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Office of Audits and Evaluations

VETERANS HEALTH ADMINISTRATION

Inadequate Financial Controls and Payments Related to VA-Affiliated Nonprofit Corporations

AUDIT | REPORT #20-03704-165 | JULY 8, 2021

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Executive Summary

The VA Office of Inspector General (OIG) conducted this audit to determine whether VA medical centers have adequate controls for and provide sufficient oversight of payments to affiliated nonprofit corporations. Under Intergovernmental Personnel Act (IPA) agreements, VA reimburses nonprofit corporations for all or part of the salaries and associated costs for employees working on mutually beneficial research, education, and training activities.

The OIG previously evaluated complaints involving nonprofit corporations affiliated with VA medical centers in Boise, Idaho; Boston, Massachusetts; Cincinnati, Ohio; Nashville, Tennessee; and San Francisco, California.[1] At all five centers, the audit team found VA lacked assurance that IPA agreement-related payments to nonprofits were proper because staff made them without first verifying that services had been provided. Considering the consistent findings in the five prior audits, the audit team selected two additional medical centers for further review that are addressed in this report: Albuquerque, New Mexico, and Palo Alto, California.[2]

What the Audit Found

The OIG estimated that the Albuquerque and Palo Alto medical centers made at least $17.9 million in improper payments to the affiliated nonprofit corporations.[3] The audit team reviewed a statistical sample of 30 VA payments to each of the two nonprofits, corresponding invoices, and if available, associated documentation. For all items sampled, the team found no evidence that services had been provided before staff approved invoices for payment. According to Office of Management and Budget guidance, payments should be considered improper when an agency is unable to discern whether they were appropriate as a result of insufficient or lack of documentation.[4]

The reasons for improper payments to the affiliated nonprofits were the same for all seven VA medical centers reviewed. Specifically, procedures for approving invoices did not satisfy VA policy requirements because they did not require verifying that the services were provided. In

[1] Appendix A provides more information about the five prior OIG reports.

[2] The two sites were selected based on the largest amount of VA funding reported to Congress in the 2017 and 2018 nonprofit corporation annual reports. The 2019 annual report to Congress was issued in December 2020, after this audit began. Details on the scope and methodology appear in appendix B; sampling methodology is described in appendix C.

[3] The OIG previously reported a total of about $35.7 million improper payments to five affiliated nonprofit corporations as shown in tables 1 and A.1 of this report. Numbers are rounded and may not sum exactly.

[4] Office of Management and Budget Memorandum (OMB) M-18-20, "Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement," June 26, 2018. Although OMB's Memo M-21-19, "Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement," March 5, 2021, notes these payments should be considered "unknown," that guidance was not in effect until after this audit began.

addition, the audit team noted the absence of required periodic VA supervisory reviews of approved invoices at all seven medical centers. Supervisors provided different reasons for the lack of periodic reviews, including relying on staff to approve invoices accurately, or incorrectly believing the medical centers' fiscal services staff performed the reviews. Some supervisors relied on discussing the amount of funds remaining in the project with their staff to identify any concerns.

The audit team also found that triennial reviews by the VA's Nonprofit Program Office, which provides oversight, guidance, and education to nonprofit corporation officials, did not identify the lack of evidence that services were provided as a problem. The reason was that the program office did not include examination of nonprofit invoices submitted to medical centers in the triennial reviews until after the OIG began the first audit on this topic at the Boston nonprofit.[5] Even then, according to a program office official, the program's invoice review focused on comparing the invoiced amounts to those on the IPA agreements. The reviews did not include verifying that evidence of services provided was submitted with invoices. Therefore, the audit team found the program office's reviews did not assist in preventing continued improper payments.

Because VA officials' compliance with policy and oversight of payments to the nonprofits fell short of requirements, VA lacked assurance that nonprofit-invoiced amounts were valid or accurate. As demonstrated by the consistent findings at all seven facilities reviewed, including one overpayment of about $1.6 million to the Boston nonprofit, continued lack of compliance puts taxpayer funds at increased risk of loss and could result in additional improper payments by medical centers with affiliated nonprofit corporations.[6]

What the OIG Recommended

The OIG made three national recommendations. The first two are similar to those made in the five prior reports related to improper payments but are elevated to the national level; the third recommendation is new and directed to the Nonprofit Program Office director. The OIG recommended that the assistant under secretary for health for discovery, education and affiliate networks establish procedures to help ensure that designated medical center staff verify that services invoiced by affiliated nonprofit corporations were provided before approving payment, and that Research and Development Budget Office supervisors conduct periodic reviews of invoices from VA-affiliated nonprofit corporations that staff authorized for payment. The OIG also recommended that the program office director incorporate a step in its triennial review

[5] Appendix A has more information about the Boston VA-affiliated nonprofit corporation audit.

[6] Of the estimated $1.6 million overpayment, about $1.5 million paid to the Boston nonprofit was included in the total $35.7 million improper payments shown in table A.1, due to lack of evidence that services were received. The entire $1.6 million overpayment was for unallowable or prohibited reimbursements to the nonprofit. Appendix D presents estimated monetary benefits.

procedures to verify that nonprofits include evidence of providing services when they submit invoices to VA.

Management Comments

The acting under secretary for health, responding for the assistant under secretary for health for discovery, education and affiliate networks, concurred with all recommendations and provided a responsive action plan (appendix E). The OIG will follow up on the implementation of the planned actions and will close the recommendations when documentation has been provided illustrating corrective actions have been implemented.

LARRY M. REINKEMEYER
Assistant Inspector General
for Audits and Evaluations

Contents

Abbreviations

IPA	Intergovernmental Personnel Act
OIG	Office of Inspector General
OMB	Office of Management and Budget
R&D	research and development
VHA	Veterans Health Administration

Introduction

The VA Office of Inspector General (OIG) conducted this audit to determine whether VA medical centers have adequate controls in place and provide sufficient oversight of their payments to affiliated nonprofit corporations. After evaluating complaints involving five VA medical centers in prior reports, the audit team found payments to nonprofits affiliated with the medical centers were improper because they were approved and made without evidence verifying that services were provided.[7] The audit team determined that this consistent deficiency warranted further review and selected for evaluation two additional VA medical centers with affiliated nonprofit corporations that had received the largest amount of VA funding—Albuquerque, New Mexico, and Palo Alto, California.[8]

VA-Affiliated Nonprofit Corporations

The VA-affiliated nonprofit corporation program was established under the Veterans' Benefits and Services Act of 1988 solely to facilitate VA-approved research projects at VA medical facilities nationwide.[9] The program was revised in 1999, broadening nonprofits' role to supporting VA-approved education activities.[10] Nonprofits may administer funds from a variety of sources other than VA, including other federal agencies, private organizations, and universities. In fiscal year 2019, VA-affiliated nonprofit corporations collectively employed about 2,500 personnel and supported more than 2,000 active principal investigators. There were 81 VA-affiliated nonprofit corporations in 41 states, Puerto Rico, and the District of Columbia, with combined assets of about $312 million.[11] The two nonprofit corporations addressed in this report provide a broad range of services:

- **Biomedical Research Institute of New Mexico**. Established in 1989, the institute is located at the Raymond G. Murphy VA Medical Center in Albuquerque, part of the New Mexico VA Health Care System. About 79 professionals support the nonprofit's research activities, which include audiology, cardiology, endocrinology, immunology, neurology, oncology, psychology, and psychiatry. In fiscal year 2019,

[7] The five prior medical centers and affiliated nonprofit corporations audited were in Boise, Idaho; Boston, Massachusetts; Cincinnati, Ohio; Nashville, Tennessee; and San Francisco, California. See appendix A for more information. Office of Management and Budget (OMB) Memo M-18-20, "Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement," June 26, 2018. See the last section in the Introduction of this report for more information about improper payments.

[8] The Nonprofit Research and Education Corporations' 2017 and 2018 Annual Reports to Congress. The 2019 annual report to Congress was issued in December 2020, after this audit began.

[9] Veterans' Benefits and Services Act of 1988, Pub. L. No. 100-322, § 204 (1988).

[10] Veterans Millennium Health Care and Benefits Act, Pub. L. No. 106–117, § 204 (1999).

[11] Fiscal year 2019 data were the latest available. According to VA's Nonprofit Program Office, the 2020 consolidated annual report on nonprofit corporations will be submitted to Congress in December 2021.

the nonprofit reported revenues of about $2.5 million in government funding, which included about $2.1 million from VA. It also received about $3 million from nongovernment sources, for total funding of about $5.5 million.

- **Palo Alto Veterans Institute for Research**. Established in 1988, the institute is located on the grounds of the Palo Alto VA Medical Center, part of the VA Palo Alto Health Care System. The nonprofit has about 343 professionals who support research activities in opioid misuse, the effects of nicotine use, and psychotherapy, among others. In fiscal year 2019, the nonprofit reported revenues of about $27 million in government funding, which included about $3.7 million from VA. It also received about $4.3 million from nongovernment sources, for total funding of about $31 million.

Governance of Nonprofit Corporations

Nonprofits 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.[12] The statutory members of the board of directors include the VA medical center director and other top facility officials as appropriate: the chief of staff, associate chief of research, and associate chief of education. The board 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 VA directors who serve as board members "need to ensure that the [nonprofit corporation] furthers the best interests of VA."[13]

The board appoints an executive director with the concurrence of the VA medical center director (as delegated by the under secretary for health). The executive director is responsible for the operations of the nonprofit and has duties and responsibilities as prescribed by the board.

VA Oversight of Nonprofit Corporations

The Nonprofit Program Office, the Nonprofit Program Oversight Board, and the VHA chief financial officer oversee nonprofit corporations.

- **Nonprofit Program Office**. This office serves as the liaison between VHA and nonprofit corporations. The program office provides oversight, guidance, and education to nonprofit corporations to ensure compliance with applicable regulations and VA policies affecting operations and financial management.

[12] 38 U.S.C. § 7363; VHA Handbook 1200.17, VA Nonprofit Research and Education Corporations Authorized by Title 38 U.S.C. Sections 7361 through 7366, April 27, 2016, revised May 9, 2017.

[13] VHA Handbook 1200.17.

Program office staff report to the VHA Office of Research and Development's (R&D) chief R&D officer.

The program office conducts triennial on-site audits. These limited evaluations include reviews of annual audited financial statements, nonprofit-completed internal control questionnaires, and follow-up on previous required actions. Additional areas of review may include examining cash receipts and disbursements, bank reconciliations, Intergovernmental Personnel Act (IPA) agreements, and payroll records.[14] The program office is also responsible for performing off-site reviews, reviewing annual reports submitted by each nonprofit, and compiling data for VA's annual report to Congress.[15]

- **Nonprofit Program Oversight Board**. The board serves as VA's senior management oversight body for the activities and programs of VA-affiliated nonprofit corporations. The oversight board is responsible for ensuring consistency with VA policy and focuses on financial and ethical issues, as well as protecting VA's interests related to VA-affiliated nonprofit corporations. This oversight board makes recommendations through the under secretary for health and other senior VA leaders regarding changes to, and implementation of, these VA policies.
- **VHA Chief Financial Officer**. This officer exercises financial oversight by reviewing program office activities and independent audits of nonprofits.

Improper Payments

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."[16]

To prevent improper payments, agencies should ensure that invoices are accompanied by sufficient evidence to allow for verification that the work was performed before approving the invoice for payment. Recent Office of Management and Budget guidance for payment integrity

[14] Under IPA agreements VA reimburses VA-affiliated nonprofit corporations for all or part of the salaries and associated costs for employees working on mutually beneficial research, education, and training activities.

[15] Off-site reviews are evaluations performed away from the nonprofit location. For example, the reviews might involve evaluating nonprofit corporation documents from the program office home location.

[16] OMB Memo M-18-20.

notes that until an unknown payment is eventually determined to be proper or improper, it must be called "unknown." This guidance was not in effect until after this audit began.[17]

[17] OMB Memo M-21-19, "Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement," March 5, 2021.

Results and Recommendations

Finding: VA Medical Centers' Inadequate Controls and Oversight Resulted in Improper Payments to Nonprofit Corporations

The OIG found that from January 2017 through December 2019 the Albuquerque and Palo Alto medical centers made at least $17.9 million in improper payments to the affiliated nonprofit corporations based on a review of statistical samples of VA IPA agreement-related payments.[18] The OIG previously reported a total of about $35.7 million improper payments to five affiliated nonprofit corporations, which combined with the two additional medical centers reviewed, totals about $53.5 million.[19] The audit team reviewed payments to the nonprofits and corresponding invoices and, if available, associated documentation at each facility, and found that none included evidence that services had been provided, as required by VA policy. The improper payments occurred because facility R&D approving officials' review procedures for invoices did not include verifying that services were provided before approving invoices for payment. Periodic supervisory review of approved invoices also did not take place as required for reasons such as a reliance on staff to approve invoices correctly, or incorrectly believing the medical centers' fiscal services staff performed the reviews.[20] In addition, the audit team found triennial reviews by the program office did not identify the lack of evidence submitted with invoices as a problem. According to a program office official, the triennial reviews did not include examining nonprofit invoices submitted to medical centers until concerns were raised about the Boston nonprofit.[21] However, incorporating invoice review into triennial review procedures did not address the problem because procedures did not include verifying that invoices submitted to VA were supported by evidence that services were provided.

What the OIG Did

To evaluate whether VA facility officials had adequate controls and oversight for payments to nonprofits, the audit team reviewed applicable laws, regulations, VA policies, and local procedures. The audit team also interviewed staff at the medical centers, affiliated nonprofit corporations, the program office, and the Nonprofit Program Oversight Board. The audit team obtained data from the VA Financial Management System on payments made by the medical centers to the nonprofits. Statistical samples of IPA agreement-related payments to nonprofits

[18] Numbers are rounded and may not sum exactly.

[19] See tables 1 and A.1 of this report for more information.

[20] VA Financial Policies and Procedures, vol. VIII, chap. 1A, sec. 010203, C, "Management Controls," October 2013.

[21] VA OIG, Financial Controls and Payments Related to VA-Affiliated Nonprofit Corporations: Boston VA Research Institute, Report No. 18-00711-211, December 2, 2019.

were selected at each of the reviewed facilities.[22] The team completed a review of the sampled invoices, any corresponding documentation available, and IPA agreements between the medical centers and nonprofits. Appendix A provides more information regarding the five prior reports, appendix B details the scope and methodology, and appendix C describes the statistical sampling used for the Albuquerque and Palo Alto medical centers' payments selected for review.

Insufficient Controls Resulted in Improper Payments

VA financial policy requires a review of invoices before payment to determine whether services were performed and invoices were for lawful and proper amounts. "Invoice reviews provide assurances that invoices include necessary substantiation and documentation for lawful and proper payment before payment certification."[23] However, the audit team found no evidence that demonstrated services were provided for any of the sample invoices reviewed. Since invoices were for the salaries and associated costs for employees working on mutually beneficial research, education, and training activities, evidence might include documented supervisory verification of the employees' invoiced number of hours or days worked and any annual or sick leave as reported on time cards or payroll distribution reports.

Improper payments to the affiliated nonprofits occurred for the same reason at all seven VA medical centers reviewed. The R&D office procedures for invoice review did not include a requirement that the reviewer ensure services were performed in accordance with the IPA agreement before approving payment. Approving officials at several medical centers' R&D offices explained they did not require or request supporting documentation. Instead, they determined whether funding was available and whether the billing period matched the effective period on the IPA agreements. Several of the nonprofits' staff and executive directors confirmed that medical center staff had not requested supporting documentation. The audit team concluded that medical centers' R&D officials had not developed procedures to ensure that nonprofit invoice amounts were valid and accurate before approving invoices for payment. Table 1 highlights the findings from the two follow-up review sites and from the team's prior invoice reviews. Appendix D details estimated monetary benefits.

[22] The Boise medical center review did not include a statistical sample; instead, all three in-scope payments were reviewed.

[23] VA Financial Policies and Procedures, vol. VIII, chap. 1A, sec. 010201.01, "Invoice Review," B, October 2013.

Table 1. Estimates of Improper Payments Based on Sampled Invoices

VA medical center location	Audit period	Items sampled	Invoices with supporting evidence	Estimated improper payments authorized (in dollars)
Boise*	Jan. 2014–Apr. 2018	3	0	50,600
Boston	Dec. 2012–Oct. 2017	60	0	22,800,000
Cincinnati	Jan. 2014–Apr. 2018	30	0	435,000
Nashville	Jan. 2014–Apr. 2018	30	0	720,000
San Francisco	Jan. 2014–Apr. 2018	30	0	11,700,000
Albuquerque	Jan. 2017–Dec. 2019	30	0	6,700,000
Palo Alto	Jan. 2017–Dec. 2019	30	0	11,100,000
Total		**213**	**0**	**53,500,000**†

Source: VA OIG reports and analysis of facility invoice payment records.
** Boise had three invoice payments within the scope and audit period associated with an IPA agreement; therefore, all three invoices were reviewed instead of a sample.*
† Each facility's estimated improper payment numbers were rounded based on the results of the analysis. Total dollar amounts may not sum due to rounding.

Without Oversight, VA Lacked Assurance Services Were Received before Approving Invoices for Payment

In addition to the lack of compliance with VA policy by the medical center's R&D invoice-approving officials, the OIG found required periodic supervisory reviews of approved invoices were not conducted at any of the seven facilities reviewed.[24] Supervisory reviews at multiple locations did not occur because supervisors trusted subordinates to accurately review and approve invoices. In Boise, the R&D supervisor indicated the low volume of invoices did not justify a review. The Nashville supervisor inaccurately believed staff in the medical centers' fiscal services performed the reviews. In Albuquerque, the supervisor relied on fiscal services staff to identify any problems. However, a fiscal services official indicated the review was instead focused on verifying funding was available. Supervisors in Palo Alto provided various reasons for the lack of supervisory reviews, such as reliance on nonsupervisory staff to process and approve invoices correctly or discussing the amount of funds remaining in the project with R&D approving staff to identify any concerns. Based on interviews and the lack of any evidence to the contrary, the audit team concluded that supervisory reviews consistent with VA policy did not take place.

[24] VA Financial Policies and Procedures, vol. VIII, chap. 1A, sec. 010203, C.

VHA's Triennial Reviews Did Not Include VA-Affiliated Nonprofit Corporation Invoices

As previously mentioned, VA's Nonprofit Program Office did not include reviews of nonprofits' invoices submitted to VA in its triennial reviews until after the OIG began the first audit on this topic.[25] According to program office officials, reviews of nonprofit invoices to VA began after concerns were raised about the Boston VA-affiliated nonprofit corporation.[26] A program office staff member explained the invoice review process focused on verifying that invoiced salary and fringe rates matched the related IPA agreement.[27]

Members of the Nonprofit Program Oversight Board told the team they expected triennial program office reviews to include an examination of nonprofits' invoices submitted to VA, including procedures for invoice submission. The members also noted the program office should ensure compliance with applicable regulations and VA policies affecting nonprofit operations and financial management, which would include VA financial policies. However, the audit team found that program office reviews did not verify that nonprofits' invoices submitted to VA included evidence that services had been provided. As a result, invoice errors might not be promptly discovered. For example, the Boston VA-affiliated nonprofit corporation overbilled, and VA paid the nonprofit, $1.6 million.[28] Also, the Cincinnati nonprofit overbilled VA by a small amount due to a calculation error, according to the nonprofit's finance director.

Conclusion

VA officials' compliance with policy and oversight of payments to the nonprofits fell short of requirements at the Albuquerque and Palo Alto medical centers. The audit team reported the same conclusion for the five prior medical centers reviewed. Because of the noncompliance with policy, VA lacked assurance that nonprofit-invoiced amounts were valid or accurate, and in some instances, VA overpaid the nonprofits. To achieve VA's goals to prevent waste or abuse, facility officials should ensure their procedures fully implement VA policy requiring both verification that services have been provided before approval of invoice payment and routine supervisory reviews.

[25] VA OIG, Financial Controls and Payments Related to VA-Affiliated Nonprofit Corporations: Boston VA Research Institute.

[26] Additional information appears in appendix A.

[27] Fringe rates are calculated based on employee salaries and associated costs, such as health plan and pension plan expenses and worker's compensation.

[28] Of the $1.6 million overpayment, about $1.5 million paid to the Boston nonprofit was included in the total $35.7 million improper payments shown in table A.1, due to lack of evidence services were received. The entire $1.6 million overpayment was for unallowable or prohibited reimbursements to the nonprofit. See appendix A for more information.

Although the program office revised triennial reviews to include affiliated nonprofit corporations' invoices, this control should also be strengthened. Reviews should be broadened to confirm that evidence demonstrating services were provided is submitted with invoices to assist in preventing improper payments and avoiding the type of significant overbilling identified at one site. All seven facilities lacked compliance with VA-required controls, putting taxpayer funds at increased risk of loss and could result in additional improper payments at medical centers with affiliated nonprofit corporations.

Recommendations 1–3

The OIG made recommendations similar to those in the five prior reports related to improper payments by local medical centers. The OIG made the following national recommendations to the assistant under secretary for health for discovery, education and affiliate networks in accordance with VA Financial Policy:

1. Establish procedures at all facilities with affiliated nonprofit corporations to help ensure VA medical center Research and Development Budget Office staff review nonprofit corporation invoice documentation and confirm services were performed before approving payment.
2. Establish procedures for Research and Development Budget Office supervisors at all the VA medical centers with affiliated nonprofit corporations that ensure periodic reviews are conducted of invoices authorized for payment, confirming that staff verified services were performed before approving payments.

The OIG made an additional national recommendation to the Nonprofit Program Office director:

3. Ensure the Nonprofit Program Office invoice review procedures incorporate verification that affiliated nonprofit corporations include evidence that services were provided with invoices submitted to VA.

Management Comments

The acting under secretary for health responded for the assistant under secretary for health for discovery, education and affiliate networks and concurred with recommendations 1 through 3. In response to recommendations 1 and 2, the acting under secretary reported that the Nonprofit Program Office will collaborate with the appropriate program offices to provide IPA invoice documentation and validation training for all VA research services that are associated with an affiliated nonprofit corporation, as well as establish and validate procedures. In response to recommendation 3, the acting under secretary indicated that the Nonprofit Program Office will expand its audit testing to include review procedures that affiliated nonprofit corporations include evidence that services were provided with invoices submitted to VA. In addition, the

acting under secretary stated that VHA Directive 1200.17 is being developed that will include procedural language regarding the substantiation of nonprofit corporation billing to VA. The full text of management comments appears in appendix E.

OIG Response

The action plan provided by the acting under secretary for health is responsive to recommendations 1 through 3. The OIG will follow up on the 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: Prior OIG Reports

The OIG reported consistent findings in audits conducted to evaluate the merits of complaints related to affiliated nonprofit corporations at VA medical centers in Boise, Idaho; Boston, Massachusetts; Cincinnati, Ohio; Nashville, Tennessee; and San Francisco, California. The audit team found, among other issues, improper payments from the VA to affiliated nonprofit corporations because of a lack of evidence services were provided at all five facilities reviewed, indicating a possible systemic problem.[29]

Prior OIG Audits' Data

Information about all VA payments to affiliated nonprofit corporations for each of the facilities audited appears in table A.1.

Table A.1. Prior OIG Reports, by Publication Date

VA medical center location	OIG report number	Publication date	Number of payments to affiliated nonprofits	Value of payments (dollars)	Estimated improper payments (dollars)
Boston, MA	18-00711-211	December 2, 2019	3,773*	23,700,000	22,800,000
Cincinnati, OH	18-00711-042	January 16, 2020	150†	466,000	435,000
Nashville, TN	18-00711-106	June 16, 2020	115	767,000	720,000
San Francisco, CA	18-00711-141	June 16, 2020	2,500	12,600,000	11,700,000
Boise, ID	18-00711-251	September 24, 2020	3††	50,600	50,600
Total			**6,541**	**37,600,000**	**35,700,000**

Source: VA OIG reports.
Note: Dollar amounts were rounded based on the results of the analysis.
** Five high-dollar payments were excluded from the total population of 3,778 payments and were tested separately. See appendix B of OIG Report 18-00711-211 for further information.*
† The Cincinnati population and value of payments were estimated after OIG excluded payments determined to be outside the scope of the audit, specifically not related to IPA agreements. See appendix B of OIG Report 18-00711-042 for further details.
†† Boise had three invoice payments within the scope and audit period associated with an IPA agreement; therefore, all three invoices were reviewed instead of a sample.

[29] OMB Memo M-21-19, "Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement," March 5, 2021, noted these payments should be considered "unknown"; however, that guidance was not in effect until after this audit began.

Synopses of Prior OIG Reports

The allegations, OIG findings, and number of recommendations for each of the prior OIG reports in the series on *Financial Controls and Payments Related to VA-Affiliated Nonprofit Corporations* are briefly described below.

Boston VA Research Institute

In report number 18-00711-211 issued December 2, 2019, the OIG substantiated allegations that the Boston, Massachusetts, VA-affiliated nonprofit corporation violated law and VA policy by invoicing for administrative fees and for salaries and benefits for unallowable administrative positions. The audit team found that lapses in oversight and weak internal controls allowed a pattern of inappropriate payments to the nonprofit. VA officials authorized about $1.6 million in payments to the nonprofit for prohibited administrative fees and duplicate retirement contributions, $1.5 million of which is included in the improper payments of about $22.8 million in table 1 of this report. The improper payments occurred because the medical center's R&D Budget Office staff did not comply with VA policy regarding verifying receipt of services before making payment. The OIG made seven recommendations, including that the under secretary for health confer with the VA Office of General Counsel and human resources officials about whether administrative actions should be taken against officials responsible for the inappropriate payments.

Cincinnati Education and Research for Veterans Foundation

The OIG evaluated the merits of a complaint alleging the executive director of the Cincinnati, Ohio, VA-affiliated nonprofit corporation used the organization's credit card inappropriately for personal expenses. In addition, the audit team broadly examined whether the nonprofit had adequate controls in place for ensuring proper expenditures and whether the board of directors provided adequate oversight of expenditures. In report number 18-00711-042 issued January 16, 2020, the OIG did not substantiate the allegation. However, the team identified some nonprofit financial controls that were inadequate or absent. The audit team also found that Cincinnati VA Medical Center officials made about $435,000 in improper payments due to not ensuring services were performed before approving invoices for payment. The OIG made four recommendations to the Cincinnati VA Medical Center director.

Middle Tennessee Research Institute

The OIG conducted this audit in response to a complaint that the affiliated nonprofit corporation overbilled the Nashville, Tennessee, medical center by at least $342,000. The audit team also evaluated controls and oversight of the nonprofit's expenditures and the medical center's payments to it. In report number 18-00711-106 issued June 16, 2020, the OIG did not substantiate the allegation. However, the team determined that both the medical center and the

nonprofit made payments that lacked sufficient supporting documentation. VA made about $720,000 in unsupported payments to the nonprofit from January 2014 through April 2018, and the nonprofit made about $337,000 in unsupported payments from January 2017 through June 2018. The OIG made three recommendations to the VA Tennessee Valley Healthcare System director.

Northern California Institute for Research and Education

In report number 18-00711-141 issued June 16, 2020, the OIG did not substantiate a May 2018 complaint alleging the former executive director of the San Francisco, California, VA-affiliated nonprofit corporation spent about $740,000 on a project without review by its board of directors. However, the audit team found the nonprofit's board did not ensure activities and expenditures complied with restrictions limiting the nonprofit's purpose to supporting VA-approved research and education. The team also found San Francisco VA Healthcare System officials could not be sure payments to the nonprofit were valid or accurate because controls and oversight did not meet requirements to ensure services were received before payment was approved. The OIG made two recommendations to the system director.

Idaho Veterans Research and Education Foundation

The OIG evaluated whether the former executive director of the Boise, Idaho, VA-affiliated nonprofit corporation improperly raised her pay and misused the nonprofit's credit card. The audit team also assessed controls and oversight regarding the nonprofit's expenditures and VA payments. In report number 18-00711-251 issued September 24, 2020, the OIG confirmed the former director received an unapproved salary increase and used the credit card for personal purchases. After an investigation by the OIG, she pleaded guilty to federal program theft, paid about $44,300 in restitution, and was sentenced to five years' probation. The current executive director also received a questionable salary increase. In addition, the audit team found VA improperly paid the nonprofit about $50,600 due to lack of compliance with VA policy, which requires verification that services were received before approval of payment. The OIG made five recommendations to the medical center director, including determining whether administrative action should be taken against the current executive director, ensuring the nonprofit requires two or more officials to oversee salary changes and implements better controls on credit card use, and establishing procedures for proper invoice review and oversight.

Appendix B: Scope and Methodology

Scope

The audit team conducted its work from August 2020 through May 2021. The scope of the audit focused on controls and oversight of VA IPA agreement-related payments by the Albuquerque, New Mexico, and Palo Alto, California, facilities to the affiliated nonprofit corporations from January 2017 through December 2019. The audit team conducted virtual site visits to the medical centers and VA's Office of Research and Development.

The types and sources of evidence used to address the audit objective included interviews, websites, government records, and prior audit reports. Statistical samples of payments were selected from a population of about 900, valued at about $7.5 million, made by the Albuquerque medical center and from a population of 1,856, valued at about $12.3 million, made by the Palo Alto medical center to the affiliated nonprofit corporations during the audit period.

Methodology

The audit team identified and reviewed applicable laws, regulations, VA policies, local procedures, and relevant records. The team also interviewed personnel from the Albuquerque and Palo Alto medical centers and the affiliated nonprofit corporation officials, the program office, and the Nonprofit Oversight Board. To determine whether VA officials processed nonprofit invoices in accordance with law and VA policies, the team reviewed 30 statistically selected payments made by each of the medical centers from January 2017 through December 2019 totaling about $248,000 for the Albuquerque medical center and about $172,000 for the Palo Alto medical center.

Internal Controls

The audit team determined and assessed VHA internal controls that were significant to the audit objective. This included an assessment of the five internal control components for each of the two facilities, including control environment, risk assessment, control activities, information and communication, and monitoring.[30] In addition, the team reviewed the principles of internal controls associated with the audit objective. The audit team identified three components and four principles as significant to the audit objective, identified internal control weaknesses, and made recommendations related to the finding for strengthening the controls:

[30] Government Accountability Office (GAO), *Standards for Internal Control in the Federal Government*, GAO-14-704G, September 2014.

- Component 1: Control Environment
  - Principle 2—The oversight body should oversee the entity's internal control system.
- Component 3: Control Activities
  - Principle 10—Management should design control activities to achieve objectives and respond to risks.
  - Principle 12—Management should implement control activities through policies and periodic review of control activities.
- Component 5: Monitoring
  - Principle 16—Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

Fraud Assessment

The audit team assessed the risk that fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements, significant in the context of the audit objectives, could occur during this audit. The team exercised due diligence in staying alert to any fraud indicators by

- reviewing IPA agreements for position titles, duties, and potential unallowable fees;
- reviewing nonprofit invoices and corresponding documentation for overbilling and unallowable costs; and
- conducting interviews with responsible officials.

The audit team did not identify any instances of fraud or potential fraud during this audit.

Data Reliability

The audit team obtained computer-processed data from VA's Financial Management System. To assess the reliability of these data, the team interviewed officials from the Albuquerque and Palo Alto medical centers to validate source documentation. To test for reliability, the audit team checked whether any data were missing from key fields or were outside the time frame requested. The team also assessed whether the data contained obvious duplication of records or included any inconsistent or inaccurate formulas. The audit team compared the data extracted from VA's Financial Management System to documentation and invoice records obtained from the medical centers. The audit team 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 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 C: Statistical Sampling Methodology

Approach

To determine whether the Albuquerque, New Mexico, and Palo Alto, California, VA medical centers processed affiliated nonprofit corporation invoices in accordance with law and VA policies, the audit team sampled IPA agreement-related payments and corresponding invoices within the audit period.

Population

The audit team used information extracted from VA's Financial Management System to identify the population of payments made by the Albuquerque, New Mexico, and Palo Alto, California, medical centers to the affiliated nonprofit corporations for the audit period from January 2017 through December 2019.[31] After the OIG excluded a payment determined to be outside the scope of the audit—a payment not related to IPA agreements—the estimated population of payments the Albuquerque medical center made to the affiliated nonprofit corporation included about 900 payments totaling about $7.5 million. The Palo Alto medical center made 1,856 payments of about $12.3 million to the affiliated nonprofit corporation.

Sampling Design

The audit team selected a statistical sample of 30 payments made by each of the facilities to the affiliated nonprofit corporations during the audit period. A simple random sampling approach was used based on a design precision of 6.9 percent, a 90 percent confidence level, and an expected error rate of 95 percent.

Weights

The estimates for the total payment amount for the Albuquerque medical center were calculated using weighted sample data. Samples were weighted to represent the population from which they were drawn. The OIG statistician used the weights to compute estimates. For example, the statistician calculated the total payment amount estimate by summing the product of the sampling weight and the payment amount for each in-scope sample.

The estimates for error rates were calculated using the exact binomial method, which does not require sample weights. This method was used because there was no variability in the sample results. A typical analysis using sample weights would not give a proper variability estimate and would not produce confidence intervals. Instead, the exact binomial method was used to calculate an error rate confidence interval. This estimate (point estimate and lower bound) was multiplied by

[31] At the Albuquerque medical center, no payment data were present for March 2019.

the estimated total payment amount (for Albuquerque, New Mexico) or the population dollar amount (for Palo Alto, California) to calculate the estimate for improper payments.

Projections and Margins of Error

The point estimate (that is, estimated error) is an estimate of the population parameter obtained by sampling. The confidence interval associated with each point estimate is a measure of the precision of the point estimate that accounts for the sampling methodology used. If the audit team 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 population estimates and associated sampling errors. This software uses replication methodology for variance estimates and the exact binomial methodology to calculate confidence intervals for results with all samples in error.

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

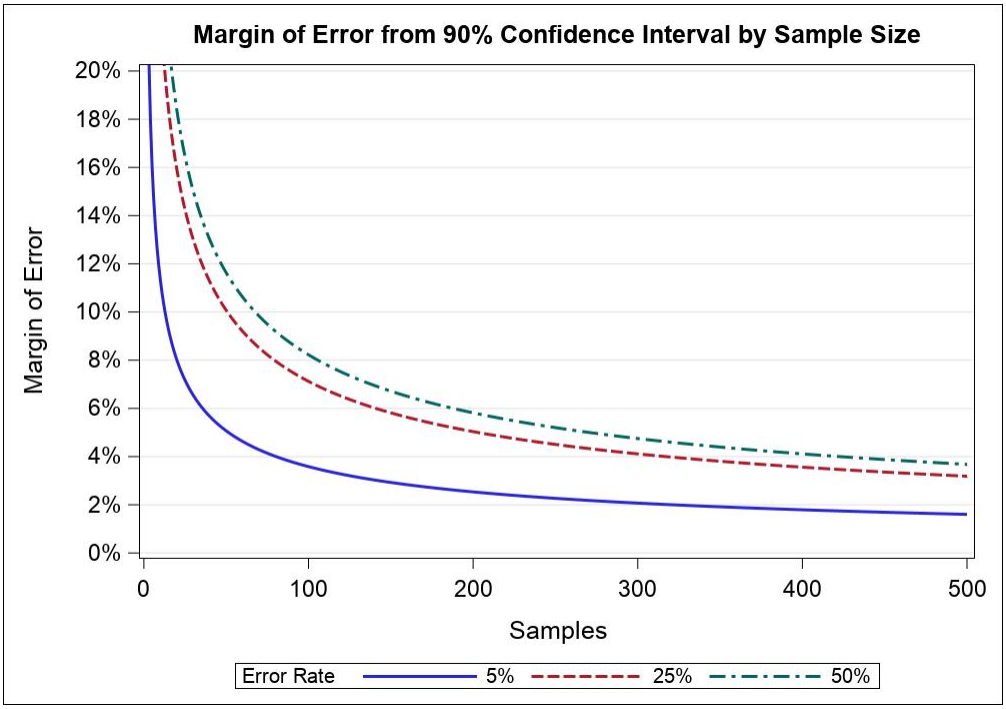

Figure C.1. *Effect of sample size on margin of error.*

Source: VA OIG statistician's analysis.

Table C.1 presents estimates derived from the sample population, including the population estimate, margin of error, lower 90 percent value, and upper 90 percent value.

Table C.1. Statistical Projections for Payments in Error by the Albuquerque and Palo Alto VA Medical Centers to the Affiliated Nonprofit Corporations

Sample size at each medical center location = 30

Medical center location	Population estimate (in millions of dollars)	Margin of error based on 90 percent confidence interval	90 percent confidence interval lower limit (in millions of dollars)	90 percent confidence interval upper limit
Albuquerque	7,451,597	N/A*	6,743,443	N/A†
Palo Alto	12,294,676	N/A*	11,126,265	N/A†

Source: VA OIG analysis of statistically sampled results over the sample populations. Data used for analysis and projections were obtained from VA's Financial Management System.
Note: Numbers were rounded based on the results of the statistical analysis.
** Not calculated because there was no variability in sample results.*
†Since all samples were found to be in error, the upper limit would be equal to the population estimate.

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

Recommendation	Explanation of Benefits	Better Use of Funds	Questioned Costs
1–2	Improper payments due to Albuquerque VA medical center staff approving invoices for payment to the New Mexico nonprofit without adequate documentation from January 2017 through December 2019.*		$6,700,000
1–2	Improper payments due to Palo Alto VA medical center staff approving invoices for payment to the Palo Alto nonprofit without adequate documentation from January 2017 through December 2019.*		$11,100,000
Total †			**$17,900,000**

Source: VA OIG staff analysis.
Note: Dollar amounts were rounded and may not sum exactly; they were based on the results of the statistical analysis.
** None of the 30 payments evaluated at each location included evidence that services were provided to support the payments, which means the payments reviewed were improper. Office of Management and Budget Memo M-21-19, "Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement," March 5, 2021, noted these payments should be considered "unknown"; however, that guidance was not in effect until after this audit began.*
† Of the $53.5 million improper payments, about $35.7 million was previously reported as shown in tables 1 and A.1 of this report.

Appendix E: Management Comments

Department of Veterans Affairs Memorandum

Date: June 3, 2021

From: Acting Under Secretary for Health (10)

Subj: OIG Draft Report, Veterans Health Administration: Financial Controls Over Payments to VA-Affiliated Nonprofit Corporations (OIG 2020-03704-R9-0004) (VIEWS 05147435)

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

1. Thank you for the opportunity to review and comment on the draft report, Veterans Health Administration: Financial Controls Over Payments to VA-Affiliated Nonprofit Corporations.
2. The Veterans Health Administration (VHA) appreciates OIG for conducting this audit to determine whether VA medical centers have adequate controls for, and provide, sufficient oversight of payments to affiliated nonprofit corporations.
3. VHA agrees with OIG's three recommendations. In response to recommendation 1, the Nonprofit Program Office (NPPO) within the Office of Research and Development (R&D) will establish procedures and provide training for those facilities with affiliated nonprofit corporations. For recommendation 2, the Office of R&D will establish procedures and provide appropriate training for R&D Budget Office supervisors. Collaborative efforts between the Office of R&D and the VHA Chief Financial Officer will ensure the NPPO invoice review procedures and incorporate verification that affiliated nonprofit corporations include evidence that services were provided with invoices submitted.

The OIG removed point of contact information prior to publication.

Richard A. Stone, M.D.

Attachment

VETERANS HEALTH ADMINISTRATION (VHA)

Action Plan

VA Financial Controls Over Payments to VA-Affiliated Nonprofit Corporations

(OIG 2020-03704-R9-0004)

Recommendation 1. Establish procedures at all facilities with affiliated nonprofit corporations to help ensure VA medical center Research and Development Budget Office staff review nonprofit corporation invoice documentation and confirm services were performed before approving payment.

VHA Comments: Concur

The Nonprofit Program Office within the Office of Research and Development will identify and collaborate with the appropriate program offices to provide national training, regarding the Intergovernmental Personnel Agreement (IPA) invoice documentation and validation training for all VA Research Services, that are associated with an affiliated nonprofit corporation. Procedures will also be established and validated.

Status: In progress Target Completion Date: September 2021

Recommendation 2. Establish procedures for Research and Development Budget Office supervisors at all the VA medical centers with affiliated nonprofit corporations that assures periodic reviews are conducted of invoices authorized for payment confirming that staff verified services were performed before approving payments.

VHA Comments: Concur

The Nonprofit Program Office within the Office of Research and Development will identify and collaborate with the appropriate program offices to provide national training, regarding the Intergovernmental Personnel Agreement (IPA) invoice documentation and validation training for all VA Research Services, that are associated with an affiliated nonprofit corporation. Procedures will also be established and validated with the Research and Development Budget Office supervisors.

Status: In progress Target Completion Date: September 2021

Recommendation 3. Ensure the Nonprofit Program Office invoice review procedures incorporate verification that affiliated nonprofit corporations include evidence that services were provided with invoices submitted to VA.

VHA Comments: Concur

Nonprofit Program Office (NPPO) will expand its audit testing to include review procedures that affiliated nonprofit corporations include evidence that services were provided with invoices submitted to VA. Specifically, the NPPO will test the adequacy of support for the Intergovernmental Personnel Agreement (IPA) services to ensure that they were rendered and for approved by the VAMC's Research Service.

The VHA Directive 1200.17 is being developed and will include procedural language regarding the adequate substantiation of nonprofit corporation billing to VA.

Status: In progress Target Completion Date: September 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.

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	Tim Crowe, Director Erin Costa Angela Ferguson Valerie Kimball Michelle Swagler
Other Contributors	Daniel Blodgett Dyanne Griffith Allison Tarmann Yongling Tu

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