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OFFICE OF INSPECTOR GENERAL

Office of Audits and Evaluations

VETERANS HEALTH ADMINISTRATION

Financial Controls and Payments Related to VA-Affiliated Nonprofit Corporations: Northern California Institute for Research and Education

AUDIT | **REPORT #18-00711-141** | **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 May 2018 complaint alleging the former executive director of the Northern California Institute for Research and Education (NCIRE), a VA-affiliated nonprofit corporation (NPC), spent about $740,000 on a project that was not reviewed by the NPC's board of directors. In addition, the OIG assessed whether San Francisco VA Medical Center (VAMC) officials had adequate controls in place and performed sufficient oversight of VA payments to NCIRE.

The VA-affiliated NPC program was established in 1988 to facilitate VA-approved research projects at VA medical facilities nationwide. The program was revised in 1999 to allow NPCs to also facilitate funds 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. VA and affiliated NPCs collaborate on mutually beneficial research, education, and training activities through Intergovernmental Personnel Act agreements. VA funds all or part of the salary and fringe benefits for employees working on VA-approved projects under these agreements.

NCIRE was established in 1988 to facilitate VA-approved research and related activities for charitable, educational, and scientific purposes. In fiscal year 2018, NCIRE reported revenues of about $40.7 million in government funding, which included $2.6 million from VA, and $6.5 million from nongovernment sources for a total of about $47.2 million. About 350 research professionals support NCIRE's research activities. Areas of research include dermatology, mental health, cardiovascular disease, epilepsy, and magnetic resonance imaging, commonly referred to as MRI.

What the Audit Found

The OIG did not substantiate the allegation that the former NCIRE executive director spent about $740,000 on a project to expand research facilities without review and oversight from the NCIRE board of directors. The OIG determined the board of directors was aware of two studies and other project costs to expand or relocate some or all of the San Francisco VAMC research and clinical activities. One study concluded that a public-private partnership method to relocate some or all of the VAMC research and clinical activities to a new site would be feasible. The other study focused on reuse alternatives for the current site after relocating most of the medical facility operations closer to the Mission Bay neighborhood of San Francisco. Reuse options included demolishing or renovating buildings that house administrative offices, the canteen, and a chapel.

However, the OIG concluded spending NCIRE funds on the relocation of the San Francisco VAMC, including clinical services, went beyond the purpose of an NPC to facilitate research and

education. The inappropriate spending occurred because, as the oversight body, the NCIRE board of directors did not ensure that NPC activities and expenditures complied with the purpose of an NPC, as established by Title 38 of the United States Code and Veterans Health Administration (VHA) policy limiting NPCs to supporting VA-approved research or education. Failure to comply with VHA policy resulted in the expenditure of funds that could have been used to benefit NCIRE and VA-approved research and education. As of January 2020, no additional facilities had been built or acquired to address NCIRE's needs for additional research space.

In addition, the OIG estimated the San Francisco VAMC made about $11.7 million in improper payments to NCIRE from January 2014 through April 2018. The OIG found none of the 30 statistically selected payments and the associated invoices included supporting documentation, such as payroll distribution reports or time cards. An improper payment occurs, for example, when a reviewer is unable to determine whether a payment was proper because of insufficient or lack of documentation. Review of invoice-supporting documentation would provide better assurance that services have been received before approval for payment. Staff from the medical center's Research and Development Budget Office told the audit team that documentation was not requested or required. The audit team concluded that the San Francisco VAMC officials had not developed procedures to ensure that NCIRE invoice amounts were valid and accurate before approving invoices for payment.

The lack of compliance with VA policy was compounded by the absence of required periodic supervisory reviews of approved invoices. According to the responsible supervisor, periodic supervisory reviews were not done because the supervisor relied on a subordinate to approve invoices accurately. If the San Francisco VAMC continues to make inappropriate payments associated with Intergovernmental Personnel Act agreements at the rate identified and with a similar value of payments, improper payments made over the next five years could total about $13.5 million.

The San Francisco Health Care System's controls in place for, and oversight of, payments to NCIRE fell short of requirements. Because of this noncompliance, the San Francisco VAMC had no assurance that NCIRE invoice amounts were valid or accurate. Continued lack of compliance with VA policy puts taxpayer funds at risk.

What the OIG Recommended

The OIG recommended that the San Francisco VA Health Care System director 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 Intergovernmental Personnel Act agreements before approving invoices for payment.

The OIG also recommended that the system director establish procedures to ensure the Research and Development Budget Office supervisor conducts periodic reviews of invoices from VA-affiliated nonprofit corporations authorized for payment by staff as required by VA Financial Policies and Procedures, vol. VIII, chap. 1A.

Management Comments

The San Francisco Health Care System director concurred with both recommendations. In response to Recommendation 1, the director noted the Research and Development Budget Office put procedures in place for Research and Development Budget Office staff to review VA-affiliated NPC invoices to ensure invoices are valid and accurate. The process for time card review has been updated, and the Research and Development Budget Office supervisor receives a separate record of the hours performed by pay period, which documents the principal investigator's approval. The salary and benefits are reviewed by the Research and Development Budget Office supervisor to ensure consistency with both the hours and the Intergovernmental Personnel Act before approving invoices for payment. In response to Recommendation 2, the director reported procedures have been established for the Research and Development Office director of research operations to perform quarterly audits on 25 percent of VA-affiliated NPC invoices that Research and Development staff approved for payment to make certain that services were received. The supervisory audits will be reported to the board of directors.

The planned actions reported by the San Francisco Health Care System director are responsive to the recommendations. The director reported October 30, 2020, as the target completion date for the planned actions. 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. The full text of VA's management comments is included in Appendix D.

LARRY M. REINKEMEYER
Assistant Inspector General
for Audits and Evaluations

Contents

Abbreviations

NCIRE	Northern California Institute for Research and Education
NPC	nonprofit corporation
OIG	Office of Inspector General
U.S.C.	United States Code
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 May 2018 complaint alleging the former executive director of the Northern California Institute for Research and Education (NCIRE), a VA-affiliated nonprofit corporation (NPC), spent about $740,000 on a project that was not reviewed by the NPC's board of directors. The OIG also assessed whether San Francisco VA Medical Center (VAMC) officials had adequate controls in place and performed sufficient oversight of VA payments to NCIRE.

Northern California Institute of Research and Education

NCIRE was established in 1988 and is located at the San Francisco VAMC, part of the San Francisco VA Health Care System.[1] According to NCIRE's articles of incorporation, the NPC's purpose is "to promote medical research and related activities for charitable, educational, and scientific purposes," and its property is irrevocably dedicated to charitable, educational, and scientific purposes. About 350 research professionals support NCIRE's research activities. Areas of research include dermatology, mental health, cardiovascular disease, epilepsy, and magnetic resonance imaging, or MRI. In fiscal year 2018, NCIRE reported revenue of about $40.7 million in government funding, which included $2.6 million from VA. NCIRE also received about $6.5 million from nongovernment sources for total funding of about $47.2 million.[2]

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.[3] The NPC program was revised in 1999 to also allow NPCs to support VA-approved education activities.[4] NPCs may administer funds from a variety of sources other than VA, including other federal agencies, private organizations, and universities. In fiscal year 2018 the 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 42 states, Puerto Rico, and the District of Columbia, with combined assets valued at about $289 million, including investments, accounts receivable, and equipment.

[1] The San Francisco VA Health Care System comprises the San Francisco VAMC and six community-based outpatient clinics.

[2] Fiscal year 2018 data were the most recently available for the audit. According to the Nonprofit Program Office, the NPC 2019 consolidated annual report will be submitted to Congress in December 2020.

[3] Veterans' Benefits and Services Act 1988, Pub. L. No. 100-322 (1988).

[4] Veterans Millennium Health Care and Benefits Act, Pub. L. No. 106–117 § 204, 113 Stat. 1562 (1999).

VA and affiliated NPCs collaborate on mutually beneficial research, education, and training activities through Intergovernmental Personnel Act agreements. VA funds all or part of the salary and fringe benefits for employees working on VA-approved projects under these agreements.[5]

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.[6]

The statutory members of an NPC board of directors include the VAMC director and other top VAMC officials, such as the chief of staff, associate chief of research, and associate chief of education. The board of directors must also include at least two members who are not federal government employees and have expertise of benefit to the corporation. According to VHA policy, statutory board members "need to ensure the NPC furthers the best interest of VA."[7] The NPC board of directors is responsible for overseeing research funds.

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

VA Oversight of Nonprofit Corporations

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

- **Nonprofit Program Office:** This office serves as the liaison between VHA and NPCs. The Nonprofit Program Office provides oversight, guidance, and education to NPCs to ensure compliance with applicable regulations and VA policies affecting NPC operations and financial management. Nonprofit Program Office staff report to the VHA Office of Research and Development, chief research and development officer.

[5] Fringe benefits include social security, workers' compensation, and retirement plan costs.

[6] 38 U.S.C. § 7363; VHA Handbook 1200.17, Department of Veterans Affairs Nonprofit Research and Education Corporations Authorized by Title 38 United States Code (U.S.C.), §§ 7361–7366, April 27, 2016, revised May 9, 2017, according to the VA website.

[7] VHA Handbook 1200.17.

- The Nonprofit Program Office conducts triennial on-site audits. These limited evaluations include reviews of annual audited financial statements, NPC-completed internal control questionnaires, and follow-up on previous Nonprofit Program Office recommendations. Additional areas of review may include an examination of cash disbursements, bank reconciliations, Intergovernmental Personnel Act agreements, and payroll records. The Nonprofit Program Office is also responsible for performing off-site NPC reviews, reviews of annual reports submitted by each NPC, and compiling report data for VA's annual report to Congress.[8]
- **Nonprofit Program Oversight Board:** This board serves as VA's senior management oversight for the activities and programs of VA-affiliated NPCs. The Nonprofit Program Oversight Board's responsibilities focus on financial and ethical issues, and consistency with VA policy and interests related to VA-affiliated NPCs. The Nonprofit Program Oversight Board makes recommendations through the under secretary for health and other senior VA leaders regarding changes to, and implementation of, VA policies relating to NPCs.
- **VHA Chief Financial Officer:** The VHA chief financial officer exercises financial oversight of NPCs by reviewing Nonprofit Program Office activities and audits of NPCs conducted by independent external auditors.

[8] Off-site reviews are evaluations performed away from the NPCs' locations. For example, program staff may evaluate NPCs' documents from the Nonprofit Program Office home location.

Results and Recommendations

Finding 1: NCIRE Board of Directors' Decisions Resulted in Inappropriate Expenditures

The OIG did not substantiate the allegation that the former NCIRE executive director spent $740,000 on a project to expand research facilities without review and oversight from the NCIRE board of directors. The OIG determined the NCIRE board of directors was aware of two studies and other project costs related to expanding research facilities by relocating some or all of the San Francisco VAMC's research and clinical activities funded by NCIRE. However, the OIG concluded these expenditures were inappropriate because spending NCIRE funds on relocation of the San Francisco VAMC clinical services went beyond the purpose of an NPC. The express purpose of an NPC, as established by Title 38 of the United States Code (U.S.C.), is to provide a flexible funding mechanism for the conduct of VA-approved research and education. The questionable expenditures occurred because the NCIRE board of directors did not ensure NPC activities complied with U.S.C. Title 38 and VHA policy, which limit NPCs to supporting VA-approved research or education.

What the OIG Did

To evaluate the allegation that the former NCIRE executive director spent funds without the oversight of the board of directors, the OIG reviewed applicable laws, regulations, VA policies, NCIRE incorporation documents, board of directors meeting minutes, NPC disbursement records, and studies commissioned by VA or NCIRE. The OIG also interviewed staff at NCIRE, the San Francisco VAMC, and the Nonprofit Program Office. See Appendix A for additional scope and methodology information.

Expansion of Research Facilities

A 2011 Facility Options Study commissioned by VA noted the existing San Francisco VAMC site lacked adequate land for all the clinical, education, and research activity projected through 2029. In addition, existing buildings required substantial investments to maintain, repair, and correct deficiencies. The study evaluated an expansion or relocation of the San Francisco VAMC campus operations within the city, closer to the Mission Bay neighborhood. Several options were included, such as a two-campus alternative, by building a second campus at a new site for research and outpatient services.

In 2012, the NCIRE executive director's report to the board noted the nonprofit had engaged in a study to determine the merits and feasibility of a public-private-partnership model to advance the

San Francisco VAMC's facility needs.[9] The study included a scenario for the San Francisco VAMC to consider its existing shortage in clinical and research space and also future expansion needs. A subsequent study assessed moving most VAMC functions to another site and reuse of the existing VAMC buildings.[10] NCIRE spent about $740,000 on the two studies and other aspects of the expansion project: the studies cost about $587,000 and consultant fees, travel, meals, and meetings accounted for the rest. To cover the expenditures, NCIRE accepted over 30 donations from individuals and private entities totaling about $526,000 and used approximately $213,000 of NPC funds according to NCIRE records.

NCIRE Board of Directors' Review and Oversight of Expansion Project

NCIRE board of directors meeting minutes and associated documents, such as committee meeting minutes and NCIRE officer reports, provided evidence that the board was aware of the two studies and other project costs related to relocating some or all of the San Francisco VAMC's research and clinical activities funded by NCIRE.

As noted above, the June 2012 executive director report to the NCIRE board of directors noted a white paper proposing a public-private partnership model to finance new facilities would be issued for discussion and planning. October 2013 NCIRE board of directors' meeting minutes document project updates. The minutes note the initial phase of the feasibility and analysis for alternative development and financing mechanisms to assist the San Francisco VAMC was nearly complete. Also, the former executive director reported that an economist from the Bay Area Council Economic Institute was invited to speak about the project using a public-private partnership method.[11] The economist had been working with NCIRE for the previous year to study and recommend alternatives for financing and developing facilities for the San Francisco VAMC.

According to the February 2014 executive director's report included with the board meeting minutes, one completed study funded by NCIRE suggested the public-private partnership model was a viable delivery method for the VA to establish a "state-of-the-art veterans health research facility at Mission Bay." This study released in March 2014 advised that the best course to ensure the medical center's future health and advancement was to relocate some or all of its

[9] A public-private partnership is a voluntary, collaborative, working relationship between a governmental agency, such as the VA, and one or more nongovernmental organizations in which the goals, structures, governance, and roles and responsibilities are mutually determined to deliver the best possible services.

[10] The two studies were entitled, "An Assessment of Public Private Partnership Opportunities for the Proposed Extension of the San Francisco Veterans Affairs Medical Center to the Mission Bay Area of San Francisco" and a "Ft. Miley Reuse Site Study," respectively. The San Francisco VAMC facilities were built on a former military installation known as Ft. Miley.

[11] The Bay Area Council Economic Institute authored the two studies.

research and clinical activities to a new site. The OIG determined the study went beyond expanding VA research facilities because it addressed moving services unrelated to research.

Executive committee meeting minutes that were incorporated into the minutes of the February 2016 NCIRE board of directors meeting document indicated that the second study, entitled "Ft. Miley Site Reuse Study," was completed in February 2015.[12] Also funded by NCIRE, the study was based on a "two-campus" alternative as recommended by the VA's 2011 study. The 2015 study included three reuse options for the current San Francisco VAMC facilities after relocating most of the VAMC operations to a proposed Mission Bay site. Reuse options included adding housing, office space, or a combination of the two by repurposing, demolishing, or renovating structures that would no longer be used by the VAMC. The OIG determined this study went beyond proposals for upgrading or identifying additional research space to support VA-approved research or education. The reuse options included demolishing or renovating buildings, including a chapel, the canteen, and administrative office buildings that were not used for VA-approved research or educational activities.

NCIRE Board of Directors' Noncompliance With VHA Policy

The OIG found the board of directors did not ensure spending about $740,000 on a project to relocate some or all of the San Francisco VAMC services complied with VHA policy.[13] According to a NCIRE board member who also served as a senior medical center official, the current research facilities lacked adequate space. However, the project funds were expended on more than considering upgraded, expanded, or new research facilities. The project addressed broader benefits beyond the nonprofit, such as relocating clinical activities and reuse of the current VAMC facilities.

The express purpose of an NPC, as established by U.S.C. Title 38, is to provide a flexible funding mechanism for the conduct of VA-approved research and education. U.S.C. Title 38 Section 7303 specifies, "the Secretary shall carry out a program of medical research in connection with the provision of medical care and treatment to veterans." In addition, U.S.C. Title 38 Section 7302 specifies the Secretary "shall develop and carry out a program of education and training of health personnel." VHA policy specifies that

- NPCs may facilitate the conduct of VA-approved research and education as described in U.S.C. Title 38.
- NPCs may expend funds on research projects that have been approved in accordance with the VA research procedures, and on education and training such as activities for

[12] The NCIRE executive committee is separate from the board of directors and consists of NCIRE board members such as the chair, vice chair, San Francisco VAMC chief of staff, and associate chief of staff for research and development. Other attendees may include NCIRE's executive director and chief financial officer.

[13] VHA Handbook 1200.17, para. 12a (1).

employees of VHA taking part in residency and other training programs designed to prepare an individual for an occupation or profession in health care.

- NPCs may, solely for the purpose of facilitating functions related to the conduct of approved VA research and education activities, accept, administer, retain, and spend funds derived from gifts, contributions, grants, and reimbursements from individuals and public and private entities.
- The VAMC director, along with all statutory members who serve on the board of directors in their official VA capacities, needs "to ensure the NPC furthers the best interest of VA."

Executive committee meeting minutes, incorporated into the minutes of the February 2016 NCIRE board of directors meeting, document discussions that no additional funds be spent on the project and NCIRE involvement stop. In addition, the current San Francisco VA Health Care System director stated that "no more funds should be spent on this project." As of January 2020, no additional facilities had been built or acquired to provide NCIRE additional research space.

Finding 1 Conclusion

The NCIRE board of directors was aware of the expenditure of funds on a project to expand research facilities by relocating some or all of the San Francisco VAMC's research and clinical activities funded by NCIRE. However, the OIG concluded these expenditures were inappropriate because spending NCIRE funds on relocation of the San Francisco VAMC went beyond the purpose of an NPC. As established by U.S.C. Title 38, the purpose of an NPC is to provide a flexible funding mechanism for the conduct of VA-approved research and education. The inappropriate expenditures occurred because the NCIRE board of directors did not ensure the nonprofit's activities complied with U.S.C. Title 38 and VHA policy. Noncompliance resulted in the expenditure of funds that could have been used by NCIRE to support VA-approved research and education. OIG made no recommendations because NCIRE's board of directors took corrective action before the OIG's review, stopping the project.

Management Comments

The San Francisco Health Care System director concurred with the finding with no additional comments. Appendix D provides the full text of the department's response.

Finding 2: The San Francisco VAMC's Inadequate Controls and Oversight Resulted in Improper Payments to NCIRE

The audit team estimated the San Francisco VAMC made about $11.7 million in improper payments to NCIRE from January 2014 through April 2018 based on a statistical sample of invoices. The audit team reviewed 30 payments and the associated invoices and found none included supporting documentation, such as payroll records for staff time. These improper payments occurred because the San Francisco VAMC Research and Development Budget Office staff did not comply with VA policy regarding verifying receipt of services before approving invoices for payment. Noncompliance by staff with VA policy was compounded by the absence of periodic supervisory reviews of approved invoices.

What the OIG Did

To evaluate whether San Francisco VAMC officials had sufficient controls in place for, and oversight of, VA payments to NCIRE, the audit team reviewed applicable laws, regulations, VA policies, and local procedures. The audit team also interviewed staff at NCIRE, the San Francisco VAMC, and the Nonprofit Program Office. The team reviewed a sample of Intergovernmental Personnel Act agreements between the medical center and NCIRE and corresponding billing records submitted by NCIRE to the San Francisco VAMC. The team also obtained data from the VA Financial Management System on payments made by the San Francisco VAMC to NCIRE from January 2014 through April 2018. The team selected a statistical sample of 30 from a population of about 2,500 payments totaling about $12.6 million for review. See Appendix B for more information regarding the statistical sampling.

Insufficient Controls Resulted in San Francisco VA Medical Center Payments to NCIRE That Lacked Supporting Documentation

The San Francisco VAMC made payments of about $11.7 million to NCIRE that were improper because they lacked supporting documentation, such as payroll distribution reports or time cards. The audit team found the San Francisco VAMC Research and Development Budget Office staff did not verify services were performed before approving NCIRE invoices for payment.

An improper payment is "any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements." Furthermore, "when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment should also be considered an improper payment."[14] In other words, an invoice must be accompanied by

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

sufficient documentation to allow for verification that the work was actually performed before approval of the invoice for payment.

VA financial policy requires a review of invoices to determine whether services were performed, and invoices were for lawful and proper amounts before payment.[15] 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 San Francisco VAMC's Research Development Budget Office controls for invoice review did not comply with VA policy to ensure services were performed in accordance with the Intergovernmental Personnel Act agreement before approval for payment. Staff from the medical center's Research and Development Budget Office informed the audit team that documentation to support invoices was not requested or required. Routine invoice review included determining whether funding was available and whether the billing period matched the effective period on the Intergovernmental Personnel Act agreements. The NCIRE executive director also noted that supporting documentation was not requested by the medical center's staff. The audit team concluded that San Francisco VAMC officials had not developed procedures to ensure that NCIRE invoice amounts were valid and accurate before approving invoices for payment.

Without Oversight, VA Had No Assurance of Policy Compliance

The lack of compliance by the medical center's Research and Development Budget Office staff with VA policy was compounded by the absence of periodic supervisory reviews of approved invoices. VA financial policies require supervisors to periodically review invoices approved by subordinates to ensure compliance with policy.[16] According to the responsible supervisor, the periodic reviews were not necessary because the supervisor relied on a subordinate to approve invoices accurately. Based on interviews and the lack of evidence, the audit team concluded supervisory reviews did not take place, and the responsible supervisor's rationale did not justify noncompliance with VA financial policies. Without required oversight, compliance with policy was not assured. The audit team determined from the sample that if the San Francisco VAMC continues to make inappropriate payments associated with Intergovernmental Personnel Act agreements at the rate identified and with a similar value of payments, improper payments made over the next five years could total about $13.5 million.

[15] VA Financial Policies and Procedures, vol. VIII, chap. 1A, sec. 010201.01, B, October 2013.
[16] VA Financial Policies and Procedures, vol. VIII, chap. 1A, sec. 010203, C, October 2013.

Finding 2 Conclusion

The San Francisco VAMC's controls in place for, and oversight of, payments to NCIRE fell short of requirements. Because of noncompliance with VA policy, the San Francisco VAMC had no assurance that NCIRE invoice amounts were valid or accurate. Adequate review of invoice-supporting documentation and routine supervisory review of approved invoices would provide greater assurance that services have been received. Continued lack of compliance puts taxpayer funds at increased risk and could result in an additional $13.5 million in improper payments over the next five years.

Recommendations 1–2

The OIG recommended that the director of the San Francisco VA Health Care System do the following:

1. Establish procedures to ensure the Research and Development Budget Office staff review VA-affiliated nonprofit corporation invoices to confirm services were performed or goods were received in accordance with Intergovernmental Personnel Act agreements before approving invoices for payment.
2. 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, vol. VIII, chap. 1A.

Management Comments

The San Francisco Health Care System director concurred with Recommendations 1 and 2. In response to Recommendation 1, the director noted the Research and Development Budget Office put procedures in place for Research and Development staff to review VA-affiliated NPC invoices to ensure invoices are valid and accurate. The process for time card review and sign-off by VA principal investigators has been updated, and the Research and Development Budget Office supervisor receives a separate record of the hours performed by pay period, which documents the principal investigator's approval. The salary and benefits are viewed by the Research and Development Budget Office supervisor to ensure consistency with both the hours and the Intergovernmental Personnel Act before approving invoices for payment. Monitoring the procedures will show evidence of six consecutive months of 100 percent compliance in reviewing invoices before payment.

In response to Recommendation 2, the director reported that procedures have been established for the Research and Development Office director of research operations to perform quarterly audits on 25 percent of VA-affiliated NPC invoices that Research and Development staff approved for payment to make certain that services have been received. The supervisory audits

will be reported to the board of directors. Evidence of quarterly reporting to the board of directors will be monitored for two consecutive quarters to ensure 100 percent compliance is sustained. Appendix D provides the full text of the Health Care System director's comments.

OIG Response

The planned actions reported by the San Francisco Health Care System director are responsive to the recommendations. The director reported October 30, 2020, as the target completion date for the planned actions. The OIG will follow up on the implementation of the planned actions and will close the recommendations when sufficient documentation has been provided illustrating corrective actions have been implemented.

Appendix A: Scope and Methodology

Scope

The audit team conducted its work from February 2019 through April 2020. The scope of the audit focused on determining the merits of a complaint alleging violations of law and VA policy at NCIRE, a VA-affiliated NPC located at the San Francisco VAMC. The audit team visited NCIRE, the San Francisco VAMC, and VA's Office of Research and Development.

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 San Francisco VAMC and NCIRE officials. In addition, the audit team reviewed applicable prior audit recommendations, governing board of directors' meeting minutes, NCIRE accounting records, and Intergovernmental Personnel Act agreements.

As part of the audit, the audit team obtained data from VA's Financial Management System on payments made by the San Francisco VAMC to NCIRE from January 2014 through April 2018. From a population of about 2,500 payments totaling about $12.6 million, 30 payments were statistically selected for testing.

Methodology

To evaluate the allegation and assess internal controls, the audit team reviewed applicable laws, regulations, VA policies, and local procedures. The audit team interviewed officials at the San Francisco VAMC, Nonprofit Program Office, and NCIRE and examined relevant accounting records. To determine whether the San Francisco VAMC processed NCIRE invoices in accordance with law and VA policies, the audit team tested 30 statistically selected payments made by the San Francisco VAMC totaling about $260,000 using a stratified sample.

Fraud Assessment

The audit team assessed the risk that fraud, violations of legal and regulatory requirements, and abuse could occur during this audit. The audit team exercised due diligence and remained alert for fraud indicators. The results of prior audits, evaluations, reviews, and investigations conducted by the OIG, VA, and the Government Accountability Office were considered in assessing the risk that fraud could occur and not be detected. The 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 San Francisco VAMC and NCIRE officials 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 San Francisco VAMC and NCIRE. The OIG concluded that the computer-processed data obtained from VA's Financial Management System were sufficiently reliable to support the audit objectives, conclusions, and recommendations.

Government Standards

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

Appendix B: Statistical Sampling Methodology

To determine whether the San Francisco VAMC processed NCIRE invoices in accordance with law and VA policies, the audit team sampled invoice records submitted by NCIRE and paid by the San Francisco VAMC.

Population

The audit team used information extracted from VA's Financial Management System to identify the population of payments made by the San Francisco VAMC to NCIRE for the audit period (January 2014 through April 2018). For this period, the audit team identified a population of about 2,500 payments totaling about $12.6 million.

Sampling Design

The audit team used a stratified sampling plan to statistically select a sample of 30 payments made to NCIRE from 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 all payments having a chance of being selected, which allows the projections over the whole population 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 calculated estimates in this report using weighted sample data. Weighted sample data is the result of 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 estimates that accounts for the sampling methodology used. If the OIG repeated this audit with multiple samples, the confidence intervals would differ for each sample but would include the true population value 90 percent of the time.

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

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

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

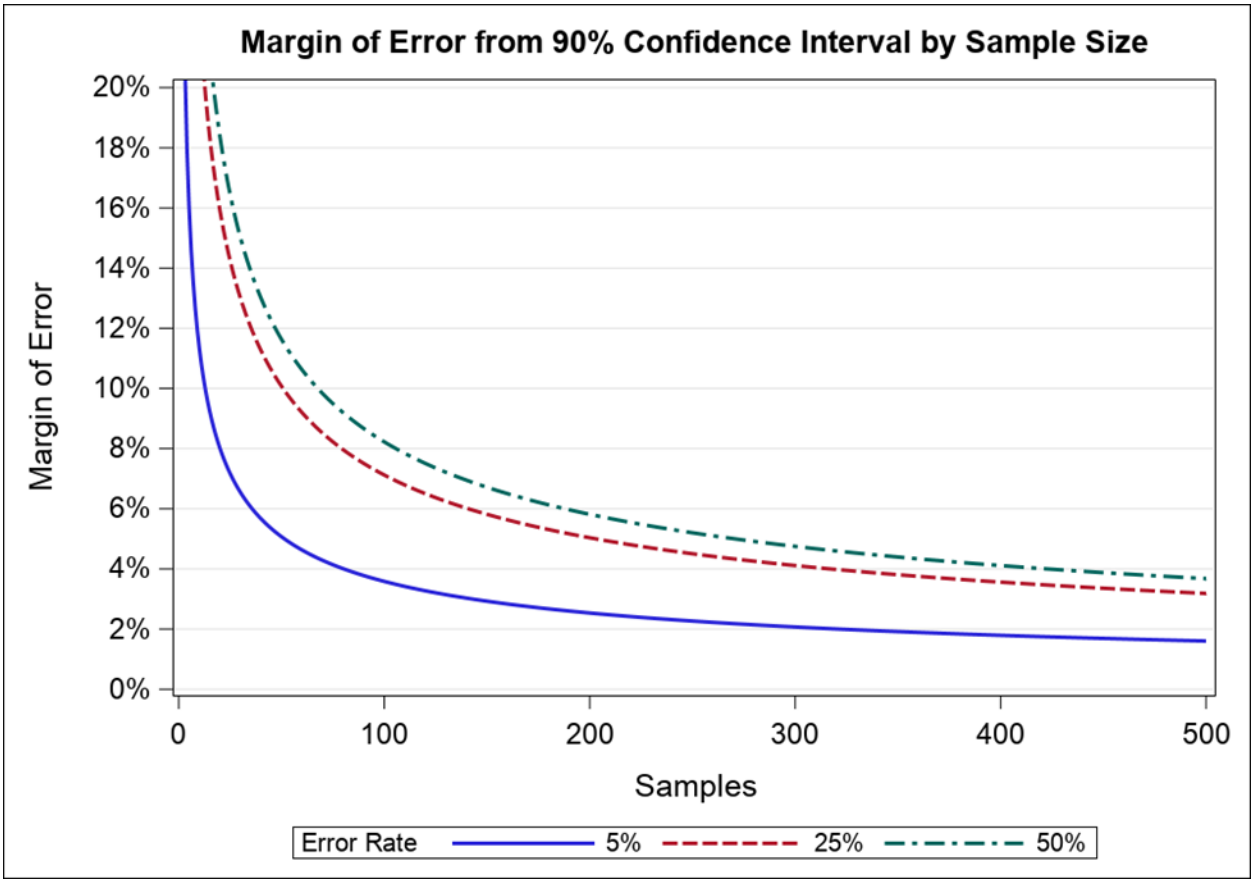

Figure B.1. *Effect of sample size on the margin of error*
Source: OIG statistician's analysis

Table B.1 shows the error rate and estimates based on analysis of sample items. Based on the sample results, the audit team estimated the San Francisco VAMC improperly paid about $11.7 million to NCIRE when there was no evidence requested or required by the San Francisco VAMC staff that NCIRE performed the services it claimed during the scope period. The audit team also estimated that the San Francisco VAMC could potentially make an additional $13.5 million in improper payments over the next five years if the San Francisco VAMC

continues to make improper payments associated with Intergovernmental Personnel Act 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 $11.7 million identified in the scope period projects to an annual average of about $2.7 million per year. This annual amount projected over five years totals about $13.5 million.)

Table B.1 Statistical Estimations Summary for Payments by the San Francisco VAMC to NCIRE

NPC location	Projection (in millions)	Margin of error based on 90% confidence interval (in millions)	90% confidence interval		Total sample size	Count from sample
			Lower limit (in millions)	Upper Limit (in millions)		
San Francisco VAMC	$11.7	$0.9	$10.8	$12.6	30	30

Source: OIG statistical analysis of the San Francisco VAMC invoice payment records. Numbers were rounded based on the overall weighted average results of the statistical analysis.

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

Recommendation	Explanation of Benefits	Better Use of Funds	Questioned Costs
	Potential monetary loss associated with NCIRE's inappropriate expenditures beyond NPC purpose.		$740,000
1–2	Improper payments due to San Francisco VAMC staff approving invoices for payment to NCIRE without adequate documentation from January 2014 through April 2018.*		$11.7 million
1–2	Estimated five-year future costs associated with San Francisco VAMC staff inappropriately approving invoices for payment to NCIRE without adequate documentation.†		$ 13.5 million
Total			**$25.94 million**

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 $11.7 million identified in the scope period projects to an annual average of about $2.7 million per year. This annual amount projected over five years totals about $13.5 million).

Appendix D: Management Comments

Department of Veterans Affairs Memorandum

Date: May 5, 2020

From: Director, Sierra Pacific Network (10N21)

Subj: Draft Report, Deficiencies in Controls and Documentation Related to VA-Affiliated Nonprofit Corporations: Northern California Institute for Research and Education, (project number 2018-00711-R9-0002)

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

1. Thank you for the opportunity to review the draft report. I concur with the findings and agree with the actions the facility is taking to correct the two deficiencies.

2. Should you have any questions please call my Deputy Quality Manager at 707 562-8350.

Original signed by

John A. Brandecker

Department of Veterans Affairs Memorandum

Date: May 1, 2020

From: Director, San Francisco Health Care System (662)

Subj: Draft Report, Deficiencies in Controls and Documentation Related to VA-Affiliated Nonprofit Corporations: Northern California Institute for Research and Education, (project number 2018-00711-R9-0002)

To: Director, Sierra Pacific Network (10N21)

I have reviewed and concur with the findings and recommendations from the OIG Healthcare Inspection - Deficiencies in Controls and Documentation Related to VA-Affiliated Nonprofit Corporations: Northern California Institute for Research and Education. The facility has taken actions to address the two (2) recommendations.

Original signed by

Bonnie S. Graham, MBA
Health Care System Director
San Francisco VA Health Care System

Recommendation 1 -The San Francisco VA Healthcare System director establishes procedures to ensure the Research and Development Budget Office staff review VA-affiliated nonprofit corporation invoices to confirm services were performed or goods were received in accordance with Intergovernmental Personnel Act agreements before approving invoices for payment.

Facility Concurred

Target Completion Date: October 30, 2020

Facility Response: The Research and Development (R&D) Budget Office has put procedures in place for R&D staff to review VA-affiliated non-profit corporation invoices to assure that invoices are valid and accurate. The process for timecard review and sign-off by VA Principal Investigators has been updated and the R&D Budget Office supervisor receives a separate record of the hours performed by pay period, which documents the approval by the Principal Investigator. The salary and benefits are viewed by the R&D Budget Office supervisor to assure that they are consistent with both the hours and Intergovernmental Personnel Act before approving invoices for payment. Monitoring of the procedures will occur to show evidence of six consecutive months of 100% compliance in reviewing invoices prior to payment.

Recommendation 2 -The San Francisco VA Healthcare System director establishes procedures to ensure the Research and Development Budget Office supervisor conducts periodic reviews of the VA-affiliated nonprofit corporation invoices authorized for payment by staff as required by VA Financial Policies and Procedures, Volume VIII, Chapter 1A.

Facility Concurred;

Target Completion Date: October 30, 2020

Facility Response: Procedures have been established for the R&D Office Director of Research Operations to perform quarterly audits on 25% of VA-affiliated nonprofit corporation invoices that R&D staff have approved for payment to assure that services have been received. The supervisory audits will be reported to the Board. Evidence of quarterly reporting to the Board will be monitored for two (2) consecutive quarters to ensure 100 percent compliance is sustained.

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

OIG Contact and Staff Acknowledgments

Contact	For more information about this report, please contact the Office of Inspector General at (202) 461-4720.
Audit Team	Timothy J. Crowe, Director Chau Bui Josie Carver Charles F. Chiarenza Erin Costa Clenes Duhon Angela Ferguson Valerie Kimball Michelle Swagler Nelvy Viguera Butler

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