



DEPARTMENT OF VETERANS AFFAIRS  
**OFFICE OF INSPECTOR GENERAL**

*Office of Audits and Evaluations*

VETERANS HEALTH ADMINISTRATION

Financial Controls and  
Payments Related to  
VA-Affiliated Nonprofit  
Corporations: Middle  
Tennessee Research Institute

AUDIT

REPORT #18-00711-106

JUNE 16, 2020



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## Executive Summary

The VA Office of Inspector General (OIG) conducted this audit to evaluate the merits of a complaint submitted in May 2018 alleging the Middle Tennessee Research Institute (MTRI), a VA-affiliated nonprofit corporation (NPC), overbilled the Nashville, Tennessee, VA medical center (VAMC). The alleged overbilled amount was at least \$342,000 for Intergovernmental Personnel Act (IPA) agreement reimbursements from 2014 through 2017.<sup>1</sup>

IPA agreements allow VA and affiliated NPCs to collaborate on mutually beneficial research, education, and training activities. Under the agreements, VA may fund all or part of the salary and fringe benefits of employees working on VA-approved projects. The NPC pays these costs and is reimbursed by the affiliated VAMC.

The OIG focused on the activities and expenditures of both the MTRI and the affiliated VA medical center in Nashville, Tennessee. The audit team assessed whether the MTRI had adequate controls in place for expenditures, and if the MTRI board of directors provided adequate oversight of MTRI expenditures. The team also evaluated whether the Nashville VAMC had adequate controls and provided sufficient oversight of VA's payments to the MTRI.

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

The MTRI is located on the Nashville VAMC campus of the VA Tennessee Valley Healthcare System. It was established in 1991 to provide administration and stewardship of federal and nonfederal research and education grants and contracts. In fiscal year 2018, the MTRI reported revenues of about \$446,000 in government funding, which included about \$110,000 from VA. The MTRI also received about \$250,000 from nongovernmental sources, for a total of about \$696,000. About 21 professionals support the MTRI's research activities. Areas of research include advanced heart failure, cancers of the lung and skin, alternative therapies for asthma, and blood pressure interventions.

### What the Audit Found

The OIG did not substantiate the allegation that the MTRI overbilled the Nashville VAMC for at least \$342,000 for reimbursements of IPA agreement-related expenses. Some MTRI staff worked

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<sup>1</sup> The OIG issued two other reports on VA-affiliated NPCs: *Financial Controls and Payments Related to VA-Affiliated Nonprofit Corporations: Boston VA Research Institute*, 18-00711-211, December 2, 2019; and *Financial Controls and Payments Related to VA-Affiliated Nonprofit Corporations: Cincinnati Education and Research for Veterans Foundation*, 18-00711-42, January 16, 2020.

on multiple VA-approved projects under separate overlapping IPA agreements as well as other MTRI-funded projects simultaneously, which was not considered in the allegation.

Although the OIG did not substantiate the allegation, the MTRI's executive director did make the team aware of some small overbilling incidents. According to the MTRI's executive director, the MTRI conducted an internal analysis of the medical center's payments and the nonprofit's corresponding invoices after a Nonprofit Program Office review in 2018 and identified about \$6,000 in net overbillings to the Nashville VAMC. The executive director told the audit team that these overbillings occurred from October 2014 through October 2016 because of the principal investigators' poor communication regarding the amount of work performed on various projects. The audit team reviewed bills of collection issued in December 2019 by the Nashville VAMC for repayment by the MTRI. In March 2020, a staff member from the Nashville VAMC Research and Development (R&D) Budget Office told the audit team that MTRI had prepared checks for the overbilling. Because invoices lacked supporting documentation, the OIG could not validate the accuracy of these small overpayments to the nonprofit.

In addition, the audit team identified lapses in oversight and ineffective internal controls that resulted in the MTRI making payments of about \$337,000 that lacked proper supporting documentation. The unsupported payments occurred because the board of directors did not provide adequate oversight to ensure procedures were consistent with MTRI policies for documentation required prior to the approval of expenditures.

The audit team also estimated the Nashville VAMC made about \$720,000 in improper payments to the MTRI from January 2014 through April 2018. These payments occurred because the VAMC's Budget Office staff did not establish procedures to ensure services were performed prior to payment, consistent with Veterans Health Administration (VHA) policies. The audit team reviewed 30 statistically selected payments and corresponding invoices and found that none included supporting documentation, such as payroll distribution reports or time cards. As a result, these payments were improper according to Office of Management and Budget guidance.<sup>2</sup> The OIG concluded that the Nashville VAMC R&D Budget Office's invoice review procedures did not comply with VA internal controls to ensure services were performed in accordance with the agreement before approving invoices for payment.

The problem was compounded by the absence of required periodic VA supervisory reviews of approved invoices. According to the responsible supervisor, those periodic reviews were not performed because the supervisor thought the VAMC's Fiscal Services staff performed them. However, according to the chief financial officer, reviews were not performed by Fiscal Services staff because supervisory reviews should be conducted by the responsible supervisor. If the Nashville VAMC staff continue to approve invoices associated with IPA agreements at the rate

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<sup>2</sup> Office of Management and Budget Memorandum M-18-20, "Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement," June 26, 2018.

identified and with a similar value of payments without supporting documentation, improper payments made over the next five years could total about \$830,000.

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

## **What the OIG Recommended**

The OIG recommended the VA Tennessee Valley Healthcare System director ensure the MTRI board of directors establishes procedures to verify supporting documentation before approving expenditures. The OIG also recommended the system director establish procedures to make certain that staff in the R&D Budget Office review VA-affiliated nonprofit corporation invoices to confirm that services were performed, or goods were received, in accordance with the IPA agreement before approving invoices for payment.

Finally, the system director should establish procedures to confirm the R&D Budget Office supervisor conducts required periodic reviews of VA-affiliated nonprofit corporation invoices that staff have authorized for payment.

## **Management Comments**

The VA Tennessee Valley Healthcare System director concurred with all recommendations. In response to Recommendation 1, the director noted that MTRI revised its policy. Under a new process implemented in August 2019, the associate chief of staff for R&D (who is a member of the board of directors) oversees checks generated by the MTRI executive director to ensure recipients are not also an approving official for any expenditures, a signatory to any bank account, or a check signer, and verifies supporting documentation is accurate and complete prior to approving expenditures. In response to Recommendation 2, the director reported that more oversight has been established over MTRI-invoiced amounts by implementing time cards for its personnel under IPA agreements. In response to Recommendation 3, the director noted that "monthly audits to MTRI IPA's research workplaces" have been implemented to validate time card inputs and proper invoice documentation. The full text of VA's management comments is included in Appendix D.

Although the director reported that actions were completed for all recommendations, evidence was not adequate to close the recommendations at this time. The OIG will follow up on the

planned actions and will close the recommendations when sufficient documentation has been provided illustrating corrective actions have been implemented.



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## Abbreviations

IPA	Intergovernmental Personnel Act
MTRI	Middle Tennessee Research Institute
NPC	nonprofit corporation
OIG	Office of Inspector General
R&D	research and development
VAMC	VA medical center
VHA	Veterans Health Administration



## Introduction

The VA Office of Inspector General (OIG) conducted this audit to evaluate the merits of a complaint submitted in May 2018 alleging the Middle Tennessee Research Institute (MTRI), a VA-affiliated nonprofit corporation (NPC), overbilled the Nashville, Tennessee, VA medical center (VAMC) for at least \$342,000. The audit team also assessed whether the MTRI had appropriate controls over expenditures and if the MTRI board of directors provided adequate oversight of the MTRI's expenditures. In addition, the team evaluated whether the Nashville VAMC had necessary controls in place and provided sufficient oversight of VA's payments to the MTRI.<sup>3</sup>

### Middle Tennessee Research Institute

The MTRI is located on the Nashville VAMC campus of the VA Tennessee Valley Healthcare System and was established in 1991 to support VA in its mission to better serve veterans. The MTRI provides administration and stewardship of federal and nonfederal research and education grants and contracts. About 21 professionals support MTRI research activities. Areas of research include advanced heart failure, cancers of the lung and skin, alternative therapies for asthma, and blood pressure interventions. In fiscal year 2018, the MTRI reported revenues of about \$446,000 in government funding, which included about \$110,000 from VA. The MTRI also received about \$250,000 from nongovernmental sources, for a total of about \$696,000.<sup>4</sup>

### VA-Affiliated Nonprofit Corporations

The VA-affiliated NPC program was established under the Veterans' Benefits and Services Act of 1988 solely to facilitate VA-approved research projects at VA medical facilities nationwide.<sup>5</sup> The NPC program was revised in 1999 to also allow NPCs to facilitate funding to support VA-approved education activities.<sup>6</sup> NPCs may administer funds from a variety of sources other than VA, including other federal agencies, private organizations, and universities. In fiscal year 2018, VA-affiliated NPCs collectively employed about 2,600 personnel and supported more than 2,100 active principal investigators. As of fiscal year 2018, there were 82 VA-affiliated NPCs in

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<sup>3</sup> The OIG issued two other reports on VA-affiliated NPCs: *Financial Controls and Payments Related to VA-Affiliated Nonprofit Corporations: Boston VA Research Institute*, 18-00711-211, December 2, 2019; and *Financial Controls and Payments Related to VA-Affiliated Nonprofit Corporations: Cincinnati Education and Research for Veterans Foundation*, 18-00711-42, January 16, 2020.

<sup>4</sup> Fiscal year 2018 data are the latest available. According to VA's Nonprofit Program Office, the NPC 2019 consolidated annual report will be submitted to Congress in December 2020.

<sup>5</sup> Veterans' Benefits and Services Act of 1988, Pub. L. No. 100-322 (1988).

<sup>6</sup> Veterans Millennium Health Care and Benefits Act, Pub. L. No. 106-117 § 204, 113 Stat. 1562 (1999).

42 states, Puerto Rico, and the District of Columbia with combined assets valued at about \$289 million, including investments, accounts receivable, and equipment.

VA and affiliated NPCs collaborate on mutually beneficial research, education, and training activities using Intergovernmental Personnel Act (IPA) agreements. Under these IPA agreements VA funds all or part of the salary and fringe benefits for employees working on VA-approved projects.<sup>7</sup>

## **Governance of Nonprofit Corporations**

As delegated by the Secretary of Veterans Affairs, the under secretary for health may authorize the establishment of NPCs. VA-affiliated NPCs are governed by a board of directors and overseen by VA in accordance with applicable federal and state laws and regulations, as well as Veterans Health Administration (VHA) policy.<sup>8</sup>

The NPC statutory members of the board of directors include the medical center director and other top VAMC officials: 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, board members “need to ensure the NPC furthers the best interest of VA.”<sup>9</sup> The NPC board is responsible for oversight of research funds.

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

## **VA Oversight of Nonprofit Corporations**

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

**Nonprofit Program Office:** This office serves as the liaison between VHA and NPCs. The Nonprofit Program Office provides oversight, guidance, and education to NPCs to ensure compliance with applicable regulations and VA policies affecting NPC operations and financial

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<sup>7</sup> Fringe benefits include, for example, social security, workers’ compensation, and retirement plan costs.

<sup>8</sup> 38 U.S.C. § 7363; VHA Handbook 1200.17, *Department of Veterans Affairs Nonprofit Research and Education Corporations Authorized by Title 38 U.S.C. § 7361–7366*, April 27, 2016, revised May 9, 2017, according to the VA website.

<sup>9</sup> VHA Handbook 1200.17.

management. The Nonprofit Program Office staff report to the VHA Office of Research and Development's chief research and development (R&D) officer.

The Nonprofit Program Office conducts triennial on-site audits. These limited evaluations include reviews of annual audited financial statements, NPC-completed internal control questionnaires, and follow-up on its previous audit recommendations. Additional areas of review may include the examination of cash disbursements, bank reconciliations, IPA agreements, and payroll records. The Nonprofit Program Office is also responsible for performing off-site reviews, reviewing annual reports submitted by each NPC, and compiling report data for VA's annual report to Congress.<sup>10</sup>

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

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

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<sup>10</sup> Off-site reviews are evaluations performed away from the NPC location. For example, the reviews might involve evaluating NPC documents from the Nonprofit Program Office home office.

## Results and Recommendations

### **Finding 1: The MTRI Overbilling Allegation Was Not Substantiated, but Ineffective Internal Controls and Oversight Resulted in Unsupported Payments**

The OIG did not substantiate the allegation that the MTRI overbilled the Nashville VAMC at least \$342,000 from 2014 through 2017. However, the audit team identified ineffective internal controls and lapses in oversight. For example, the MTRI's executive director made the team aware of small overbilling incidents totaling a net of about \$6,000 that occurred from October 2014 through October 2016. In addition, the MTRI did not ensure adequate procedures were in place to verify that payments had supporting documentation, which resulted in unsupported payments of about \$337,000 (out of a sample of transactions totaling about \$353,000). The unsupported payments occurred because the board of directors did not provide adequate oversight to ensure procedures were consistent with MTRI policies, specifically verification of supporting documentation prior to approving expenditures.

#### **What the OIG Did**

To evaluate the allegation that the MTRI overbilled the Nashville VAMC for at least \$342,000 over several years, the audit team reviewed applicable laws, regulations, VA policies, MTRI invoices and accounting records, and IPA agreements. The audit team also interviewed the MTRI executive director and staff at the Nashville VAMC and the Nonprofit Program Office. The audit team obtained data from the VA Financial Management System on payments made by the Nashville VAMC to the MTRI.

To evaluate whether adequate controls were in place and if the board of directors provided adequate oversight of MTRI expenditures, the audit team reviewed MTRI policies, board of directors' meeting minutes, and a sample of its bank and credit card transactions. See Appendix A for additional scope and methodology information.

#### **MTRI Overbilling of VA Medical Center Was Not Substantiated**

The OIG did not substantiate the allegation that the MTRI overbilled the Nashville VAMC at least \$342,000 from 2014 through 2017. These alleged overbillings were related to IPA agreement expenses.

The audit team performed limited testing based on the information provided with the complaint to determine whether the allegation was substantiated. Specifically, the audit team reviewed relevant documentation related to the allegation and determined that the MTRI billed the Nashville VAMC, and received those medical center payments, for salary and some fringe benefits for employees identified in the allegation. The audit team verified that payments made

by the Nashville VAMC matched MTRI-invoiced amounts and that there was an active IPA agreement during the period of service included on the invoice. The audit team noted some MTRI staff worked on multiple VA-approved projects under separate overlapping IPA agreements that the complainant did not consider. In addition, according to MTRI records, some of its staff also worked on other MTRI-funded projects during the same time frame. As with the invoiced amounts, the audit team noted VAMC payments to the MTRI for personnel time (along with other non-VA work-related funds paid by the MTRI) matched the amounts reported on the individual employees' W-2 statements during the time of overbilling alleged in the complaint.

Although the OIG did not substantiate the allegation, the MTRI's executive director made the team aware of small overbilling incidents. According to the executive director, after a 2018 review by the Nonprofit Program Office, the MTRI performed an internal analysis of the medical center's payments and corresponding MTRI invoices and identified instances of overbilling totaling a net of about \$6,000. The executive director told the audit team that overbillings occurred from October 2014 through October 2016 because of the principal investigators' poor communication regarding the amount of work performed on various projects. The audit team reviewed bills of collection issued in December 2019 by the Nashville VAMC for repayment by the MTRI. In March 2020, a staff member from the Nashville VAMC R&D Budget Office told the audit team that MTRI had prepared checks for the overbilling. The audit team could not validate the accuracy of these small overbillings because the MTRI's invoices to the Nashville VAMC lacked supporting documentation. The lack of supporting documentation with MTRI invoices to the medical center is discussed further in Finding 2.

## **MTRI Expenditures Lacked Supporting Documentation**

In addition to determining the merits of the complaint, the audit team reviewed MTRI's oversight of expenditures from January 2017 through June 2018. The MTRI expended about \$337,000 that the audit team could not determine was consistent with MTRI policies because of the lack of supporting documentation, such as purchase orders and receiving reports. The unsupported expenditures occurred because the board of directors did not ensure there were procedures requiring verification of adequate supporting documentation consistent with VHA and MTRI policies.<sup>11</sup>

VHA policy specifies each NPC must have a written policy that provides sufficient internal controls to protect its assets and meet the requirements of an external audit. In addition, the NPC must create and maintain financial records in accordance with its accounting procedures.

The MTRI's policies further require

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<sup>11</sup> VHA Handbook 1200.17.

- The executive director to review all accounts payable documentation for appropriateness and accuracy, and to verify that reimbursement requests for travel, supplies, or services are compliant with MTRI policies and project restrictions prior to forwarding to the board of directors' treasurer or chair;
- The board of directors' treasurer or chair to review requests for payments, consider reasonableness, funds availability, consistency with MTRI policies, funder requirements, accompanying documentation, and indicate approval by signing and dating the documentation; and
- One signature by the board of directors' treasurer or chair for checks under \$2,000 and signatures by both for checks of \$2,000 or more.

The audit team reviewed a sample of MTRI bank and credit card transactions made from January 2017 through June 2018, totaling about \$353,000, for compliance with VHA and MTRI policies. The audit team found 19 of 24 bank transactions and all 11 credit card transactions reviewed lacked supporting documentation. Most of the nearly \$337,000 in unsupported transactions related to employees' salaries and benefits, totaling about \$248,000. The remaining sample transactions that lacked supporting documentation, totaling about \$89,000, included expenditures such as travel and equipment purchases. The following examples illustrate the lack of supporting documents required to demonstrate compliance with MTRI policy.

### **Example 1**

*The MTRI's policies state that reimbursement for mileage should not exceed coach airfare to the destination. Further, policies require that travel reimbursements be for reasonable hotel room costs as determined by the meeting site location and prevailing hotel rates. Yet for a transaction in the audit sample, the MTRI could not provide documentation that a staff member compared the cost of airfare to the mileage reimbursement a traveler received for driving 1,360 miles, nor was the cost for area hotel accommodations documented. The audit team compared the traveler's hotel cost to the federal per diem rate for reasonableness and found the traveler was reimbursed more than double that rate to rent a house for seven people, only one of whom was on MTRI business. Without supporting documentation, the MTRI had no assurance that the costs reimbursed the traveler were consistent with its policies.*

### **Example 2**

*According to the MTRI's policies, "all purchase requests are submitted to MTRI" on its purchase order forms, and packing slips are signed and returned to the MTRI as verification of receipt. However, the audit team identified purchases,*

*such as a laptop and research equipment, that did not have purchase orders or signed packing slips.*

### **Example 3**

*In May 2017, the MTRI reimbursed a university about \$145,000 for research staff salaries, materials, supplies, and other costs. The invoice did not include staff names, days and hours worked, or details of materials, supplies, or other costs. Shortly after an audit team interview in October 2018, the VA researcher obtained and emailed the audit team a detailed list of materials, supplies, and other costs from the university to support the invoice. Contrary to its policy, the MTRI did not have any supporting documentation for the costs until the audit team inquired almost a year and a half after payment of the invoice.*

The examples above illustrate that by not ensuring there were procedures to verify adequate supporting documentation prior to approval of expenditures, the board of directors did not provide adequate oversight. As the governing body, the MTRI board of directors is responsible for ensuring that internal controls are sufficient. The approving officials, who also serve as the treasurer and chair of the board of directors, told the audit team that they are doctors who do not have a fiscal background or training and that they rely on the executive director to verify the appropriateness of transactions. Therefore, the audit team concluded that internal controls were based on trust, not on procedures consistent with MTRI policies. Lack of procedures consistent with the MTRI's policies resulted in about \$337,000 in expenditures without adequate supporting documentation.

### **Finding 1 Conclusion**

The audit team found oversight weaknesses at the MTRI that were the result of MTRI officials not complying with existing policies. Moreover, the board of directors—including senior Nashville VAMC officials—provided inadequate oversight. Because of the lack of supporting documentation, responsible MTRI officials had no assurance that expenditures complied with the MTRI's policies. Failure to address these weaknesses increases the risk the MTRI will make additional unsupported expenditures.

### **Recommendation 1**

The OIG made the following recommendation to the VA Tennessee Valley Healthcare System director:

1. Ensure the Middle Tennessee Research Institute's board of directors establishes procedures to verify adequate supporting documentation prior to approval of expenditures.

## **Management Comments**

The VA Tennessee Valley Healthcare System director concurred with the recommendation and noted that the MTRI had revised its policy. Under a new process implemented in August 2019, the associate chief of staff for R&D, who is also a member of the board of directors, oversees checks generated by the MTRI executive director to ensure recipients are not also an approving official for any expenditures, a signatory to any bank account, or a check signer, and verifies supporting documentation is accurate and complete prior to approving expenditures. The director requested closure of the recommendation. Appendix D provides the full text of the department's comments.

## **OIG Response**

The actions reported by the VA Tennessee Valley Healthcare System director are responsive to the intent of the recommendation. Although the director reported that actions were completed for Recommendation 1, evidence supporting the actions taken was not provided. The OIG will follow up on the implementation of the planned actions and will close the recommendation when sufficient documentation has been provided that illustrates corrective actions have been implemented.

## **Finding 2: Nashville VAMC’s Inadequate Controls and Oversight Resulted in Improper Payments to the MTRI**

The audit team estimated the Nashville VAMC made about \$720,000 in improper payments to the MTRI from January 2014 through April 2018, based on a statistical sample of invoices. The audit team reviewed 30 invoices and found that none included supporting documentation, such as payroll records for staff time expenditures. The improper payments occurred because Nashville VAMC R&D Budget Office staff did not comply with VA policy regarding verifying receipt of services before approving invoices for payment. Lack of staff compliance with VA policy was compounded by the absence of periodic supervisory reviews of approved invoices.

### **What the OIG Did**

To evaluate whether Nashville VAMC officials had adequate oversight and controls in place for VA payments to the MTRI, the audit team reviewed applicable laws, regulations, VA policies, and local procedures. The audit team also interviewed staff at the MTRI, the Nashville VAMC, and the Nonprofit Program Office. A review was completed of a sample of IPA agreements between the medical center and MTRI and corresponding billing records submitted by the MTRI to the Nashville VAMC. The audit team also obtained data from the VA Financial Management System on payments made by the Tennessee Valley Healthcare System’s Nashville VAMC to the MTRI from January 2014 through April 2018. The audit team selected a statistical sample of 30 from the total population of 115 payments totaling about \$767,000 for review. See Appendix B for more information regarding the statistical sampling.

### **Nashville VA Medical Center Payments to the MTRI Lacked Supporting Documentation**

The Nashville VAMC made payments of about \$720,000 to the MTRI that were improper because they lacked supporting documentation, such as payroll distribution reports or time cards. The audit team found the Nashville VAMC R&D Budget Office staff did not verify services were performed before approving MTRI invoices for payment.

An improper payment is “any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements.” Further, “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.”<sup>12</sup>

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<sup>12</sup> Office of Management and Budget Memorandum M-18-20, “Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement,” June 26, 2018.

VA oversight of payments to the MTRI is governed by VA financial policy, which requires a review of invoices to determine whether services were performed, and invoices were for lawful and proper amounts, before payment.<sup>13</sup> However, the audit team found no supporting documentation for any of the corresponding sample invoices reviewed. Documentation may include, for example, records noting the number of hours or days worked, or annual or sick leave taken.

The improper payments occurred because the Nashville VAMC's R&D Budget Office procedures for invoice review did not comply with VA policy to ensure services were performed in accordance with the IPA agreement prior to approval for payment. A staff member in the medical center's R&D Budget Office informed the audit team that routine invoice review included determining whether funding was available and whether the billing period matched the effective period on the IPA agreements. According to the MTRI executive director, staff in the medical center's R&D Budget Office did not ask or require the MTRI to provide any supporting documentation with invoices. The audit team concluded that Nashville VAMC officials had not developed procedures to ensure that MTRI invoice amounts were valid and accurate before approving invoices for payment.

The lack of compliance by the medical center's R&D Budget Office staff with VA policy was compounded by the absence of required periodic supervisory reviews of approved invoices.<sup>14</sup> According to the responsible supervisor (Nashville VAMC's chief of staff), the periodic reviews were not performed because the supervisor believed the Nashville VAMC Fiscal Services staff performed these reviews. However, the medical center's chief financial officer informed the audit team that Fiscal Services reviews are high level and do not look at the supporting documentation submitted with the invoice, and that supervisory reviews should be conducted by the responsible supervisor. Based on interviews and the lack of evidence, the audit team concluded supervisory reviews did not take place. The audit team determined from the sample that if the Nashville VAMC continues to make inappropriate payments associated with IPA agreements at the rate identified and with a similar value of payments, improper payments made over the next five years could total about \$830,000.

## **Finding 2 Conclusion**

The Nashville VAMC's compliance with policy, in effect the internal controls, and oversight of payments to the MTRI fell short of requirements. Because of this noncompliance, the Nashville VAMC had no assurance that MTRI-invoiced amounts were valid or accurate. Adequate review of invoice-supporting documentation and routine supervisory review of approved payments would provide better assurance that services have been received. Continued lack of compliance

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<sup>13</sup> VA Financial Policies and Procedures, vol. VIII, chap. 1A, sec. 010201.01, B, October 2013.

<sup>14</sup> VA Financial Policies and Procedures, vol. VIII, chap. 1A, sec. 010203, C, "Management Controls," October 2013.

with VA internal controls puts taxpayer funds at increased risk of loss and could result in an additional \$830,000 in improper payments over the next five years.

## **Recommendations 2–3**

The OIG made the following recommendations to the VA Tennessee Valley Healthcare System director:

2. Establish procedures to ensure Research and Development Budget Office staff review VA-affiliated nonprofit corporation invoices to confirm services were performed or goods were received in accordance with the Intergovernmental Personnel Act agreements before approving invoices for payment.
3. Establish procedures to ensure the Research and Development Budget Office supervisor conducts periodic reviews of the VA-affiliated nonprofit corporation invoices authorized for payment by staff, as required by VA Financial Policies and Procedures, Volume VIII, Chapter 1A.

## **Management Comments**

The VA Tennessee Valley Healthcare System director concurred with Recommendations 2 and 3. In response to Recommendation 2, the director reported that more oversight has been established over MTRI-invoiced amounts by implementing time cards for its personnel under IPA agreements. The director reported this process serves to verify services were performed in accordance with the agreements before approving invoices for payment. In response to Recommendation 3, the director reported R&D has “implemented monthly audits to MTRI IPA’s research workplaces to validate time card inputs and proper invoice documentation.” The director requested closure of Recommendations 2 and 3. Appendix D provides the full text of the department’s comments.

## **OIG Response**

The actions reported by the VA Tennessee Valley Healthcare System director are responsive to the intent of Recommendations 2 and 3. Although the director reported that actions were completed for the two recommendations, documentation of actions taken was not provided. 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: Scope and Methodology**

### **Scope**

The audit team conducted its work from February 2019 through February 2020. The scope of the audit focused on determining the merits of a complaint alleging violations of law and VA policy at the MTRI, a VA-affiliated NPC located on the Nashville VAMC campus of the VA Tennessee Valley Healthcare System from 2014 through 2017. The audit team visited the MTRI, the Nashville VAMC, and VA's Office of Research and Development. The OIG's scope and assessment of internal controls focused on those controls relating to the audit objectives.

The audit team reviewed relevant sources of information, including applicable laws and regulations, and VA policies and procedures. The audit team conducted interviews and obtained relevant documentation from the Nashville VAMC and MTRI officials. In addition, the audit team reviewed applicable prior audit recommendations, the board of directors' meeting minutes, MTRI accounting records, IPA agreements, and wage and tax statements.

As part of the audit, the audit team obtained data from VA's Financial Management System on a sample of payments made by the Nashville VAMC to the MTRI from January 2014 through April 2018 from a universe of 115 payments totaling about \$767,000. The team also obtained select MTRI expenditure records from January 2017 through June 2018.

### **Methodology**

To evaluate the allegation and related internal controls, the audit team reviewed applicable laws, regulations, VA policies, and local procedures. The audit team observed administrative operations; interviewed personnel from the Nashville VAMC, the Nonprofit Program Office, and the MTRI; and examined relevant accounting records. To determine whether the Nashville VAMC processed MTRI invoices in accordance with law and VA policies, the audit team reviewed 30 statistically selected payments made by the Nashville VAMC from January 2014 through April 2018 totaling about \$326,000 using a stratified sample.

### **Fraud Assessment**

The OIG assessed the risk that fraud, violations of legal and regulatory requirements, and abuse could occur during this audit. The audit team exercised due diligence and remained alert for fraud indicators. The audit team reviewed the results of prior audits, evaluations, reviews, and investigations conducted by the OIG, VA, and the Government Accountability Office to assess the risk that fraud could occur and not be detected. The audit team also identified and reviewed MTRI expenditure documentation for potential fraud indicators. The audit team did not identify any instances of fraud or potential fraud during this audit.

## **Data Reliability**

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

## **Government Standards**

The OIG 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: Statistical Sampling Methodology

To determine whether the Nashville VAMC, part of the VA Tennessee Valley Healthcare System, processed MTRI invoices in accordance with law and VA policies, the audit team sampled invoice records submitted by the MTRI and paid by the Nashville VAMC.

### Population

The audit team used information extracted from VA's Financial Management System to identify the population of payments made by the Nashville VAMC to the MTRI for the audit period (January 2014 through April 2018).<sup>15</sup> For this period, the audit team identified a population of 115 payments totaling about \$767,000.

### Sampling Design

The audit team used a stratified sampling plan to statistically select a sample of 30 payments made to the MTRI during the period of January 2014 through April 2018. Numbers were rounded based on the overall weighted average results of the statistical analysis. Estimates may not sum exactly due to rounding (Table B.1).

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

### Weights

The OIG statistician calculated estimates in this report using weighted sample data. Weighted sample data result from assigning a weight to each sample item to adjust the sample item to represent the population from which the sample was drawn. Sampling weights are computed by taking the product of the inverse of the probabilities of selection at each stage of sampling. For example, the OIG calculated error rate estimates by summing the sampling weights for all sample records that contained the error, then dividing that value by the total sum of the weights.

### Projections and Margins of Error

The point estimate (e.g., estimated error) is an estimate of the population parameter obtained by sampling. The margin of error/confidence interval associated with each point estimate is a measure of the precision of the point estimate that accounts for the sampling methodology used.

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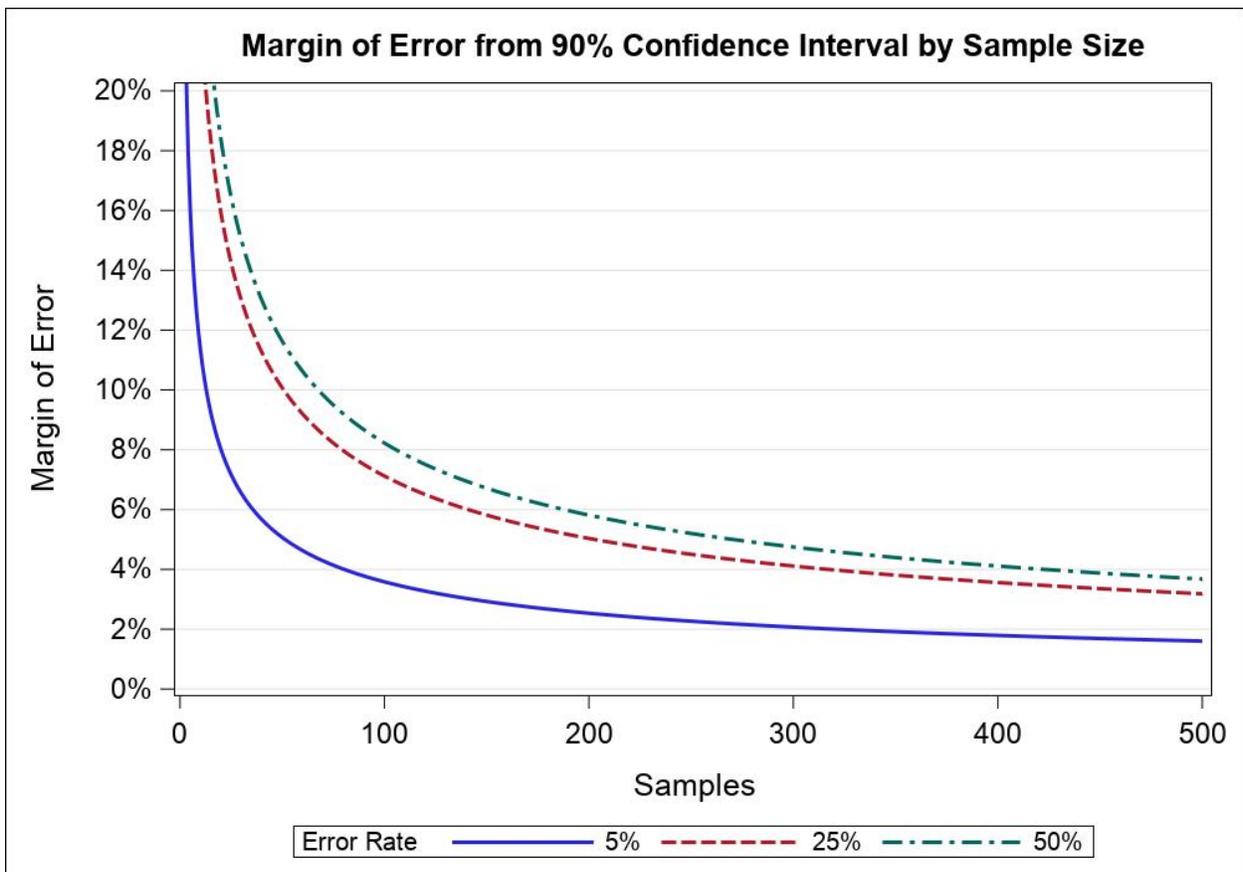
<sup>15</sup> There were no payments from the Nashville VAMC to the MTRI from January 2014 through early March 2015.

If the OIG repeated this audit with multiple samples, the confidence intervals would differ for each sample but would include the true population value 90 percent of the time.

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

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

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



**Figure B.1.** Effect of sample size on the margin of error  
 Source: OIG statistician’s analysis

Table B.1 shows the error rate and estimates based on analysis of sample items. Based on the sample results, the audit team estimated the Nashville VAMC improperly paid about \$720,000 to the MTRI when there was no evidence the MTRI performed the services it claimed during the scope period. The audit team also estimated that the Nashville VAMC could make an additional

\$830,000 in improper payments over the next five years if the Nashville VAMC continues to make improper payments associated with IPA agreements at the rate identified and with a similar value of payments. Because the audit time frame covered more than one year, projections were annualized based on the number of months covered by the audit period. The \$720,000 identified in the scope period projects to an annual average of about \$166,000 per year. This annual amount projected over five years totals about \$830,000.

**Table B.1 Statistical Estimations Summary for Payments by the Nashville VAMC to the MTRI**

NPC location	Projection	Margin of error based on 90% confidence interval	90% confidence interval		Total sample size	Count from sample
			Lower limit	Upper limit		
VA Tennessee Valley Healthcare System (Nashville VAMC)	\$720,000	\$46,700	\$674,000	\$767,000	30	30

*Source: OIG statistical analysis of Nashville VAMC invoice payment records*

*Note: Numbers were rounded based on the overall weighted average results of the statistical analysis.*

*Estimates may not sum exactly due to rounding.*

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

Recommendation	Explanation of benefits	Better use of funds	Questioned costs
1	Potential monetary loss associated with unsupported expenditures at the MTRI.		\$337,000
2–3	Improper payments because of Nashville VAMC staff approving invoices for payment without adequate documentation from January 2014 to April 2018.*		\$720,000
2–3	Estimated five-year future costs associated with Nashville VAMC staff inappropriately approving invoices for payment to the MTRI without adequate documentation.†		\$830,000
<b>Total</b>			<b>\$1.9 million</b>

*Source: OIG staff analysis*

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

*\*None of the 30 payments evaluated included documentation to support the payments, which means the payments reviewed represented improper payments.*

*†Because the audit time frame covered more than one year, projections were annualized based on the number of months covered by the audit period. The \$720,000 identified in the scope period projects to an annual average of about \$166,000 per year. This annual amount projected over five years totals about \$830,000.*

## Appendix D: Management Comments

### Department of Veterans Affairs Memorandum

Date: March 12, 2020

From: Director, VA MidSouth Healthcare Network (10N9)

Subj: Draft Report, Financial Controls and Payments to VA-Affiliated Nonprofit Corporations: Middle Tennessee Research Institute (project number 2018-00711-R9-0001)

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

1. I have reviewed the findings and recommendations in the OIG report entitled, Draft Report: Financial Controls and Payments VA-Affiliated NPC Middle Tennessee Research Institute (MTRI). I concur with the actions submitted by the Tennessee Valley Healthcare System Director and the request for closure.
2. We thank the OIG for the opportunity to review and respond to the Draft Report Financial Controls and Payments VA-Affiliated NPC Middle Tennessee Research Institute.

The OIG removed point of contact information prior to publication.
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*Original Signed by*

Cynthia Breyfogle, FACHE  
Network Director

**Department of Veterans Affairs Memorandum**

Date: March 12, 2020

From: Director, Tennessee Valley Healthcare System (626/00)

Subj: Draft Report, Financial Controls and Payments to VA-Affiliated Nonprofit Corporations: Middle Tennessee Research Institute (project number 2018-00711-R9-0001)

To: Network Director, Veteran Integrated Service Network 9 (10N9)

1. Thank you for the opportunity to review and respond to the Draft Report Financial Controls and Payments VA-Affiliated NPC Middle Tennessee Research Institute. I concur with the findings and recommendations.
2. Our responses to the report recommendations are attached. We have been actively working to address the recommendations since the conclusion of the Office of the Inspector General's (OIG) audit in May 2018. We appreciate the perspective from the OIG evaluation and have taken action to strengthen and improve our medical center processes and request closure of Recommendations 1-3.

Original Signed by

Jennifer L. Vedral-Baron, MN, APRN, NP-C, FAANP, FACHE  
Health System Director

//Attachment//

**Recommendation 1:** The VA Tennessee Valley Healthcare System (TVHS) director ensures the Middle Tennessee Research Institute's Board of directors establishes procedures to verify adequate supporting documentation prior to approval of expenditures.

Concur.

Target Date for Completion: Completed August 1, 2019, requesting closure.

Director Comments: Associate Chief of Staff (ACOS) Research and Development (R&D) is now a sitting member of the Middle Tennessee Research Institute (MTRI) board and oversees checks generated by the Executive Director to ensure recipients are not also a) an approving official for any expenditures; b) a signatory to any bank account; or c) a check signer. This is in line with revisions made to MTRI's General Financial and Internal Controls policy, section 4. This process was implemented August 1, 2019, upon appointment of the Acting ACOS R&D, who serves as a statutory member of the MTRI Board. Additionally, under this new process, the ACOS R&D provides initial review of expenditures and verifies supporting documentation is accurate and complete prior to approval.

**Recommendation 2:** The OIG recommended that the VA Tennessee Valley Healthcare System (TVHS) director ensure the MTRI board of directors establishes procedures that require staff to verify supporting documentation before approving expenditures.

Concur.

Target Date for Completion: Completed March 6, 2020, requesting closure.

Director Comments: TVHS R&D Service has established more oversight over MTRI invoiced amounts by implementing timecards on MTRI personnel under Intergovernmental Personnel Act (IPA) agreements. This process serves to verify services were performed and goods were received in accordance with the IPAs before approving invoices for payment. Effective immediately, MTRI will adhere to this procedure and has updated the MTRI General Financial Administration and Internal Controls Policies to reflect this procedure.

**Recommendation 3:** The OIG also recommended that the system director should establish procedures to ensure the R&D Budget Office supervisor conducts required periodic reviews of VA-affiliated nonprofit corporation invoices that staff have authorized for payment.

Concur.

Target Date for Completion: Completed March 6, 2020, requesting closure.

Director Comments: To better conduct periodic reviews, THVS R&D implemented monthly audits to MTRI IPA's research workplaces to validate timecard inputs and proper invoice documentation. Effective immediately, this has been implemented and MTRI has updated the

MTRI General Financial Administration and Internal Controls Policies to reflect this requirement.

The OIG removed point of contact information prior to publication.

*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

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<b>Contact</b>	For more information about this report, please contact the Office of Inspector General at (202) 461-4720.
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<b>Audit Team</b>	Timothy J. Crowe, Director Martin Barberini Josie Carver Charles F. Chiarenza Erin Costa Angela Ferguson Valerie Kimball Mark Mullery Michelle Swagler Nelvy Viguera Butler
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