



**Department of
Veterans Affairs**

Office of Inspector General

REVIEW OF NONPROFIT CORPORATIONS ESTABLISHED IN THE VETERANS HEALTH ADMINISTRATION

*Achievement of VHA's missions is enhanced
through its involvement with nonprofit entities.*

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DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420

Memorandum to the Under Secretary for Health (10)

**Review of Nonprofit Corporations Established in the
Veterans Health Administration**

1. The Office of Inspector General (OIG) conducted a national review of the Department of Veterans Affairs (VA) nonprofit corporate entities that were primarily established to conduct or facilitate Veterans Health Administration (VHA) missions. The objectives of the review were to: (i) identify nonprofit corporations (NPCs) established within VHA; (ii) assess their relationships with VA and VA employees; and, (iii) follow-up on the implementation of VHA operational policy for research NPCs. We concluded that achieving VHA's missions is enhanced through involvement with nonprofit entities and that operational policy for research NPCs has been implemented. The scope of our review did not include the propriety of expenditures made by NPCs.

2. The review included NPCs that provide child-care, compensated work therapy (CWT), cooperative education, and research, which meet the definition of corporate entities that were established to conduct or facilitate VA missions. We contacted program officials to determine the location and quantity of these entities, current operational policy, and the extent to which VA employees were involved in these corporate activities. Since information in VHA program offices was limited, we sent a survey questionnaire to 153 VHA facilities which resulted in the identification of the following NPCs by mission area:

<u>NPC</u>	<u>No.</u>
Child-care corporations	44
VA-based CWT corporations	8
Cooperative education corporations	9
Research corporations	83

3. We found that overall, VHA's ability to achieve its mission is enhanced through involvement with nonprofit entities. Child-care corporations provide a benefit to VA employees, aiding in VA's recruitment of quality health care practitioners and makes VA an employer of choice. Additionally, some of these child-care corporations assist veterans with young children while they are attending to matters at the VHA facility. CWT corporations facilitate rehabilitation of veterans by providing an additional opportunity for using a work regimen with monetary incentives. Cooperative Health Manpower Education Programs (CHEPs) provide continuing education for VA and community health care practitioners. Research corporations facilitate VA's research program by providing a mechanism for obtaining research funds from external sources.

4. VA policy generally limits VA employee involvement in NPC activities. VHA has issued policy addressing the relationships of its employees with research and CWT corporations and has drafted a policy that explains the extent of employee involvement for child-care corporations. VA employees may not serve in any capacity for CWT corporations, while certain employees are required to serve on the board of directors for research NPCs. VA employee involvement is limited to voluntary participation with child-care NPCs during non-duty hours. Policy concerning employee education programs do not address relationships between VA employees and CHEPs. VA's Office of General Counsel (OGC) has issued opinions to clarify relationships with CHEPs, generally holding that VA employees can participate in CHEP corporate activities, but cannot control the corporation. We did not review the actual involvement of VA employees in these NPCs due to the magnitude of locations.

5. We sent a survey questionnaire to VA's 83 nonprofit research corporations to aid in determining if VHA had implemented operational policy for these NPCs and to obtain general background information. Additionally, we made site visits to two research corporations and reviewed the annual reports of operations required to be submitted by the corporations. From responses to our questionnaire, site visits we made, and review of information reported to VHA, we found that VHA's May 1994 operational policy for research NPCs had been implemented.

6. During our review, we made the following observations about NPCs and VA employee relations with the NPCs:

- Our review of OIG Hotline and Special Inquires Division data found that there had not been a significant number of complaints filed in the last 2 years concerning VA employee involvement with nonprofit corporations. However, some questionable employee involvement with CWT and CHEP corporations were identified during our review. While VHA policy does not permit VA employees to participate in CWT nonprofit corporate activities, two facilities reported in their response to our survey questionnaire that staff had worked for nonprofit CWTs. One case concerning potential conflicts of interest was under review by our Hotline and Special Inquires Division prior to our review. In the other case, an employee was working part-time for both VA and the nonprofit CWT. Regarding VA employee relationships with CHEPs, we found that at one CHEP location a significant portion of a VA employee's duties included performing CHEP-related work as the CHEP director. The VAMC Director requested that VA's OGC make a determination as to the appropriateness of this relationship. Additionally, VHA program officials have requested that OGC ensure that VA's involvement with all nine CHEPs is consistent with current legislative statutes.
- Our review of nonprofit research corporations found that one VAMC provided radiology and laboratory services to an affiliated medical school, but the research NPC (not the VAMC) billed and was paid by the school for the services. Arrangements for use of VAMC services were not made through the VAMC's contracting office. In one case, the research NPC contracted with the medical school to sell the school limited magnetic resonance imaging (MRI) services performed by the VAMC. According to corporation and VAMC officials, the corporation planned to eventually provide the VAMC "in-kind"

reimbursements. Over approximately a 2-year period, about \$40,000 was accumulated from this process. This matter was discussed with staff of the OGC and VHA's Office of Research and Development in order to determine the appropriateness of this arrangement. Subsequently, the Office of Research and Development in conjunction with OGC, sent a memorandum to the VAMC stating that this practice was inappropriate. We are referring this matter to you because we were told by VAMC and corporation staff that this situation may be occurring at other VA research corporations, and therefore, the inappropriateness of this arrangement should be communicated to all NPCs and VAMC Directors.

7. These observations are brought to your attention for further review and management action as you deem appropriate. We do not plan to conduct any further work in these areas at this time, and since we are not making formal recommendations, an official response to this report is not required.

For the Assistant Inspector General for Auditing

[Signed]

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OBJECTIVES, SCOPE, AND METHODOLOGY

As part of our coverage of VA programs and operations, the OIG conducted a national review of nonprofit corporate entities established in VHA. The purposes of the review were to: (i) determine the number and types of nonprofit corporate entities that exist in VHA's health care system; (ii) assess VA employee relationships with those entities; and, (iii) evaluate implementation of VHA's 1994 policy on the operation and management of VHA's 83 nonprofit research corporations. The scope of our review did not include the propriety of expenditures made by NPCs.

We limited our scope to those nonprofit corporate entities that were established primarily to conduct or facilitate VA missions and were located at VHA facilities. To identify the number and types of these entities, we first contacted VA's Office of General Counsel and various program officials in VA. Additionally, we sent a questionnaire that also included requests for background information on nonprofit entities, to VHA's 153 medical facilities. During the review, we interviewed program officials of nonprofit entities for research, child-care, compensated work therapy, and education-related activities. We conducted onsite visits at three VA medical centers.

The review was conducted in accordance with government auditing standards for qualifications, independence, and due professional care.

BACKGROUND

Nonprofit corporations included in our review were those that were (i) established to primarily conduct or facilitate VA missions; (ii) incorporated according to State regulations; and, (iii) exempted from federal income taxation, according to the Internal Revenue Service Code for nonprofit corporations (NPCs). The following types of nonprofit corporate entities are discussed in this report.

Child-Care Centers

There are 44 nonprofit child-care centers located on VHA-owned property that provide day-care services to children of VA employees. According to VHA's draft policy on the operation of child-care centers, VA employee involvement is limited to voluntary participation on child-care boards of directors during non-duty hours and they do not represent VA in such positions.

Title 38, United States Code, Section 7809, provides the Secretary with authority to operate child-care centers at VA facilities. Establishment of the centers is to be based on: (i) the Secretary's determination of a demand for child-care; (ii) the operation being in the best interest of VA; and, (iii) the practicality of establishment of the corporation. The child-care centers are to be available for children of VA employees and on a space-available basis, to children of other Federal employees and certain other groups. The Secretary is to establish reasonable charges for the child-care services provided by the centers, including those for centers operated directly by a VA facility.

The Secretary should also provide for participation of parents of children receiving child care in the establishment of policy governing the centers and oversight of implementation of those policies. Further, the Secretary should establish a process for determining the fitness and suitability of prospective employees or volunteers at the child-care centers, and require that they operate according to State and local laws.

VA-Based Nonprofit Compensated Work Therapy (CWT) Corporations

There are 85 VA in-house CWT programs and 8 VA-based nonprofit CWT corporations. VA's CWT programs rehabilitate patients by using a work regimen with monetary incentives obtained from contracts with non-VA entities. Patients are paid for their work depending on their productive capabilities. The program is intended to induce motivation, increase self-esteem, and break institutional patterns, all of which are designed to increase patients' potential for adjustment and reentry into the community (VHA Handbook 1103.1, Chapter 4, para. 4.04b, p. 4-11, March 27, 1996).

VAMCs with both in-house and nonprofit CWT programs co-mingle workload data when reporting to program officials. As a result, program officials could not differentiate between in-house and the NPC CWT operations. Program officials recognized the need to obtain separate data on nonprofit CWTs to ensure they were operating appropriately,

were fiscally accountable to VA, and were taking action to improve reporting of CWT NPC activities.

VA has had CWT type programs in place since the 1930s¹. In 1976, Public Law (PL) 94-581 amended CWT legislation and clarified VA's authority to conduct CWT programs as they existed at the time. Congressional Committee Members expected that existing CWT projects would continue in their existing form, stating that they wanted to permit existing nonprofit CWT entities to continue, but under VA fiscal control. The 1976 Law authorized VA to enter into arrangements with both (i) sources outside VA, including private industrial and commercial enterprises; and, (ii) nonprofit entities. It required VA to establish appropriate fiscal, accounting, management, record keeping, and reporting requirements over the VA-based nonprofit CWT entities that continued to exist.

VHA's policy provides that only VA-based nonprofit CWT corporations which were associated with VA's Veterans Industries and CWT (VI/CWT) programs on the date PL 94-581 became effective (October 21, 1976), are to be considered by VA for contractual agreements. Additionally, VHA policy prohibits VA employees from serving in any capacity for any nonprofit entity with which VA contracts in connection with the VI/CWT Program. The policy further states that VA employees may not serve as officers or members of boards of directors of nonprofit entities with which VA has contracts.

Cooperative Health Manpower Education Programs (CHEPs)

CHEPs originated from a VA response to a 1970 Carnegie Commission Report entitled "Higher Education and the Nation's Health," which focused on manpower shortage areas. The report recommended establishing area health education centers to provide medically-related education in rural areas, with the rationale that educational institutions and health care facilities could more effectively address their common local health manpower and education needs by working together and sharing resources. VA-supported CHEPs were formed to integrate VA educational programs and resources with community educational programs, thereby minimizing duplication while maximizing resource availability. CHEPs have incorporated as nonprofit entities for income taxation purposes, so that they can collect money for registration fees and grants. VHA policy on CHEPs is contained in VHA Manual M-8, Part IV, Chapter 3.

CHEPs are authorized by 38 U.S.C. 8154(c) which provides that VA may enter into agreements with public and nonprofit private institutions, organizations, corporations, and other entities, in order to participate in cooperative health care personnel education programs within the geographic area of any VA health care facility located in an area remote from major academic health centers. The OGC has issued opinions to clarify CHEPs' relationship with VA and its employees, generally holding that VA employees can participate in CHEP corporate activities, but cannot control the corporation. CHEP Directors are usually VA employees and often also manage VA's Employee Education

¹Legislative History from Public Law 94-581, Omnibus Health Care Act of 1976, p. 6405.

Program. While the majority of CHEP funding is from non-VA sources, VA provides some financial and staffing support.

VHA Nonprofit Research Corporations

VHA is required to conduct a program of medical research, including health services and rehabilitation research and development, in order to more effectively carry out its primary function of providing medical and hospital service to veterans, and also to contribute to the Nation's knowledge about disease and disability. Prior to 1987, non-appropriated funds for VHA-approved research were generally administered either through the General Post Fund (GPF) or an affiliated medical school. In May 1988, Congress passed PL 100-322 which included a section that authorized VHA to establish research NPCs for a limited period of time. There are currently 83 VA nonprofit research corporations.

The statutory purpose of nonprofit research corporations was to provide a funding mechanism for VA-approved research. According to the authorizing law, research NPCs were not to receive or administer funds for any other purpose. VHA was also required to provide an annual report to Congress listing the research NPCs and the contributions they received each year. VA reported \$38 million, \$49 million, and \$63 million in revenues to Congress in the annual reports for 1994, 1995, and 1996, respectively. On October 9, 1996, the President signed PL 104-262 that re-authorized VHA to establish research NPCs through December 31, 2000, and increased reporting and accountability requirements.

To comply with the reporting requirements to Congress, VHA requires each of its nonprofit research corporations to annually provide information, such as copies of prior year income tax returns, lists of corporate employees, corporate officer compensation, and other items. VHA has designated the nonprofit research corporation at VAMC Richmond as the current collection point for this information. In our opinion, VAMC Richmond has done a noteworthy job of collecting the information about research NPCs and identifying variances in program and operating data. They have presented information at national research NPC conferences to facilitate more consistent reporting

LISTS OF NONPROFIT CORPORATIONS

TABLE 1 LOCATIONS OF CHILD-CARE CORPORATIONS ON VHA-OWNED PROPERTY	
Albany, New York	Murfreesboro, Tennessee
Altoona, Pennsylvania	New York, New York
Ann Arbor, Michigan	North Chicago, Illinois
Battle Creek, Michigan	Northampton, New York
Boston, Massachusetts	Northport, New York
Brockton, Massachusetts	Palo Alto, California
Brooklyn, New York	Pittsburgh, Pennsylvania
Buffalo, New York	Portland, Oregon
Castle Point, New York	Salem, Virginia
Chillicothe, Ohio	Salt Lake City, Utah
Danville, Illinois	San Francisco, California
Dayton, Ohio	Sioux Falls, South Dakota
Fort Meade, North Dakota	St. Cloud, Minnesota
Hines, Illinois	Syracuse, New York
Knoxville, Iowa	Tomah, Wisconsin
Lebanon, Pennsylvania	Topeka, Kansas
Long Beach, California	Tucson, Arizona
Madison, Wisconsin	Tuscaloosa, Alabama
Martinez, California	Walla Walla, Washington
Milwaukee, Wisconsin	West Roxbury, Massachusetts
Minneapolis, Minnesota	White River Junction, Vermont
Montrose, New York	Wilmington, Delaware

TABLE 2 VHA SITES AUTHORIZED TO HAVE VA-BASED NONPROFIT CWT CORPORATIONS			
VAMC Location	Active	Inactive	Closed
American Lake, Washington	X		
Augusta, Georgia	X		
West Los Angeles, California		X	
Dallas, Texas			X
Leavenworth, Kansas	X		
Lexington, Kentucky			X
Little Rock, Arkansas		X	
Oklahoma City, Oklahoma	X		
Palo Alto, California	X		
Salt Lake City, Utah			X
Sepulveda, California	X		
TOTALS	6	2	3

TABLE 3 LOCATIONS OF COOPERATIVE EDUCATION CORPORATIONS
VHA Location
Boise, Idaho
Dublin, Georgia
Erie, Pennsylvania
Fort Meade, South Dakota
Lincoln, Nebraska
Perry Point, Maryland
Prescott, Arizona
Togus, Maine
Tuskegee, Alabama

APPENDIX III

**TABLE 4
LOCATIONS OF VHA RESEARCH NPCs**

VAMC Location	1995 Revenue	1996 Revenue ²	VAMC Location	1995 Revenue	1996 Revenue
Albany, New York	298,155	555,661	Manchester, New Hampshire	0	0
Albuquerque, New Mexico	630,716	865,505	Martinez, California	1,311,869	1,566,243
Detroit, Michigan	364,180	484,157	Memphis, Tennessee	474,195	1,456,902
Amarillo, Texas	0	6,373	Miami, Florida	1,915,497	3,391,608
American Lake, Washington	157,828	426,346	Minneapolis, Minnesota	78,974	454,999
Ann Arbor, Michigan	272,808	378,672	Montrose, New York	0	120,586
Asheville, North Carolina	60,374	21,018	Murfreesboro, Tennessee	26,271	24,709
Atlanta, Georgia	543,968	1,306,814	North Chicago, Illinois	48,559	189,424
Augusta, Georgia	252,268	401,944	Nashville, Tennessee	246,463	347,111
Baltimore, Maryland	445,437	577,761	New Orleans, Louisiana	0	0
Battle Creek, Michigan	1,013	2,097	New York, New York	0	0
Bay Pines, Florida	855,340	1,030,276	Newington, Connecticut	2,664	300
Birmingham, Alabama	69,829	117,305	Northport, New York	374,446	442,781
Boston, Massachusetts	293,917	320,878	Oklahoma City, Oklahoma	194,015	334,534
Brockton, Massachusetts	212,383	404,334	Omaha, Nebraska	77,343	245,684
Bronx, New York	372,503	737,059	Palo Alto, California	2,644,085	3,393,586
Brooklyn, New York	64,059	270,632	Pittsburgh-HD, Pennsylvania	0	167,750
Buffalo, New York	204,849	259,127	Pittsburgh-UD, Pennsylvania	522,540	971,315
Castle Point, New York	0	0	Portland, Oregon	1,232,408	1,729,594
Chicago-Lakeside, Illinois	120,901	301,666	Providence, Rhode Island	312,338	84,957
Chicago-Westside, Illinois	264,073	333,373	Reno, Nevada	1,268,208	1,253,803
Cincinnati, Ohio	57,118	111,534	Richmond, Virginia	1,835,695	2,321,760
Cleveland, Ohio	0	0	Salem, Virginia	199,126	970,947
Columbia, Missouri	113,537	226,483	Salt Lake City, Utah	860,065	940,933
Dallas, Texas	861,878	1,638,876	San Antonio, Texas	1,764,839	1,507,716
Des Moines, Iowa	1,946	19,277	San Diego, California	2,107,625	2,016,691
Durham, North Carolina	625,907	645,550	San Francisco, California	3,022,712	4,155,320
East Orange, New Jersey	653,426	573,721	San Juan, Puerto Rico	332,081	610,695
Fresno, California	0	Inactive	Seattle, Washington	1,487,351	2,930,617
Hines, Illinois	1,714,349	2,159,025	Sepulveda, California	591,471	508,090
Honolulu, Hawaii	0	0	Shreveport, Louisiana	0	0
Huntington, West Virginia	0	46,000	Sioux Falls, South Dakota	2,233	3,476
Indianapolis, Indiana	349,827	204,005	St. Louis, Missouri	203,673	241,120
Jackson, Mississippi	60,674	129,864	Syracuse, New York	1,537,988	1,145,429
Kansas City, Missouri	1,184,509	1,184,005	Temple, Texas	0	7,205
Knoxville, Iowa	2,074	1,039	Tucson, Arizona	1,378,462	1,505,601
Lexington, Kentucky	0	0	Tuscaloosa, Alabama	0	Inactive
Little Rock, Arkansas	645,016	927,683	Washington, DC	1,196,186	1,209,663
Loma Linda, California	3,032,268	2,676,552	West Los Angeles, California	4,033,400	4,400,633
Long Beach, California	1,706,533	1,456,081	West Haven, Connecticut	0	0
Louisville, Kentucky	609,949	577,991	White River Junction, Vermont	278,607	477,364
Lyons, New Jersey	90,500	5,000	TOTALS	\$48,755,501	\$62,516,830

²1996 revenue data collected by VAMC Richmond as of October 1996.

