proper oversight of VHA funds, the OIG conducted interviews with internal and external entities such as the Department of Defense Health Agency and Office of Inspector General, the Veterans Benefits Administration's Office of Resource Management, and a not-for-profit healthcare system to identify potential best practices and tools for benchmarking against VHA's financial management operations.[50] The OIG also identified performance indicators for nonprofit and private-sector hospitals.

Fraud Assessment

The OIG assessed the risk that fraud, violations of legal and regulatory requirements, and abuse could occur during this audit. The OIG also exercised due diligence in staying alert to any fraud indicators. The OIG did not identify any instances of fraud during this audit.

Data Reliability

The OIG used computer-processed data from VHA's Support Services Center, the Pyramid Analytics data query tool, and Supply Chain Common Operating Picture for the performance indicators selected and evaluated during the audit. To test the reliability of VHA's Support Services Center data, the OIG reviewed the data entries to ensure that data were not missing in key fields or outside valid time frames. In addition, the OIG checked for obvious duplications of records or any illogical relationships between data elements. Using this approach, the OIG concluded that the data were appropriate and sufficiently reliable to support the report's opinions, conclusions, and recommendations.

[50] The OIG contacted Baylor Scott & White Health, a not-for-profit healthcare system.

Government Standards

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 the audit objectives. The OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

Appendix B: Management Comments

Department of Veterans Affairs Memorandum

Date: August 3, 2020

From: Executive in Charge, Office of the Under Secretary for Health (10)

Subj: OIG Draft Report, Veterans Health Administration: VHA and VISN 7 and 12 Financial Management Practices Can Be Improved to Promote Efficient Use of Financial Resources (VIEWS 03222659)

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

1. Thank you for the opportunity to review and comment on the Office Inspector General (OIG) draft report, VHA and VISN 7 and 12 Financial Management Practices Can Be Improved to Promote Efficient Use of Financial Resources.

2. I concur with OIG's recommendations to the Under Secretary for Health. The Veterans Health Administration (VHA) fully implemented the action plan for recommendation 2 and provides the Governing Board Charter as supporting documentation, requesting closure. VHA provides action plans for recommendations 1 and 3.

The OIG removed point of contact information prior to publication.

(Original signed by)

Richard A. Stone, M.D.

Attachments

VETERANS HEALTH ADMINISTRATION (VHA)
Action Plan

Office of Inspector General (OIG) Draft Report: VHA and VISN 7 and 12 Financial Management Practices Can Be Improved to Promote Efficient Use of Financial Resources

Date of Draft Report: July 1, 2020

The OIG made the following recommendations to the Under Secretary for Health:

Recommendation 1. Establish financial controls, such as key performance indicators, that align with medical center operations and can be used to assess the efficient use of operating funds.

VHA Comments: Concur.

The Executive in Charge for Veterans Health Administration (VHA) updated the Governance Board structure in 2019 with updated priorities for VHA leadership. One role outlined for the Governing Board is to "*Develop enterprise-wide goals and priorities based on the direction set forth by the USH*," which includes the efficient use of funds. The Governance Board will use the approved structure to establish financial controls to assess the efficient use of operating funds and report regularly to the VHA Assistant Under Secretary for Health for Operations and the VHA Chief Financial Officer. A copy of the current charter has been provided to OIG.

Status: In process Completion Date: April 2021

Recommendation 2. Specify the accountable Veterans Health Administration office responsible for establishing financial controls to ensure Veterans Health Administration's financial management activities promote the efficient use of funds at Veterans Integrated Service Networks.

VHA Comments: Concur.

VHA updated the Governance Board structure in 2019 identifying updated priorities for the VHA leadership. One role outlined for the Governing Board is to "*Develop enterprise-wide goals and priorities based on the direction set forth by the USH"* which includes the enhancement of efficient use of funds. A copy of the current charter has been provided to OIG. VHA considers this recommendation fully implemented and requests closure.

Status: Complete

Recommendation 3. Require the Veterans Health Administration to establish and publish organizational charts that identify the appropriate financial management reporting lines of authority and to develop familiarization training on the reporting lines of authority at the VISN and medical center levels as appropriate.

VHA Comments: Concur.

VHA will work within the current Governing Board to establish and publish documentation identifying approved organizational structures for financial reporting lines of authority and training associated with the approved structures.

Status: In process Completion Date: March 2021

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

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