

VA Office of Inspector General

OFFICE OF AUDITS AND EVALUATIONS



Veterans Health Administration

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

March 2, 2015
14-00730-126

ACRONYMS

CBO	Chief Business Office
DCBO	Deputy Chief Business Officer
FSC	Financial Services Center
HCPS	Health Care Claims Processing System
IT	Information Technology
MS&C	Medical Support and Compliance
OIG	Office of Inspector General
OI&T	Office of Information and Technology
PMAS	Project Management Accountability System
SLA	Service Level Agreement
VA	Department of Veterans Affairs
VHA	Veterans Health Administration

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Report Highlights: Review of Alleged Misuse of VA Funds To Develop the Health Care Claims Processing System

Why We Did This Review

The VA Office of Inspector General (OIG) conducted this review in response to allegations received by our Hotline Division. We evaluated the merits of an allegation that Veterans Health Administration's (VHA) Chief Business Office (CBO) violated appropriations law by improperly obligating over \$96 million in medical support and compliance (MS&C) funds to pay for the development of the Health Care Claims Processing System (HCPS).

What We Found

We substantiated that the CBO violated appropriations law by improperly obligating a total of \$92.5 million of MS&C appropriations to finance the development of HCPS. The difference between the alleged and substantiated amounts is due to an estimate cited by the complainant. Of the \$92.5 million, the CBO spent approximately \$73.8 million and \$18.7 million remains obligated. MS&C appropriations are only authorized for administering medical, construction, supply, and research activities.

CBO's misuse of MS&C appropriations occurred because the former Deputy Chief Business Officer (DCBO) did not seek the required IT Systems appropriations to fund the development of HCPS. The former DCBO obligated about \$21.3 million of MS&C appropriations. The most recent DCBO for Purchased Care obligated about \$71.2 million of MS&C appropriations instead of requesting funding from the

Office of Information and Technology (OI&T) in hopes of achieving a faster delivery of HCPS. As a result, the CBO violated appropriations law when it improperly obligated about \$92.5 million of MS&C appropriations to develop HCPS.

What We Recommended

We recommended the Interim Under Secretary for Health establish oversight mechanisms, seek the return of all MS&C appropriations, deobligate all current MS&C funds, and obtain appropriate funding for HCPS development. We also recommended that the Interim Under Secretary determine if appropriate administrative action should be taken against DCBO senior officials in the Purchased Care's chain of command.

Agency Comments

The Interim Under Secretary for Health concurred with our findings and recommendations and plans to complete all corrective actions by September 30, 2015. We considered these planned actions acceptable and will follow up on their implementation.

A handwritten signature in black ink that reads "Linda A. Halliday".

LINDA A. HALLIDAY
Assistant Inspector General
for Audits and Evaluations

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INTRODUCTION

Allegation

The VA Office of Inspector General (OIG) evaluated the merits of an OIG Hotline allegation that the Chief Business Office (CBO) violated appropriation law by improperly obligating over \$96 million in medical support and compliance (MS&C) funds to pay for the development of the Health Care Claims Processing System (HCPS).

Background

HCPS is an automated system that is being developed to replace the Fee Basis Claims System. According to the Deputy Chief Business Officer (DCBO) for Purchased Care, the CBO identified a need in 2008 for a centralized claims processing system that would help improve non-VA provided care payment accuracy and claims processing timeliness. In 2009, during a meeting with the then VA Deputy Secretary, the former Financial Service Center (FSC) Director indicated that FSC had the system capabilities to meet CBO's claims processing needs.

However, after more than 6 months of performing an analysis of business requirements, FSC management determined its system lacked the capabilities needed to process non-VA provided care claims. As a result, CBO and FSC entered into multiple Service Level Agreements (SLAs), which were formal agreements that defined the service, product, performance measures, and cost to develop HCPS.

Chief Business Office

CBO represents a single accountable authority for the development of administrative processes, policies, regulations, and directives associated with the delivery of VA health benefit programs. They address a wide range of health benefit administration issues and is organized into offices that include electronic business solutions, business information, and business policy.

Prior OIG Non-VA Provided Care Audits and Reviews

The following OIG audits reported the need to improve controls over claims processing and the justification and authorization of non-VA provided care.

- *Audit of Veterans Health Administration's Non-VA Outpatient Fee Care Program*, Report No. 08-02901-185, August 3, 2009
- *Audit of Non-VA Inpatient Fee Care Program*, Report No. 09-03408-227, August 18, 2010
- *Review of South Texas Veterans Health Care System's Management of Fee Care Funds*, Report No. 11-04359-80, January 10, 2013

Other Information

Appendix A provides details on our scope and methodology.

RESULTS AND RECOMMENDATIONS

Allegation **VHA Misused Medical Support and Compliance Funds To Develop the Health Care Claims Processing System**

Assessment

We substantiated that the CBO violated appropriations law by improperly obligating a total of \$92.5 million of MS&C appropriations to finance the development of HCPS. The difference between the alleged and substantiated amounts is due to an estimate cited by the complainant. Of the \$92.5 million, the CBO spent approximately \$73.8 million and \$18.7 million remains obligated. MS&C appropriations are authorized for necessary expenses in the administration of medical, hospital, nursing home, domiciliary, construction, supply, and research activities. Information technology (IT) Systems appropriations are used for IT expenses, including systems development, management, and contract acquisition costs.

CBO's misuse of MS&C appropriations occurred because the former Deputy Chief Business Officer (DCBO) for Purchased Care did not seek IT Systems appropriations to fund the development of HCPS.¹ The former DCBO obligated about \$21.3 million of MS&C appropriations. The most recent DCBO for Purchased Care obligated about \$71.2 million of MS&C appropriations instead of requesting funding from the Office of Information and Technology (OI&T) in hopes of achieving a faster delivery of the claims processing capability of HCPS.² By using MS&C appropriations, VHA avoided competing with other VA projects for IT Systems appropriations. As a result, the CBO violated appropriations law when they obligated \$92.5 million of MS&C appropriations so the FSC could develop HCPS.

Criteria

Section 1301, Title 31, United States Code, Money and Finance, states that appropriations shall be used for the objects that the appropriations were made except as otherwise provided by law. Moreover, the 2010, 2012, and 2014 Consolidated Appropriations Acts and the 2013 Further Continued Appropriations Act states VHA's MS&C appropriations are only authorized for necessary expenses in the administration of medical, hospital, nursing home, domiciliary, construction, supply, and research activities.

¹ According to information provided by VA, the DCBO retired in May 2012 after a VA OIG administrative investigation found that the DCBO engaged in improper contracting activities and failed to maintain an arm's-length relationship with two VA contractors (*Administrative Investigation, Improper Contracts, Conflict of Interest, Failure to Follow Policy, and Lack of Candor, Health Administration Center, Denver, Colorado*, Report No. 10-02328-154, April 12, 2012).

² According to information provided by VA, the most recent DCBO retired in November 2014.

Congress established the IT Systems appropriation (Public Law 109-114, Military Quality of Life and Veterans Affairs Appropriations Act, 2006) to manage VA’s entire IT portfolio and ensure a coordinated and systematic IT funding effort. Public Law 109-114 states that IT Systems appropriations will be used for IT expenses, including systems development, management, and contract acquisition costs. Further, *VA’s Franchise Fund Financial Policies and Procedures, Volume 2, Chapter 2B*, February 2010, states that the IT Systems appropriation will be used for all VA developed software costs.

Improper Use of MS&C Funds

Since 2010, CBO spent a total of approximately \$73.8 million of the \$92.5 million of the MS&C appropriations obligated for the development of HCPS. As of August 2014, \$18.7 million remains obligated to finance the development of HCPS. The following table provides the amount of MS&C appropriations CBO has spent and that remains obligated to support HCPS development phases.

Table. MS&C Appropriations for HCPS Development
(in millions)

Description	Amount
Governance, Requirements, and System Design	\$21.0
Development, Testing, Training, and Deployment	18.5
IT Maintenance, Support, and Infrastructure	8.9
Integration and Austin IT Center Support	25.4
Total Spent	\$73.8
Remaining Obligation (as of August 2014)	\$18.7
Total	\$92.5

Source: Chief Business Office and Financial Services Center

MS&C appropriations are intended only for necessary expenses in the administration of medical, hospital, nursing home, domiciliary, construction, supply, and research activities.

MS&C Funds Used for IT Development

To support HCPS development, CBO obligated \$92.5 million of MS&C appropriations through multiple SLAs to the FSC. The SLAs provided the terms, conditions, and scope of work under which FSC would develop a centralized health care claims processing system. Further, the SLAs, signed by the DCBO for Purchased Care and the Director of the FSC, served as a funding mechanism to obligate MS&C appropriations. The money from the MS&C appropriations was used to cover FSC’s incurred costs related to HCPS design, governance, acquiring IT infrastructure, and IT maintenance and support system development.

Although CBO officials acknowledged that HCPS is an IT development system, they stated the \$92.5 million was for FSC's administrative fees, such as support services and "start-up" costs. However, HCPS was identified in OI&T's Project Management Accountability System (PMAS) dashboard since late 2012 because CBO's SLAs required FSC to comply with the PMAS process requirements while developing HCPS. The *PMAS Guide* establishes processes used to plan and manage all IT development projects that introduce new functionality or enhance existing capabilities within current VA systems that cost more than \$250,000 over the project's lifecycle.

Reason IT System Appropriation Not Used

The former DCBO for Purchased Care did not seek IT Systems appropriations to fund the development of HCPS. The former DCBO obligated about \$21.3 million of MS&C funds. The most recent DCBO obligated approximately \$71.2 million of MS&C appropriations instead of requesting IT Systems appropriations in hopes of achieving a faster delivery of HCPS. By using MS&C appropriations, VHA avoided competing with other VA projects for IT Systems appropriations. However, VA-developed software costs are considered IT expenses and charged to the IT appropriation. Finally, VA's Executive-in-Charge of OI&T also stated that the IT appropriation must be used when a development effort results in an IT system maintained and operated within VA.

VA's *Financial Policy Volume 2, Appropriations, Funds and Related Information* assigns responsibilities to Under Secretaries, Assistant Secretaries, Chief Financial Officers, and other key officials for ensuring compliance with the Volume's policies and procedures, to include that funds are expended solely for the purposes for which they are appropriated, except as otherwise provided by law. In order to avoid future misuse of appropriations, VHA needs to strengthen their oversight, hold senior leaders accountable, and ensure that correct appropriations are used to fund their prospective IT projects.

Effects of Not Complying With Appropriation Laws

As a result, the CBO violated appropriations law when it obligated about \$92.5 million of MS&C appropriations for the development of HCPS.

Recommendations

1. We recommended the Interim Under Secretary for Health establish oversight mechanisms to ensure Veterans Health Administration uses medical support and compliance funds in accordance with appropriation laws.
2. We recommended the Interim Under Secretary for Health seek the return of all medical support and compliance funds used to develop and support the Health Care Claims Processing System.

3. We recommended the Interim Under Secretary for Health deobligate all medical support and compliance funds that remain obligated toward the development of the Health Care Claims Processing System.
4. We recommended the Interim Under Secretary for Health obtain the appropriate funding to support the development of the Health Care Claims Processing System, if additional system development requirements are unfunded.
5. We recommended the Interim Under Secretary for Health confer with the Office of Human Resources and the Office of General Counsel to determine if appropriate administrative action should be taken against any senior officials in the Deputy Chief Business Office for Purchased Care's supervisory chain of command, and ensure that action is taken.

**Management
Comments**

The Interim Under Secretary for Health concurred with our findings and recommendations and plans to complete all corrective actions by September 30, 2015. VHA's Chief Financial Officer will establish oversight mechanisms and issue guidance to ensure that VHA uses MS&C funds in accordance with appropriation laws.

VHA's Office of Finance will coordinate with relevant subject matter experts from Office of General Counsel, VA's Office of Finance, VHA's CBO, and others to determine legal authorities and federal financial processes to remedy MS&C funds used and to adjust remaining obligated MS&C funds for development and support of HCPS. VHA's CBO and VHA's Office of Finance will use the appropriate funding for future development and support of the HCPS.

To address whether administrative action be taken against any senior leader in the DCBO for Purchased Care's supervisory chain of command and ensure that action is taken if required, the Interim Under Secretary for Health plans to refer this issue to the recently formed VA Office of Accountability Review. Depending on the level of action recommended, the Office of Accountability Review will consult with the Office of General Counsel and the Office of Human Resources and Administration.

OIG Response

We considered these planned actions acceptable and will follow up on their implementation.

Appendix A Scope and Methodology

- Scope** We conducted our work from March through December 2014. Our focus for this review was on VHA's obligation of more than \$96 million in MS&C funds to support the development of HCPS. We did not evaluate or validate the progress of the development of HCPS.
- Methodology** To conduct our review, we examined applicable VA criteria and Federal regulations to determine whether MS&C appropriations could be used for IT development. We conducted interviews with key VA and VHA personnel and reviewed contract documentation. We also reviewed other key documentation, such as CBO and FSC meeting minutes and SLAs. Further, we obtained documentation to identify the total amount of obligated and transferred MS&C appropriations. Lastly, we conducted a site visit to FSC in Austin, TX.
- Data Reliability** To test for reliability, we compared the SLA obligated amount with the Financial Management System obligations. We also compared the amount of MS&C appropriations transferred by CBO with the invoiced amounts and did not identify significant discrepancies. Thus, we concluded the data were sufficiently reliable for the purposes of our review.
- Government Standards** We conducted this review in accordance with the *Quality Standards for Inspection and Evaluation* published by the Council of Inspectors General on Integrity and Efficiency.

Appendix B Potential Monetary Benefits in Accordance With Inspector General Act Amendments

Recommendation	Explanation of Benefits	Better Use of Funds	Questioned Costs
2	Medical support and compliance funds need to be restored to their proper appropriation to comply with appropriation laws.		\$73.8 million
3	Chief Business Office could avoid further misuse of the medical support and compliance appropriation if it deobligates remaining funds.	\$18.7 million	
Total		\$18.7 million	\$73.8 million

Appendix C Interim Under Secretary for Health Comments

Department of Veterans Affairs

Memorandum

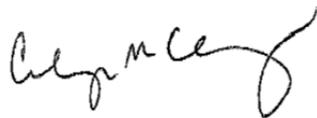
Date: JAN 16 2015

From: Interim Under Secretary for Health (10)

Subj: Office of Inspector General (OIG) Draft Report, Veterans Health Administration Review of Alleged Misuse of VA Funds to Develop the Health Care Claims Processing System (7564377)

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

1. Thank you for the opportunity to review the draft report, Veterans Health Administration Review of Alleged Misuse of VA Funds to Develop the Health Care Claims Processing System se one block for each paragraph.
2. I reviewed the draft report and concur with the recommendations. Attached is the corrective action plan for recommendation 1 through 5.
3. If you have any questions, please contact Karen M. Rasmussen, MD, Director, Management Review Service (10AR) at VHA10ARMRS2@va.gov.



Carolyn M. Clancy, MD

Attachment

VETERANS HEALTH ADMINISTRATION

Action Plan

Draft OIG Report – Veterans Health Administration: Review of Alleged Misuse of VA Funds to Develop the Health Care Claims Processing System

Date of Draft Report: 12/18/2014

Recommendations/ Actions	Status	Target Completion Date
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OIG Recommendations

Recommendation 1. We recommended the Interim Under Secretary for Health establish oversight mechanisms to ensure Veterans Health Administration uses medical support and compliance funds in accordance with appropriation laws.

VHA Comments

Concur.

The Veterans Health Administration (VHA) Chief Financial Officer will establish oversight mechanisms and issue the guidance to ensure that VHA uses medical support and compliance (MS&C) funds in accordance with appropriation laws.

To complete this action, VHA will provide the following documentation:

1. Written guidance regarding use of MS&C funds in accordance with appropriation laws.

Status:
In process

Target Completion Date:
June 30, 2015

Recommendation 2. We recommended the Interim Under Secretary for Health seek the return of all medical support and compliance funds used to develop and support the Health Care Claims Processing System.

VHA Comments

Concur in principle.

VHA's Office of Finance will coordinate with relevant subject matter experts from Office of General Counsel, VA's Office of Finance, VHA's Chief Business Office (CBO), and others to determine legal authorities and federal financial processes to remedy MS&C funds used for development and support of the Health Care Claims Processing System (HCPS).

To complete this action, VHA's Office of Finance will provide:

1. Documentation of the appropriate process for addressing whether returning funds is legally permissible.
2. Documentation of reporting to senior leadership on recommendations, decisions, and outcomes.

Status:
In process

Target Completion Date:
June 30, 2015

Recommendation 3. We recommended the Interim Under Secretary for Health deobligate all medical support and compliance funds that remain obligated toward the development of the Health Care Claims Processing System.

VHA Comments

Concur in principle.

VHA's Office of Finance will coordinate with relevant subject matter experts from Office of General Counsel, VA's Office of Finance, VHA's CBO, and others to determine legal authorities and federal financial processes for making adjustments to MS&C funds that remain obligated toward development and support of the HCPS.

To complete this action, VHA's Office of Finance will provide:

1. Documentation of appropriate adjustments to remaining obligated MS&C funds.

Status:
In process

Target Completion Date:
June 30, 2015

Recommendation 4. We recommended the Interim Under Secretary for Health obtain the appropriate funding to support the development of the Health Care Claims Processing System, if additional system development requirements are unfunded.

VHA Comments

Concur.

If additional fiscal year 2015 system development warrants VHA funding, VHA's CBO and VHA's Office of Finance will use the appropriate funding.

To complete this action, VHA's CBO will provide:

1. Documentation of VHA funding sources for system developments funded by VHA in fiscal year 2015.

Status:
In process

Target Completion Date:
September 30, 2015

Recommendation 5. We recommended the Interim Under Secretary for Health confer with the Office of Human Resources and the Office of General Counsel to determine if appropriate administrative action should be taken against any senior officials in the Deputy Chief Business Office for Purchased Care’s supervisory chain of command, and ensure that action is taken.

VHA Comments

Concur.

Per the December 19, 2014 VA Chief of Staff’s memorandum on the “Formal Establishment of Office of Accountability Review (OAR),” OAR is charged with reviewing and investigating “allegations of misconduct and lack of oversight by senior leaders throughout the Department” and will “determine whether allegations can be substantiated and whether discipline should be proposed.” As such, the Interim Under Secretary for Health will refer this issue to OAR, who will determine if administrative action should be taken against any senior leader in the Deputy Chief Business Office for Purchased Care’s supervisory chain of command, and ensure that action is taken if required. Depending on the level of action recommended, OAR will consult with the Office of General Counsel and the Office of Human Resources and Administration.

Target Completion Date: Appropriate administrative action, if any is warranted, will be determined by June 30, 2015.

Appendix D Office of Inspector General Contact and Staff Acknowledgments

OIG Contact	For more information about this report, please contact the Office of Inspector General at (202) 461-4720.
Acknowledgments	Mario Carbone, Director Raymond English Glen Gowans Heather Jones

Appendix E Report Distribution

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