



Department of Veterans Affairs Office of Inspector General

Audit of Veterans Health Administration's Oversight of Nonprofit Research and Education Corporations

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Executive Summary

Introduction

The VA Office of Inspector General (OIG) conducted this audit to determine whether Veterans Health Administration's (VHA) controls over the administration of funds used for research and education activities at Nonprofit Research and Education Corporations (NPCs) were effective. The three audit objectives were to determine if VHA provided effective oversight of the NPCs, VHA developed effective management and accounting controls governing NPCs' administration of research and education funds, and VHA had effective controls to guard against conflicts of interest.

Congress passed Public Law 100-322, "The Veterans Benefits and Services Act of 1988," authorizing VA medical facilities to establish nonprofit research corporations. Congress expanded this authority in 1999 to include education activities. The statutory purpose of NPCs is to provide a flexible funding mechanism to support VA-approved research and education activities at affiliated VA medical facilities. A VA nonprofit research corporation is an independent, state-chartered nonprofit organization affiliated with a VA medical facility that receives and administers funds to conduct research. As of October 2007, VA had 86 NPCs located in 41 states, Puerto Rico, and Washington, DC, and in 2006 NPCs reported \$232 million in total revenues.

Federal law and VA policy prohibit NPCs from receiving appropriated funds, thus NPCs rely on other sources of revenue such as donations—in cash or in kind—from for-profit, nonprofit, public, or private entities. NPCs may use unrestricted donations for any expenditure related to the mission of the NPC; whereas restricted donations have specific expenditure guidelines the NPC must follow. For public donations, the NPC must also comply with any other general criteria imposed by Federal or state level agencies. Significant revenue sources include research grants from for-profit corporations, such as pharmaceutical companies, and Federal entities, such as the National Institutes of Health (NIH), the Centers for Disease Control and Prevention (CDC), and the Department of Defense (DoD).

Oversight and Management of NPCs. VA's oversight and management structure for NPCs is multi-layered to include responsibilities at the Department level, within VHA, and the medical facility and NPC level.

Department and VHA. The Secretary established the VA Nonprofit Corporation Oversight Board (NPOB) in 2004 to review the activities of VA NPCs for consistency with Department policy and interests. The NPOB, aligned organizationally under the VA Secretary, includes the Under Secretary for Health, General Counsel, Assistant Secretary for Management, Chief of Staff to the Secretary, Chief Research and Development Officer (CRADO), Director of the Nonprofit Research and Education Corporation

Program Office (NPPO), Chief Academic Affiliations Officer, and VHA Chief Financial Officer (CFO).

In 2003, VHA established the NPPO to provide oversight of NPC activities. The NPPO reports to the CRADO in VHA's Office of Research and Development (ORD). The NPPO is responsible for providing oversight and guidance affecting operations and financial management, performing substantive reviews of the annual reports submitted by each NPC, compiling the information for VA's annual submission to Congress, improving accountability, and ensuring deficiencies are corrected. In accordance with the CFO Act and a 1994 General Counsel opinion, VHA's CFO also has financial oversight responsibility for NPCs.

Results

NPCs did not implement adequate controls to properly manage funds, safeguard equipment, and guard against conflicts of interest. This occurred because VHA did not provide adequate oversight of NPCs by establishing clear lines of authority, implementing effective oversight procedures, and requiring minimum control requirements for NPC activities. As a result, VHA cannot be reasonably assured that the NPCs are fully complying with applicable laws or regulations or effectively managing research and education funds. Furthermore, improper use of, and inadequate controls over, research and education funds may put future funding at risk.

NPCs Did Not Have Adequate Controls To Manage Funds. We identified four weaknesses pertaining to the protection and management of funds: (1) NPCs did not adequately segregate financial duties, (2) NPCs acquired services without proper agreements, (3) NPCs had weak controls over billing for non-Federal grants, and (4) NPCs inappropriately received reimbursements from VA medical facilities for services provided by NPC employees.

NPCs Did Not Have Adequate Controls To Safeguard Equipment. Four NPCs did not maintain accurate and complete inventory records or perform periodic physical inventories to account for and safeguard equipment, such as computers. Two NPCs did not report missing equipment, including a \$1,537 computer, to VA police. At one of these NPCs, research staff removed four equipment items totaling \$7,036 from the premises without the approval or knowledge of NPC officials.

NPCs Did Not Have Adequate Controls To Guard Against Conflicts of Interest. Three of the five NPCs had not implemented adequate procedures to ensure NPC employees and board members complied with Federal laws and VA policies that guard against conflicts of interest. At one NPC, we found three employees who did not file financial disclosure statements as required. One NPC had a non-voting board member who was affiliated with a funding organization, and two of the three NPCs had not

ensured that employees and members of the board of directors signed required conflict of interest statements.

Without effective internal controls at NPCs, VHA has no assurance that NPCs are complying with Federal laws or regulations or that NPCs are effectively managing research and education funds and acting in the best interest of VA. VHA needs to improve its oversight of NPCs by establishing clear lines of authority for the NPOB and VHA's CFO and NPPO, developing and implementing oversight procedures, and establishing minimum control requirements.

Recommendations

1. We recommended that the Under Secretary for Health prepare a recommendation to the Secretary defining the oversight authorities of the NPOB, CFO, and NPPO and update VHA Handbook 1200.17 to incorporate these authorities.
2. We recommended that the Under Secretary for Health strengthen NPPO procedures for following up on recommendations in independent audit reports on NPC financial statements and reviewing NPC submissions for the annual report to Congress.
3. We recommended that the Under Secretary for Health revise VHA Handbook 1200.17 to clearly define minimum control requirements for all NPCs and provide training to NPC Directors on these requirements.
4. We recommended that the Under Secretary for Health develop and implement oversight procedures to perform substantive reviews of NPC financial and management controls to ensure NPCs fully comply with Federal laws, VHA policies, and control standards.
5. We recommended that the Under Secretary for Health develop and implement procedures to review, monitor, and enforce NPC compliance with conflict of interest laws and policies.

Under Secretary for Health Comments

The Under Secretary for Health agreed with the findings and recommendations of the report and provided acceptable implementation plans. (See Appendix B, pages 16–20, for the full text of the Under Secretary's comments.) The Under Secretary reported that the ORD will convene a steering committee to clearly define the oversight authorities of the NPOB and VHA's CFO and NPPO. The steering committee will also develop policy to provide programmatic direction and clarification to the NPCs. The Under Secretary stated that after the steering committee has developed policy, he will make necessary recommendations to the Secretary.

In addition, by December 31, 2008, the ORD, in conjunction with the VHA Office of Finance and Office of General Counsel (OGC), will revise Handbook 1200.17 to define oversight authorities and minimum control requirements. Furthermore, to strengthen NPPO procedures for following up on recommendations in independent audit reports, the Veterans Integrated Service Network (VISN) committees will ensure that semiannual independent management and financial reviews are conducted for each NPC located within their areas. These reviews will include assessments of compliance with recommendations in the annual independent audit report and submissions for the annual report to Congress.

Lastly, to ensure the NPCs are compliant with conflict of interest laws and policy, the Under Secretary reported that ORD staff will visit and consult with the NPCs on a regular basis to ensure they understand policy. The NPPO will annually collect required signed statements from the NPC Directors and monitor a sample of NPCs each year. In addition, the NPPO will work with the OGC to further identify, develop, and implement additional administrative controls to enforce NPC compliance on issues related to conflicts of interest. We will follow up on the implementation of planned actions until they are complete.

(original signed by:)
BELINDA J. FINN
Assistant Inspector General
for Auditing

Introduction

Purpose

The purpose of the audit was to determine if VHA had effective controls over the administration of funds used for research and education activities at NPCs. Specifically, we assessed whether VHA provided effective oversight of the NPCs, VHA developed effective management and accounting controls governing NPCs' administration of research and education funds, and VHA had effective controls to guard against conflicts of interest.

Background

In 1988, Congress passed Public Law 100–322 allowing VA medical facilities to establish nonprofit research corporations. Congress expanded this authority in 1999 to include education activities. The statutory purpose of NPCs is to provide a flexible funding mechanism to support VA-approved research and education activities at affiliated VA medical facilities.

While each NPC is an independent, state-chartered nonprofit organization, Public Law 100–322 requires VHA's Under Secretary for Health to "prescribe policies and procedures to guide the expenditure of funds" by NPCs. Furthermore, affiliated VA medical facility staff must serve on NPC boards of directors. For NPCs supporting research activities, VA medical facility directors, chiefs of staff, and associate chiefs of staff for research are required to serve on the boards. For NPCs supporting education activities, associate chiefs of staff for education are also required to serve on the boards.

As of October 2007, VA had 86 NPCs located in 41 states, Puerto Rico, and Washington, DC. The NPCs reported \$232 million in total revenues. Federal law and VA policy prohibit NPCs from receiving appropriated funds, thus NPCs rely on other sources of revenue such as in-kind or cash donations from for-profit, nonprofit, public, or private entities. NPCs can use unrestricted donations for any expenditure related to the mission of the NPC; whereas restricted donations have specific expenditure guidelines the NPC must follow. For public donations, the NPC must also comply with any other general criteria imposed at the Federal or state level. Significant revenue sources include research grants from for-profit corporations, such as pharmaceutical companies, and Federal entities, such as NIH, CDC, and DoD.

Oversight and Management of NPCs. VA's oversight and management structure for NPCs is multi-layered to include responsibilities at the Department level, within VHA, and the medical facility and NPC level.

Department and VHA. The Secretary established the VA NPOB in 2004 to review the activities of VA NPCs for consistency with Department policy and interests. The NPOB,

aligned organizationally under the VA Secretary, includes the Under Secretary for Health, General Counsel, Assistant Secretary for Management, CRADO, Director of the NPPO, Chief Academic Affiliations Officer, and CFO.

In 2003, VHA established the NPPO to provide oversight of NPC activities. The NPPO reports to the CRADO in VHA's ORD. The NPPO is responsible for providing oversight and guidance affecting operations and financial management, performing substantive reviews of the annual reports submitted by each NPC, compiling the information for VA's annual submission to Congress, improving accountability, and ensuring deficiencies are corrected. In accordance with the CFO Act and a 1994 General Counsel opinion, VHA's CFO also has financial oversight responsibility for NPCs.

VHA has two handbooks that provide policies, procedures, and instructions governing NPCs. VHA Handbook 1200.17, "VA Research and Education Corporations Authorized by Title 38 United States Code (U.S.C.) Sections 7361 through 7368 Handbook," applies to NPCs that conduct research or research and education activities. VHA Handbook 1400.2, "VA Education Corporations Authorized by Title 38 United States Code (U.S.C.) Sections 7361 through 7368," applies to NPCs that conduct education and training activities only. The handbooks define the authority delegated by the Secretary to medical facility directors relative to the establishment of NPCs. The handbooks also describe the composition of NPC boards of directors and outline their responsibilities for the management and operation of the NPCs, as well as their authority to act for the NPCs.

Medical Facility and NPC Level. VHA Handbook 1200.17 authorizes medical facility directors to establish NPCs and provide NPCs space for activities and services, such as utilities, at no cost. Each NPC is required to create a board of directors, which at a minimum should include the affiliated VA medical facility's director, chief of staff, associate chief of staff for research, and associate chief of staff for education. The boards of directors may appoint an executive director and corporate officers for the NPC and establish specific duties and responsibilities for these individuals.

Medical facilities that have established NPCs must also have research and development committees that review and approve proposed research projects. NPCs may not spend funds for research projects without prior approval from these committees. Furthermore, if NPCs are supporting education and training activities, the medical facilities must have education committees to review and approve education and training proposals. VA employees involved in the affairs or operations of NPCs must ensure that they further the best interests of the Department and VHA research and education programs.

Prior Reviews. The VA OIG conducted seven reviews of NPC and VHA research activities since 1993. Three of the reports identified concerns with NPC program management and oversight. The reports concluded NPCs had inadequate written policies and procedures, ineffective control structures, poor recordkeeping, and inappropriate expenditures on activities not directly related to research. The four other reports

addressed issues related to VHA's administration of research. Although these reports do not directly address funds administered by the NPCs, the reported issues relate to VHA's administration of the research program and control over research funds. The reports identified inadequate controls over the use of research funds, personnel issues, and medical care fund reimbursements.

Scope and Methodology

The scope of the audit included NPC activities from October 1, 2005, through December 31, 2006. We conducted audit work at five NPCs—the Bay Pines Foundation, Bay Pines, FL; Loma Linda Veterans Association for Research and Education, Redlands, CA; Veterans Medical Research Foundation, San Diego, CA; Dorn Research Institute, Columbia, SC; and the Veterans Research Foundation of Pittsburgh, Pittsburgh, PA.

We initiated audit work at the Bay Pines Foundation NPC and then selected four additional NPCs for review based on their reported revenues. We divided the NPCs into three revenue groups: (1) revenue less than \$3 million (low tier); (2) revenue equal to or greater than \$3 million but less than \$10 million (mid-tier); and (3) revenue equal to or greater than \$10 million (high tier). Our selection of NPCs included two low tier NPCs because VHA officials indicated that low tier NPCs may not have sufficient funds to provide adequate staffing.

To determine whether VHA provided effective oversight of the NPCs, we interviewed officials at VA's OGC to identify all applicable advisories and opinions, members of the NPOB, and key personnel in VHA's ORD, NPPO, and Office of Academic Affiliations to determine the oversight and monitoring conducted by each office. We also assessed if the local NPC boards were comprised of the mandatory members and met regularly, and we reviewed board meeting minutes to determine if the boards actively participated in NPC decisionmaking.

To determine if VHA had effective management and accounting controls over NPCs' administration of research and education funds, we interviewed NPC staff to gain an understanding of accounting processes including the identification of applicable local policies. We also reviewed financial procedures to determine if there was adequate segregation of duties and if transaction amounts traced back to supporting documents. We compared expenditures to grant documents to determine if funds were used for their intended purposes. Finally, we examined accounting system controls to determine if only authorized personnel accessed the system and personnel were only given access rights to the applications needed to perform their jobs.

To determine if VHA had effective controls to guard against conflicts of interest and to identify possible cases of dual compensation involving VA employees, we interviewed VHA management and NPC staff. We reviewed job descriptions, payroll information,

and time and attendance records and reviewed available NPC financial disclosure and conflicts of interest statements.

To determine if the computer-generated data was sufficiently reliable to meet the audit objectives, we obtained financial data from the NPCs' accounting systems related to applicable accounts and transactions and traced this data to source documents. We also selected samples from computer-generated equipment inventory listings and conducted physical inventories of sampled items. While we identified some minor concerns about the data, such as the equipment listings not being completely accurate and not all accounts receivable were being posted prior to the receipt of funds, we determined the data would not weaken the analysis nor lead to an incorrect or unintentional message. Our assessment concluded the computer-generated data were sufficiently reliable to meet the audit objectives.

Our assessment of controls focused only on those controls related to the audit objectives. We conducted the audit in accordance with generally accepted government auditing standards.

Results and Conclusions

Oversight of Nonprofit Research and Education Corporations Needs Improvement

Finding

NPCs did not implement adequate controls to properly manage funds, safeguard equipment, and guard against conflicts of interest. This occurred because VHA did not provide adequate oversight of NPCs by establishing clear lines of authority, implementing effective oversight procedures, and requiring minimum control requirements for NPC activities. As a result, VHA cannot be reasonably assured that the NPCs are fully complying with applicable laws or regulations or effectively managing research and education funds. Furthermore, improper use of, and inadequate controls over, research and education funds may put future funding at risk.

Management of Funds. NPCs did not have adequate controls to effectively manage their activities and ensure that funds were administered as intended. We identified the following four weaknesses in how NPCs managed research and education funds.

NPCs Did Not Adequately Segregate Financial Duties. Three NPCs did not adequately segregate financial duties, allowing one employee at each of the three sites to exercise sole control over key aspects of financial transactions. Segregation of duties is a widely accepted accounting and financial management principle. According to the Government Accountability Office's "Standards for Internal Control in the Federal Government," organizations must segregate key duties and responsibilities among different people to reduce the risk of error or fraud. This should include separating responsibilities for authorizing transactions, processing and recording transactions, reviewing transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event. However, at each of the three NPCs, one individual performed key aspects of financial transactions.

Additionally, four NPCs had inadequate segregation of duties for their accounting systems. For example, at least one individual at all four NPCs had unlimited access to all data and processes within the accounting system; these individuals also had access to blank checks and the authority to generate checks. A lack of segregation of duties can create the potential for an individual to develop a fictitious invoice and generate a check for that invoice.

NPCs Acquired Services Without Proper Agreements. Four NPCs paid at least \$483,626 to affiliated universities for services provided to the NPCs without authorized formal agreements or contracts. Properly executed agreements should define the statement of work, scope of effort, deliverables, cost and payment schedule, and period of

performance. Without properly executed agreements, NPCs and VA had no assurance that funds were used for VA-approved research or education or that payments were proper.

NPCs Had Weak Controls Over Billing for Non-Federal Grants. All five NPCs reviewed lacked controls over the billing for research performed on non-Federal grants, specifically for research performed for pharmaceutical companies. NPCs' administrative staff did not always initiate billing for services performed under these grants. Instead, Principal Investigators (PIs), who regularly interacted with pharmaceutical companies' representatives, billed the companies directly for their services. However, the PIs often did not alert the NPCs that payments were expected on projects. Because these NPCs were not aware of incoming payments, they could not establish accurate and timely accounts receivable for non-Federal grants. Inadequate billing controls increase the risk of fraud, waste, and abuse of funds. Consequently, NPCs may not be able to efficiently reconcile their revenue and expenses, which may distort financial data.

NPCs Inappropriately Received Reimbursements for Services from VA Medical Facilities. Three NPCs entered into Intergovernmental Personnel Act assignments with their affiliated VA medical facilities and were reimbursed about \$2.9 million for services that NPC employees provided to the facilities. These assignments and resulting reimbursements did not comply with VHA Handbook 1200.17, which states that NPC employees may be assigned to work on VA research projects or education and training activities provided they have a without compensation appointment. The Handbook explains that the employees' services are "donated to support VA research and education missions." Furthermore, the Handbook prohibits NPCs and VA from entering into contracts for goods or services.

NPC officials told us this practice predated the 2001 Handbook and that they relied on a 1994 General Counsel opinion that concluded medical facilities could reimburse NPCs for employee salaries. However, we determined that the 1994 opinion was not a General Counsel opinion but a memorandum from the VA Regional Counsel relating her discussions with an attorney in General Counsel. According to the Handbook, only the VA General Counsel "speaks authoritatively" on the interpretation of Federal laws as they apply to NPCs. One NPC director stated that the medical facility continued to approve the reimbursements and never informed the NPC that the reimbursements were inappropriate. Therefore, the NPC did not question the appropriateness of the practice.

Safeguarding Equipment. Four NPCs did not adequately safeguard equipment by maintaining complete and accurate inventory records and performing periodic physical inventories. Office of Management and Budget (OMB) Circular A-123, "Management Accountability and Internal Controls," dated June 1995, requires that management controls provide reasonable assurance that assets are safeguarded against waste, loss, unauthorized use, and misappropriation.

Four NPCs had equipment inventory listings that were missing inventory information such as equipment serial numbers and the buildings and room numbers where equipment was located. Two of these four NPCs' equipment listings were not accurate. For example, we found equipment in locations different from the locations recorded on the inventory listing. A complete and accurate equipment inventory listing is essential to conducting comprehensive physical inventories of equipment and to deter theft. Furthermore, three NPCs did not conduct periodic physical inventories of equipment. At one NPC, the last inventory was conducted in 2003, and at the other two NPCs, physical inventories had never been conducted. Without these minimum controls, the NPCs may not promptly identify or report missing equipment, especially computers that may contain sensitive research information, as illustrated in the following examples:

- During the audit, one NPC could not locate a computer valued at \$1,537. NPC management believed the computer had been returned to the Information Management Office, but they had no documentation to support this conclusion. Staff in the Information Management Office could not locate the computer or any documents showing receipt of the computer. The NPC Director was unable to confirm if the computer contained any personal identifiable information.
- At one NPC, employees removed four pieces of equipment totaling \$7,036 from the premises without the knowledge of NPC management. One PI, who left the NPC and was no longer affiliated with the NPC or VA, had taken a printer and laptop computer (value = \$2,357). The NPC contacted the PI and requested that the equipment be returned. Another former PI had an NPC laptop computer (value = \$2,385). During our audit the NPC issued a property receipt because the PI stated he was still working on a VA-approved research project. A third PI had a desktop computer and monitor (value = \$2,294) at his residence. According to the PI, he kept the equipment for personal use. The NPC directed the PI to return the equipment.

Conflicts of Interest. NPC employees did not comply with Federal laws, regulations, and VA policies applicable to conflicts of interest. According to VHA Handbook 1200.17, all NPC board members, officers, and employees are subject to the same conflict of interest laws and regulations that apply to Federal employees. Conflicts of interest impair the conduct of objective, unbiased research and create the risk that an investigator will compromise a study's integrity to gain financial rewards or recognition. We identified the following three deficiencies pertaining to conflicts of interest.

Employees at One NPC Had Conflicts of Interest. Three employees at one NPC did not submit financial disclosure statements or receive a written determination regarding their ownership and employment by a company that provided research funds to the NPC. The three individuals also performed the research activities the company was funding. According to Title 18, "Crimes and Criminal Procedure," employees who do not make a full disclosure of their financial interests and receive a written determination that the

interest would not affect the integrity of their services could be subject to penalties up to \$50,000 for each violation. We referred this matter to the OIG's Office of Investigations and the Counselor to the Inspector General for review. However, the Counselor to the Inspector General determined that the Federal criminal statute did not extend to NPC employees. Therefore, no further action was taken.

A Board Member Was Affiliated with an NPC's Funding Source. One NPC had a non-voting board member who was an employee of a for-profit company that provided grant funds to the NPC. VHA Handbook 1200.17 and United States Code, Title 38, "Veterans' Benefits," Section 7363(c), states that members of the board who are not Federal officials or employees may not have a financial relationship with any entity that is a source of funding. Although this individual was a non-voting board member, the individual was present at board meetings. The NPC Director removed this member from the board during the audit.

NPC Management Did Not Ensure Conflict of Interest Statements Were Signed. Two NPCs did not comply with VHA Handbook 1200.17, which requires members of NPC boards of directors and employees to sign statements certifying their awareness of and compliance with Federal conduct and conflicts of interest laws and regulations. In addition, the Handbook requires that each NPC director annually certify that the NPC board of directors' and employees' signed statements are on file. A sample format of the statement follows:

I hereby certify that I am aware of and am in compliance with the Federal laws and regulations applicable to Federal employees with respect to conduct and conflicts of interest related to the performance of my official functions at the research and education corporation.

At one NPC, 8 (44 percent) of 18 employees and 1 (14 percent) of 7 board members did not have signed statements on file. At the other NPC, 17 (89 percent) of 19 board members did not have signed statements on file. However, the Directors at both NPCs certified that the board of directors and employees had signed the statements.

VHA Needs To Improve Oversight of NPCs. NPCs did not implement internal controls to properly administer research funds, safeguard equipment, or guard against conflicts of interest because VHA did not provide effective oversight. Specifically, VHA did not establish clear lines of authority, implement effective oversight procedures, or require minimum control requirements for NPC activities.

Oversight Authority Was Not Clearly Established. Officials from the NPOB and VHA's CFO and NPPO acknowledged that they were uncertain about the extent of their authority over NPCs. VHA Handbook 1200.17 explains the roles and responsibilities of NPC directors, officers, and employees and affiliated medical facility officials. However,

VHA officials did not update the Handbook after the NPOB and NPPO were established, nor did they issue any other guidance to clearly establish the oversight responsibilities and authority of the NPOB, NPPO, or CFO.

The Director of the NPPO reports to the CRADO but must obtain approval from the NPOB before implementing policies or changes affecting NPCs. Typically, the NPOB meets once a quarter. During these meetings, the NPPO Director and CRADO brief committee members on NPC activities and make recommendations, but this process is often time consuming, and it may take several meetings before the NPOB approves policy or operational changes. For example, in January 2006, the NPPO Director submitted an NPC oversight plan to the NPOB. As of February 2008, the NPOB had not approved the plan. According to an NPOB official we interviewed, board members were often unsure about how to implement changes to the NPCs because they were not clear as to the extent of VA's authority to oversee NPC operations due to the legal structure of the NPCs.

Furthermore, under the CFO Act, the VHA CFO also has authority to oversee financial activities of NPCs. However, as with the NPOB and NPPO, VHA Handbook 1200.17 does not address the CFO's authority. In 2006, at the request of the Under Secretary for Health, the CFO examined financial activities at three NPCs. However, the CFO has not performed any additional reviews because he believes the NPPO provides sufficient oversight and that any recommendations he may have will be addressed to the NPPO through the NPOB.

Effective Oversight Procedures Were Not Implemented. As the program oversight office, the NPPO has not developed or implemented effective procedures to review NPC controls to ensure that NPCs comply with applicable laws or regulations. Its oversight activities are generally limited to following up on recommendations in external audit reports and compiling an annual report to Congress. Its procedures for following up on external audit report recommendations are informal and not adequately documented. For the annual report to Congress, the NPPO only ensures that it has received annual submissions from the NPCs and that the submissions include all of the required information. The NPPO does not verify the accuracy of the reported information.

The NPPO Director cited several factors that may contribute to the NPPO's ineffective oversight of NPCs. First, the Director's position is not dedicated full-time to the NPPO. The NPPO Director is also the Director of the Technology Transfer Program, and she spends only about 30 percent of her time on NPPO activities. Also, the NPPO is authorized a staff of 3, including the Director, to oversee about 90 NPCs. In the Director's opinion, the NPPO is not sufficiently staffed to perform its assigned responsibilities.

The NPPO Director relies primarily on the external audit reports to determine whether NPCs have adequate controls. Each NPC must obtain an independent audit once a year (for reported revenues exceeding \$300,000) or once every 3 years (for reported revenues between \$10,000 and \$300,000). The audits tend to focus more on the reliability of the NPCs' financial statements and include only limited testing of internal controls directly related to financial reporting. OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," also requires that NPCs undergo a "single audit" when annual expenditures using Federal funds exceed \$500,000. While these audits do add an additional level of accountability and oversight, they do not determine if NPCs are using research funds as Congress intended or that research projects are adequately meeting VA strategic goals and objectives.

Minimum Control Requirements Were Not Established. NPC officials felt VHA did not adequately address NPC controls. Although VHA issued Handbook 1200.17 with the intent to provide policies, procedures, and instructions governing NPCs, significant portions of the Handbook are vague and omit important details, and it does not provide minimum internal control expectations for NPCs.

VHA Handbook 1200.17 does not provide adequate guidance or references regarding the controls necessary for effective management and oversight of NPCs. One section of the Handbook requires NPCs to "make and preserve records of the organization . . . in accordance with commonly accepted non-profit practices and commonly accepted accounting practices." However, the Handbook does not define or provide references to explain the meaning of "commonly accepted non-profit practices and commonly accepted accounting practices." Our review of available literature and internet sites found no evidence that there is a standard, widely accepted set of "commonly accepted non-profit practices." Instead, there are many resources that address various aspects of nonprofit management. Furthermore, while there are "generally accepted accounting principles," which are developed by the Financial Accounting Standards Board, these principles apply more to preparing financial statements than to specifically implementing internal controls.

VHA Handbook 1200.17 should prescribe control standards that all NPCs must establish. At a minimum, these standards should address segregation of duties, physical control of assets and equipment accountability, accurate and timely recording of transactions, access controls and data security, and management reviews and oversight. Furthermore, the Handbook should clearly define the roles and responsibilities of all key officials involved in the management and oversight of NPCs, including the NPOB, NPPO, and CFO.

Conclusion

Without effective internal controls at NPCs, VHA has no assurance that NPCs are complying with Federal laws or regulations or that NPCs are effectively managing

research and education funds and acting in the best interest of VA. VHA needs to improve its oversight of NPCs by establishing clear lines of authority for the NPOB and VHA's CFO and NPPO, developing and implementing oversight procedures, and establishing minimum control requirements.

Recommendations

1. We recommended that the Under Secretary for Health prepare a recommendation to the Secretary defining the oversight authorities of the NPOB, CFO, and NPPO and update VHA Handbook 1200.17 to incorporate these authorities.
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are conducted for each NPC located within their areas. These reviews will include assessments of compliance with recommendations in the annual independent audit report and submissions for the annual report to Congress.

Lastly, to ensure the NPCs are compliant with conflict of interest laws and policy, the Under Secretary reported that ORD staff will visit and consult with the NPCs on a regular basis to ensure they understand policy. The NPPO will annually collect required signed statements from the NPC Directors and monitor a sample of NPCs each year. In addition, the NPPO will work with the OGC to further identify, develop, and implement additional administrative controls to enforce NPC compliance on issues related to conflicts of interest. We will follow up on the implementation of planned actions until they are complete.

Office of Inspector General Comments

We consider these planned actions acceptable, and we will follow up on their implementation.

VA Nonprofit Research and Education Corporations As of October 2007

Affiliated VA Medical Facility		Nonprofit Research and Education Corporation
1	Albany, NY	Albany Research Institute, Inc.
2	Albuquerque, NM	Biomedical Research Institute of New Mexico
3	Amarillo, TX	Amarillo Research Foundation
4	Ann Arbor, MI	Veterans Education and Research Association of Michigan
5	Asheville, NC	Asheville Medical Research and Education Corporation
6	Augusta, GA	Augusta Biomedical Research Corporation
7	Baltimore, MD	Baltimore Research and Education Foundation, Inc.
8	Bay Pines, FL	Bay Pines Foundation, Inc.
9	Bedford, MA	Bedford VA Research Corporation, Inc.
10	Birmingham, AL	VISTAR, Inc.
11	Boston, MA	Boston VA Research Institute, Inc.
12	Bronx, NY	Bronx Veterans Medical Research Foundation, Inc.
13	Brooklyn, NY	Narrows Institute for Biomedical Research, Inc.
14	Buffalo, NY	Buffalo Institute for Medical Research, Inc.
15	Charleston, SC	Charleston Research Institute
16	Chicago/West Side, IL	Westside Institute for Science and Education
17	Cincinnati, OH	Cincinnati Foundation for Biomedical Research and Education
18	Clarksburg, WV	Mountaineer Education and Research Corporation
19	Cleveland, OH	Cleveland VA Medical Research and Education Foundation
20	Columbia, MO	Missouri Foundation for Medical Research
21	Columbia, SC	Dorn Research Institute
22	Dallas, TX	Dallas VA Research Corporation
23	Dayton, OH	Dayton VA Research and Education Foundation
24	Decatur, GA	Atlanta Research and Education Foundation, Inc.
25	Denver, CO	Denver Research Institute
26	Detroit, MI	Metropolitan Detroit Research and Education Foundation
27	Durham, NC	Institute for Medical Research, Inc.
28	East Orange, NJ	Veterans Biomedical Research Institute, Inc.
29	Fort Meade, SD	VA Black Hills Research and Education Foundation
30	Gainesville, FL	North Florida Foundation for Research and Education
31	Hines, IL	Chicago Association for Research and Education in Science
32	Honolulu, HI	VA Research and Education Corporation of the Pacific
33	Houston, TX	Houston VA Research and Education Foundation, Inc.
34	Huntington, WV	Huntington Institute for Research and Education
35	Indianapolis, IN	Indiana Institute for Medical Research, Inc.
36	Iowa City/Solon, IA	Iowa City VA Research Foundation
37	Jackson, MS	Research Mississippi, Inc.
38	Johnson City, TN	J.H. Quillen VA Medical Center Biomedical Research Corporation
39	Kansas City, MO	Midwest Biomedical Research Foundation
40	Kings Park, NY	The Research Corporation of Long Island, Inc.
41	Little Rock, AR	Biomedical Research Foundation

Affiliated VA Medical Facility		Nonprofit Research and Education Corporation
42	Long Beach, CA	Southern California Institute for Research and Education
43	Los Angeles, CA	Brentwood Biomedical Research Institute
44	Louisville, KY	Clinical Research Foundation, Inc.
45	Madison, WI	Madison Veterans' Research and Education Foundation
46	Martinez, CA	East Bay Institute for Research and Education, Inc.
47	Memphis, TN	Research, Inc.
48	Miami, FL	South Florida Veterans Affairs Foundation for Research and Education, Inc.
49	Milwaukee, WI	Wisconsin Corporation for Biomedical Research
50	Minneapolis, MN	Minnesota Veterans Research Institute
51	Montgomery, AL	Veterans Education and Research Institute of Central Alabama
52	Montrose, NY	Montrose Research Corporation
53	Nashville, TN	Middle Tennessee Research Institute
54	New Orleans, LA	Louisiana Veterans Research Foundation
55	Oklahoma City, OK	Veterans Research and Education Foundation
56	Omaha, NE	Nebraska Education Biomedical Research Association
57	Palo Alto, CA	Palo Alto Institute for Research and Education, Inc.
58	Philadelphia, PA	Philadelphia Research and Education Foundation
59	Phoenix, AZ	Carl T. Hayden Medical Research Foundation
60	Pittsburgh, PA	Veterans Research Foundation of Pittsburgh
61	Portland, OR	Portland VA Research Foundation, Inc.
62	Providence, RI	Ocean State Research Institute
63	Redlands, CA	Loma Linda Veterans Association for Research
64	Reno, NV	Sierra Biomedical Research Corporation
65	Richmond, VA	McGuire Research Institute
66	Salem, VA	Salem Research Institute, Inc.
67	Salisbury, NC	Salisbury Foundation for Research and Education, Inc.
68	Salt Lake City, UT	Western Institute for Biomedical Research
69	San Antonio, TX	Biomedical Research Foundation of South Texas, Inc.
70	San Diego, CA	Veterans Medical Research Foundation of San Diego
71	San Francisco, CA	Northern California Institute for Research and Education, Inc.
72	San Juan, PR	Sociedad de Investigacion Cientifica, Inc.
73	Seattle, WA	Seattle Institute for Biomedical and Clinical Research
74	Sepulveda, CA	Sepulveda Research Corporation
75	Shreveport, LA	Overton Brooks Research Corporation
76	Sioux Falls, SD	Great Plains Medical Research Foundation
77	St Louis, MO	Vandeventer Place Research Foundation
78	Syracuse, NY	Central New York Research Corporation
79	Tampa, FL	James A. Haley Veterans Research and Education Foundation, Inc.
80	Temple, TX	TEMPVA Research Group, Inc.
81	Tucson, AZ	Biomedical Research and Education Foundation of Southern Arizona
82	Tuscaloosa, AL	Tuscaloosa Research and Education Advancement Corporation
83	Washington, DC	Institute for Clinical Research, Inc.
84	Washington, DC	Paralyzed Veterans of America

Affiliated VA Medical Facility		Nonprofit Research and Education Corporation
85	West Haven, CT	VA Connecticut Research and Education Foundation
86	White River Junction, VT	Collaborative Medical Research Corporation

Under Secretary for Health Comments

Department of Veterans Affairs

Memorandum

Date: April 23, 2008

From: Under Secretary for Health (10)

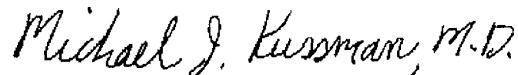
Subj: OIG Draft Report, *Audit of Veterans Health Administration's Oversight of Nonprofit Research and Education Corporations*, Project No. 2007-00564-R9-0065 (WebCIMS 401888)

To: Assistant Inspector General for Auditing (52)

1. I have carefully reviewed your draft report, and I concur with the findings and recommendations. While VA Nonprofit Research and Education Corporations (NPCs) are effectively fulfilling their congressional mandate to serve as a flexible funding mechanism for advancing VA-approved research and education, your report shows that some additional oversight of NPCs would be appropriate. To improve management oversight and effectiveness, I will ensure that VHA takes the necessary actions to implement more stringent internal controls at NPCs.

2. To this end, I have directed the VHA Office of Research and Development (ORD) to convene a multi-disciplinary steering committee to address the issues highlighted in this report, develop strategies to improve oversight, and take specific actions to ensure that NPCs effectively and legally manage research and education funds. As part of this effort, the steering committee will revise and update VHA Handbook 1200.17, *VA Research and Education Corporations Authorized by Title 38 United States Code Sections 7361 through 7368*, to incorporate new authorities and provide the guidance necessary for effective oversight.

3. Attached is VHA's complete plan of corrective action, which provides a summary of specific initiatives that appropriately address identified issues in the report. Thank you for the opportunity to review the draft report. If you have any questions, please contact Margaret M. Seleski, Director, Management Review Service (10B5) at (202) 565-7638.



Michael J. Kussman, MD, MS, MACP

Attachment

Under Secretary for Health Comments

VETERANS HEALTH ADMINISTRATION Action Plan OIG Draft Report Audit of Veterans Health Administration's Oversight of Nonprofit Research and Education Corporations Project No: 2007-00564-R9-0065		
Recommendations/ Actions	Status	Completion Date
<p>We recommend that the Under Secretary for Health:</p> <p><u>Recommended Improvement Action(s) 1:</u> Prepare a recommendation to the Secretary defining the oversight authorities of the NPOB, CFO, and NPPO and update VHA Handbook 1200.17 to incorporate those authorities.</p> <p>Concur</p> <p>VHA Office of Research and Development (ORD) will develop a charter to convene a steering committee in order to address underlying structural issues related to governance and finance and to formulate specific policy that clearly defines the oversight authorities of the VA Nonprofit Corporation Oversight Board (NPOB), VHA Chief Financial Officer (CFO), and VA Nonprofit Research and Education Corporation Program Office (NPPO). In addition to other matters, specific attention and emphasis will be given to governance, including conflict of interest, and financial considerations. Of specific importance will be the roles of the medical center and VISN tiered lines of authority in relation to the NPCs. This steering committee will be comprised of representatives from ORD, Deputy Under Secretary for Health for Operations and Management (including VISN and medical center representatives), VHA Office of Research Oversight, VHA Office of Finance, VHA Office of Academic Affiliations, and the Office of General Counsel (OGC). The steering committee will be responsible for developing and agreeing upon specific policy that will enable the NPOB, CFO, and NPPO to effectively provide programmatic direction and clarification to the NPCs by September 30, 2008. After policy development, the Under Secretary for Health will make the necessary recommendations to the Secretary, VA and direct ORD to update VHA Handbook 1200.17 to incorporate these new authorities by December 31, 2008.</p>		
<p>In Process</p> <p style="float: right;">12/31/08</p>		
<p><u>Recommended Improvement Action(s) 2:</u> Strengthen NPPO procedures for following up on recommendations in independent audit reports on NPC financial statements and reviewing NPC submissions for the annual report to Congress.</p> <p>Concur</p> <p>The VHA Chief Financial Officer in coordination with the Deputy Under Secretary for Health for Operations and Management (DUSHOM) will exercise financial oversight of all VA NPCs</p>		

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through a tiered structure using the current VISN and medical center administrative structures to ensure compliance with financial policies and guidance by all VA NPCs. The VISN committees created as part of the tiered oversight and review structure will ensure that semi-annual independent management and financial reviews are conducted for each NPC located within their areas. The results of these reviews will be reported through the DUSHOM, the VHA Chief Financial Officer, the steering committee, and an expert working committee formed by the VHA Office of Research and Development (ORD) to the VA Nonprofit Corporation Oversight Board (NPOB). Each review will include an assessment of compliance with financial policy guidance, requirements related to internal control and conflicts of interest, findings and recommendations in annual independent audit reports for each NPC, submissions for the annual report to Congress, management of funds, and safeguarding of equipment.

The aforementioned multi-disciplinary expert working committee will include, but not be limited to, representatives from ORD, DUSHOM, Office of Research Oversight, Office of Finance, and VISNs/medical centers. This expert working committee will focus on immediate, short-term recommendations for improving NPC oversight and controls rather than the more-structural and long-term focus of the steering committee. The expert working committee will report to the VA Nonprofit Research and Education Corporation Program Office (NPPO). The working committee will present its analyses and recommendations to the steering committee and if approved will present final recommendations to the NPOB for implementation through the medical centers and VISN.

Lastly, ORD plans to hire a senior level administrator and staff to provide policy guidance to the NPCs, overall oversight to the NPPO, steering committee, and expert working committee and support to the NPOB. This administrator will be a member of the NPOB.

In Process

09/30/08

Recommended Improvement Action(s) 3: Revise VHA Handbook 1200.17 to clearly define minimum control requirements for all NPCs and provide training to NPC Directors on these requirements.

Concur

Upon receiving policy direction from the aforementioned steering committee, VHA Office of Research and Development (ORD), in conjunction with VHA Office of Finance and Office of General Counsel (OGC), will revise and update VHA Handbook 1200.17 to clearly define minimum control requirements for all NPCs by December 31, 2008. In the interim, VHA will issue guidance to the field defining minimum control requirements through ORD conference calls, the VHA Intranet, and via written communications as necessary. In addition, ORD, in coordination with the VA Employee Education System, has developed and plans to shortly deploy a web-based education program entitled "Internal Controls for Nonprofit Research and Education Corporations," which includes guidance on effective controls over the administration of funds used for research and education activities at NPCs. This program specifically addresses how to properly govern and manage the nonprofit corporation and guard against conflicts of interest. ORD, in coordination with OGC, is currently developing a directive to announce this training for VA NPC statutory board members and other participants as

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appropriate. Upon completion of the directive, the Under Secretary for Health will formally release the program, emphasizing its importance and outlining the necessary requirements to complete the training.

In Process

12/31/08

Recommended Improvement Action(s) 4: Develop and implement oversight procedures to perform substantive reviews of NPC financial and management controls to ensure NPCs fully comply with Federal laws, VHA policies, sponsor agreements, and control standards.

Concur

The VHA Chief Financial Officer in coordination with the Deputy Under Secretary for Health for Operations and Management (DUSHOM) will exercise financial oversight of all VA NPCs through a tiered structure using the current VISN and medical center administrative structures to ensure compliance with financial policies and guidance by all VA NPCs. The VISN committees created as part of the tiered oversight and review structure will ensure that semi-annual independent management and financial reviews are conducted for each NPC located within their area. The results of this review will be reported through the DUSHOM, the VHA Chief Financial Officer, the steering committee, and an expert working committee formed by the VHA Office of Research and Development (ORD) to the VA Nonprofit Corporation Oversight Board (NPOB). This review will include an assessment of compliance with financial policy guidance, requirements related to internal control and conflicts of interest, findings and recommendations in annual independent audit reports for each NPC, submissions for the annual report to Congress, management of funds, and safeguarding of equipment.

In Process

09/30/08

Recommended Improvement Action(s) 5: Develop and implement procedures to review, monitor, and enforce NPC compliance with conflict of interest laws and policies.

Concur

To respond directly to each specific conflict of interest finding in the OIG draft report, the Deputy Under Secretary for Health for Operations and Management (DUSHOM) will identify which NPC employees did not comply with Federal laws, regulations, and VA policies applicable to conflicts of interest and take the necessary steps to ensure complete compliance.

Furthermore, the senior level administrator overseeing the NPC program within the Office of Research and Development (ORD), as described in response to Recommendation 2, will consult with the NPC directors on a regular basis to ensure their understanding of VA policies, particularly with regard to conflict of interest rules and regulations and required financial controls. ORD staff responsible for overseeing the NPC program will visit NPCs on a regular basis to discuss these policies and any difficulties the NPC director may be having implementing policies. Moreover, in order to ensure that all NPC employees prescribe to the tenets of 38 USC § 7366, ORD, through the VA Nonprofit Research and Education Corporation

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Program Office (NPPO), will enforce NPC compliance by annually collecting the required signed statements of the executive director of each corporation, which verify that each corporation director and employee has certified awareness of the conflict of interest laws and regulations referred to in paragraph 7366(c)(1). The NPPO will also monitor a sample of the corporations each year to determine whether the underlying verifications of the directors and employees of the corporation indeed exist and were collected by the corporation and support the executive director's annual statement. In addition, NPPO will work with the Office of General Counsel to further identify, develop, and implement any additional administrative controls to enforce NPC compliance on issues related to conflict of interest, which are found to be advisable.

In Process

07/31/08

OIG Contact and Staff Acknowledgments

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Acknowledgments	Thomas McPherson Dennis Capps Debra Cato Jessica Blake Elizabeth Butler Kristopher Kasey Johnny McCray
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