



Department of Veterans Affairs (VA) Affiliated Non-Profit Research and Education Corporations (NPC)

2008 Annual Report

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Veterans Health Administration
(VHA) Nonprofit Program Office



Veterans Health Administration
**Research
Development** 
Improving Veterans' Lives www.research.va.gov

2008 VA-Affiliated Nonprofit Research and Education Corporations Annual Report

EXECUTIVE SUMMARY

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I. BACKGROUND

In 1988, Congress passed Public Law 100-322 that permitted the Secretary of Veterans Affairs to authorize the establishment of Nonprofit Research Corporations (NPCs) at VA medical centers (VAMCs). This formed a unique partnership to conduct VA-approved research. Public Law 100-322 allowed the establishment of private, state-chartered, nonprofit entities to provide flexible funding mechanisms for the administration of funds, other than those appropriated to VA, for the conduct of VA-approved research. The initial purpose of VA-affiliated NPCs was to support research at VAMCs. In 1999, Congress expanded NPCs' authority to include support for VA's education and training missions.

In June 2009, NPCs reported expending a total of **\$243,514,458** during the 2008 reporting period. These expenditures financed research projects and their supporting infrastructure, as well as salaries, equipment, and other research and/or education-related costs. The sources of these funds were non-VA Federal agencies, private sector companies, charitable foundations, professional societies, other nonprofit entities, individuals, state and local governments, and universities. Because the statutory purpose of NPCs is to facilitate VA research and/or education, all funds expended must support those activities with the exception of funds that cover NPC management,

II. NPCs' ROLE IN SUPPORT OF VA RESEARCH & EDUCATION

NPCs support VA research and education programs in six major ways:

1. NPCs provide a flexible funding mechanism for the administration of private and public grants provided in support of VA-approved research. NPC-administered research funds provide support for VA research and thereby compliment and leverage appropriated VA research funding.
2. NPCs provide additional resources to VA that ultimately benefit Veterans' medical care. Nurses and clinicians who participate in research projects also provide care for Veterans during the course of studies. Computers, copiers, and medical equipment are among the many purchases made by NPCs that also directly or indirectly enhance care for Veterans.
3. NPC-administered research facilitates Veterans' access to the latest drugs and state-of-the-art technology. By participating in the development of treatments, Veterans are offered new medications in a closely supervised setting. Veterans benefit from the improved treatments and the extra care received when they participate in VA-approved research.

4. NPCs' administrative costs are generally well below industry norms compared to other medical research institutions. As a result, NPCs are able to maximize the benefits VA derives from the funds they administer.
5. NPCs support VA personnel training designed to improve performance of current duties; assist employees in maintaining or gaining specialized proficiencies; and expand understanding of advances or changes in patient care, technology, and healthcare administration. Examples of education activities supported by NPCs include scientific conferences, training for research compliance personnel, and education in bio-safety and bio-security for staff. Moreover, NPCs support medical education for Veteran patients and their families such as training in diabetes management.
6. NPC-administered research indirect costs are defrayed in part by indirect cost reimbursements from non-VA Federal sources. Indirect costs of research are those that cannot readily be attributed to a single research project and are categorized as administrative costs (e.g., human studies oversight, financial administration, and purchasing) and facilities costs (e.g., operational and maintenance costs at the facility where the research is conducted). While the direct costs (e.g., employee salaries, supplies, equipment) are itemized, indirect costs are estimated as a percentage of direct costs. In recent years, some VA-affiliated NPCs have obtained Department of Health and Human Services (HHS) approved indirect cost rates—referred to as Facilities and Administration (F&A) rates - and are administering National Institutes of Health (NIH) and/or Department of Defense (DoD) grants for VA researchers.

III. NPC LOCATIONS

VAMCs throughout the country have long recognized the benefit of establishing NPCs to help support the conduct of VA approved research and education activities. During the 2008 reporting period, 85 NPCs were located in 41 States, Puerto Rico, and Washington, DC. Of these, 84 reported financial activity. One NPC in Lexington, Kentucky, reported no financial activity and is not included in any data provided in this report. The highest concentrations of NPCs were located in (1) California with eight; (2) New York with seven; and (3) Texas with five. During the 2008 reporting period, there were 65 research and education NPCs, 17 research-only NPCs and 2 education-only NPCs.

IV. ANNUAL REPORTING

Under sections 7361-7366 of title 38 of the U.S. Code (U.S.C.), NPCs must submit to the Secretary of Veterans Affairs, a detailed statement of their operations, activities and accomplishments during the previous year. Veterans Health Administration (VHA) Handbook 1200.17, *VA Research and Education Corporations Authorized by Title 38 United States Code (U.S.C.) Sections 7361 through 7366*, requires each NPC to submit an annual report to VA's Chief

Research & Development Officer on or before June 1 of each year. VA's Nonprofit Program Office (NPPO), located in the Veterans Health Administration (VHA) Office of Research and Development, reviews the NPC annual reports and is responsible for summarizing the information for the NPC Annual Report to Congress. The information submitted by NPCs consists of, but is not limited to, the IRS Form 990 – *Return of Organizations Exempt from Income Tax*, audited financial statements with management letter (if applicable), and related funding and expenditure information.

Examination of IRS Form 990 data plays a major role in the NPPO's evaluation of each NPC's financial activity. Most of the analyses focus on the NPC's revenues, expenditures, and net assets because these are some of the most accessible and reliable indicators of a nonprofit organization's performance and overall financial health.

In order to obtain a more balanced picture of NPC programmatic activity and additional substantive evidence of accountability, the NPPO reviews other documents such as the auditor's management letter, research and education project list, evidence of programmatic activities and accomplishments, and supplemental revenue and expenditure information. In addition, NPCs' audited financial statements are reviewed for reasonableness while taking into account any material weaknesses in internal controls and related recommendations noted by the NPC's independent auditor. Material weaknesses reported by auditors are tracked by the NPPO from one year to another to determine whether NPCs take corrective actions recommended by their auditors.

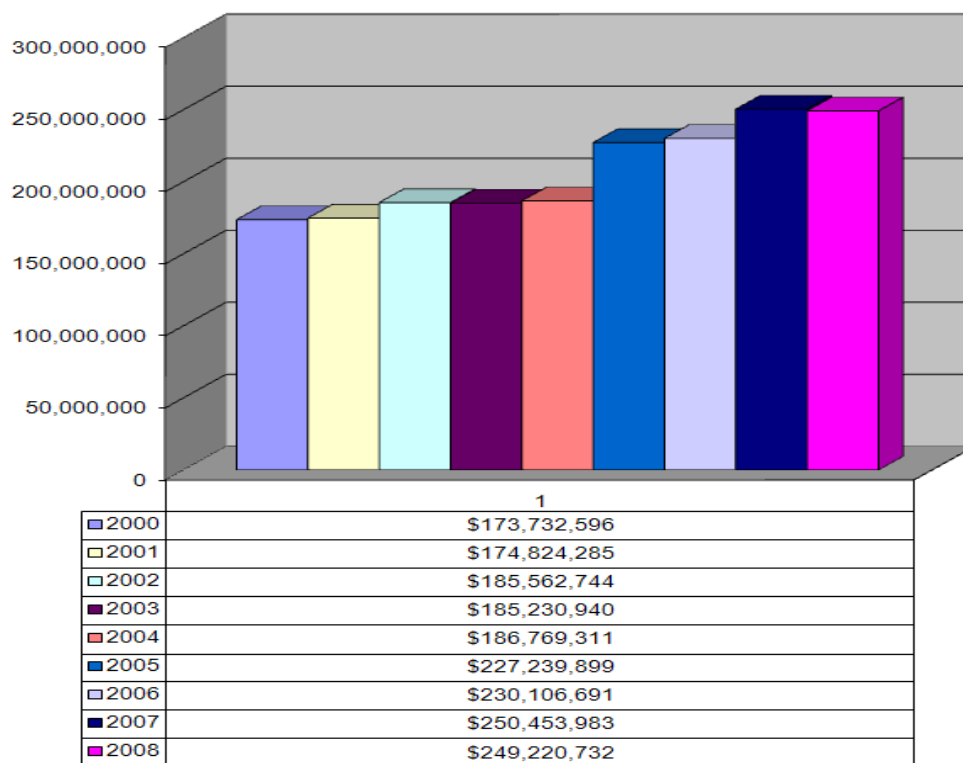
V. FINANCIAL REPORTING

Revenues

In June 2009 NPCs reported **\$249,220,732** in total revenues accrued during the 2008 reporting period including interest income and other miscellaneous receipts. This represents a less than one percent decrease in NPC revenues over the previous year. From 2000 to 2007, total NPC revenue trended upward. 2008 represents the first decline, though very minimal. Forty-three NPCs reported an increase in overall revenues compared to 35 during 2007, and 52 in 2006. The remaining 40 NPCs experienced a decline in revenues during the 2008 reporting period.¹

¹ Montgomery, Alabama began its operations in FY08, therefore is not included in the above count.

NPC
Annual Revenue
2000-2008

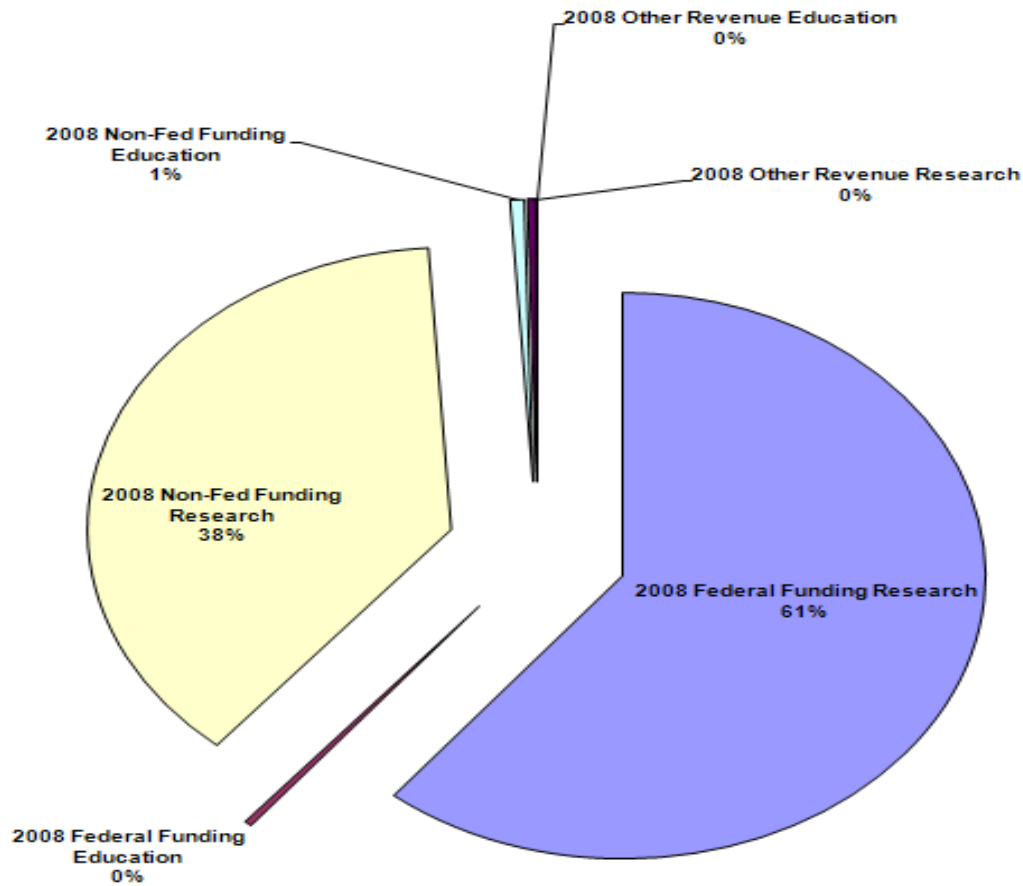


The median NPC revenue reported for 2008 was \$872,368 reflecting a less than one percent decrease. In 2008, the mean revenue was \$2.9 million and \$2.9 million in 2007, thus remaining unchanged. In 2008, the top three revenue-producing NPCs accounted for 38 percent of total revenue, an increase of 2 percent compared to 2007.

Revenue Range	Number of NPCs (2008)		Number of NPCs (2007)	Number of NPCs (2006)	Number of NPCs (2005)
Below \$500K	28	33%	29 (35%)	27 (33%)	33 (39%)
\$500K- \$1M	16	19%	13 (16%)	16 (19%)	14 (16%)
\$1M- \$ 10M	34	40%	34 (41%)	36 (44%)	34 (40%)
\$10M & Above	6	7%	6 (7%)	3 (4%)	4 (5%)
Total NPCs	84		82	82	85

Under the title 38 statutory reporting requirements, NPCs are required to report research and education revenues and expenditures separately. In addition, they must report revenues based on Federal or non-Federal (private) funding source. Ninety-nine percent of total revenue was received in support of research, while one percent was received in support of education. The remaining one percent was received from other sources such as interest income.

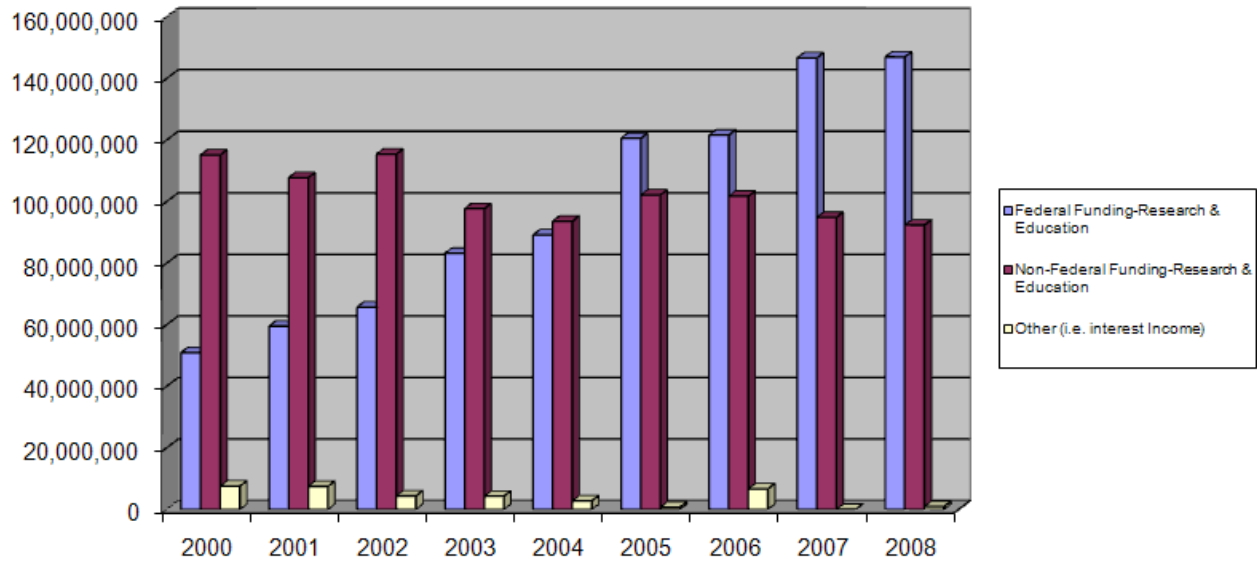
**NPC
Research & Education
Revenue by Funding Source**



As in the previous year, revenue from non-VA Federal research and education sources comprised the largest component of funding received by NPCs (approximately 61 percent). Revenues from Federal sources remained steady. However, revenue from non-Federal sources decreased by four percent from the 2007 amount of \$95 million to \$91.2 million for 2008. Other revenue sources increased from \$8.4 million in 2007 to \$9.8 million in 2008.

Funding from Federal agencies increased slightly over the prior year amount of \$146.7 million to \$147 million for 2008. In 2008, the number of NPCs reporting revenue from Federal sources (including VA) was 55, an increase from 48 NPCs reporting revenue in 2007.

NPC Revenue by Type 2000-2008

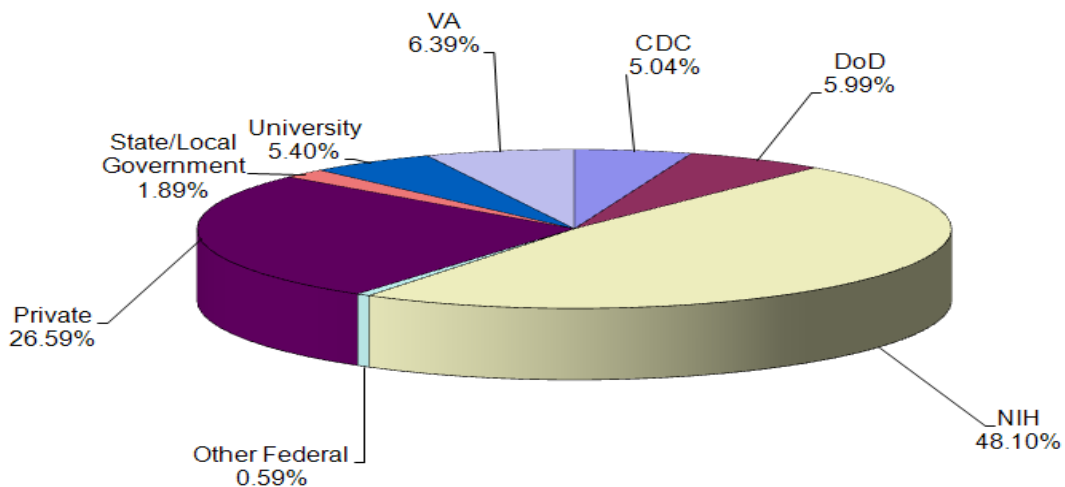


Funding Sources

NPCs continue to obtain funding from diverse sources including private sector companies, numerous foundations, universities, and Federal entities such as the NIH, DoD, and the Centers for Disease Control and Prevention (CDC). Funds coming to NPCs from VA are for Intergovernmental Personnel Act (IPA) reimbursements, or are funds from another agency or private entity that have been passed through VA to NPCs.

NPCs are required to identify the funding sources for receivables greater than \$25,000 (see chart below). For 2008, the total revenue received from these sources was \$227.8 million.

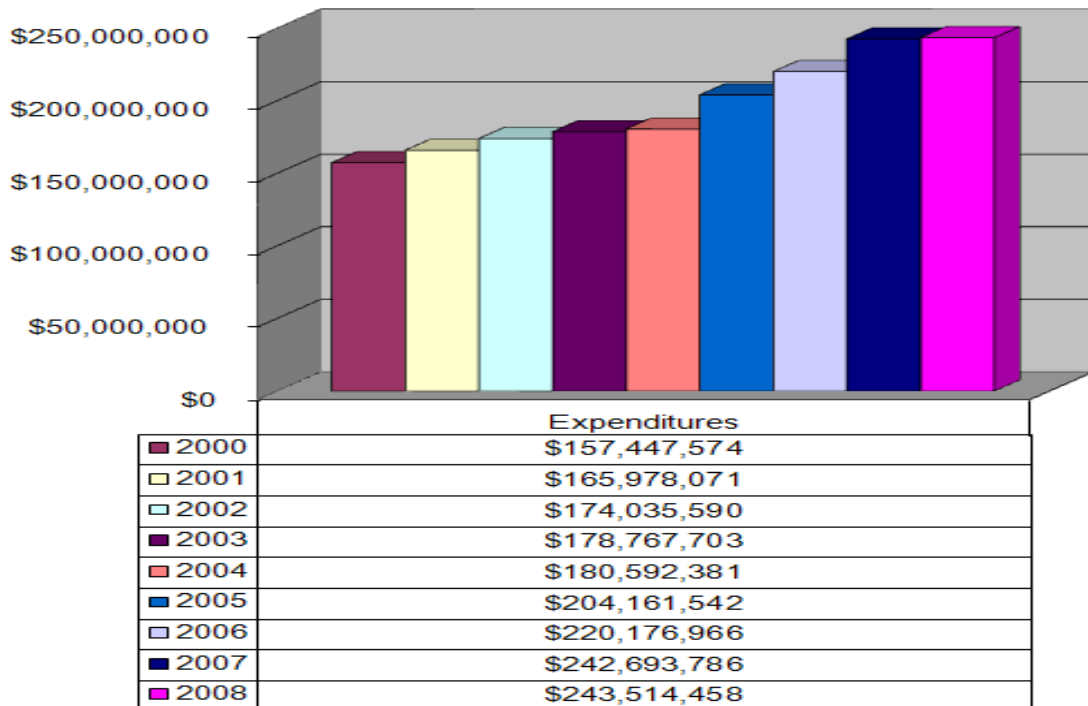
NPC 2008 Revenue by Funding Source >\$25,000



Expenditures

For 2008 the NPCs reported expenditures totaling \$243.5 million, less than one-half percent increase over 2007. As seen in the chart below, expenditures continue to trend upward, though slightly. Funds expended by NPCs are used to pay salaries for research, education and administrative personnel; purchase equipment, and supplies; maintain and upgrade research infrastructure and equipment; and support Institutional Review Boards (IRBs), as well as many other operational activities.

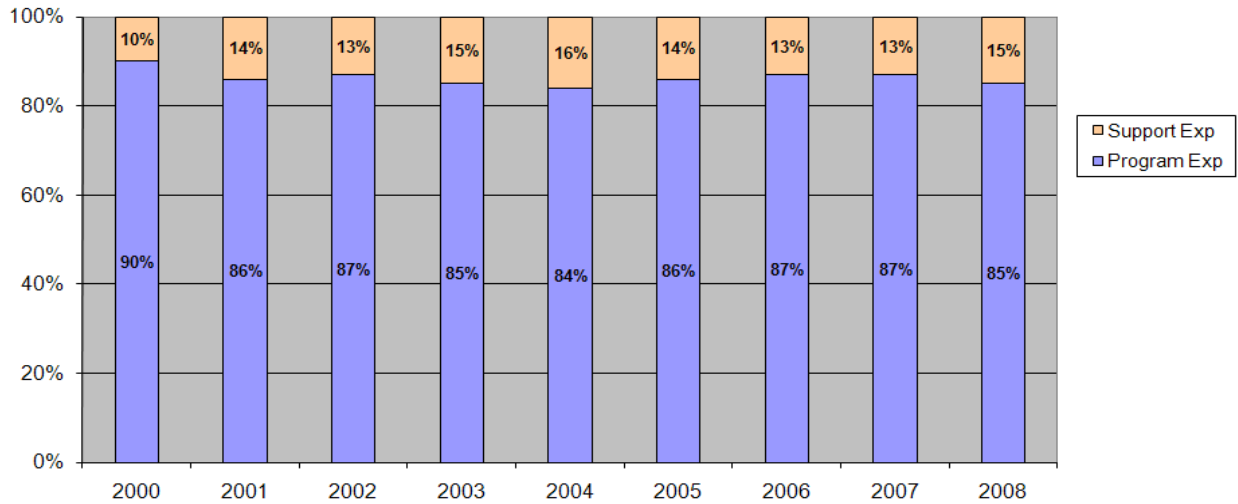
NPC Annual Expenditures



During the 2008 reporting period, approximately 50 percent of total expenditures covered research salaries and benefits for education and administration employees including: technicians, nurses, research coordinators, animal caretakers, data clerks and investigators. Approximately two percent of total expenditures covered travel to scientific and educational conferences and seminars. The remaining 48 percent represented other expenditures in direct support of VA research and education activities or NPC business operations.

NPCs continue to spend a small amount on administrative expenses, averaging 15 percent of expenditures (\$36.5 million) during the 2008 reporting period. This increase is due to the number of NPCs administering Federal funds.

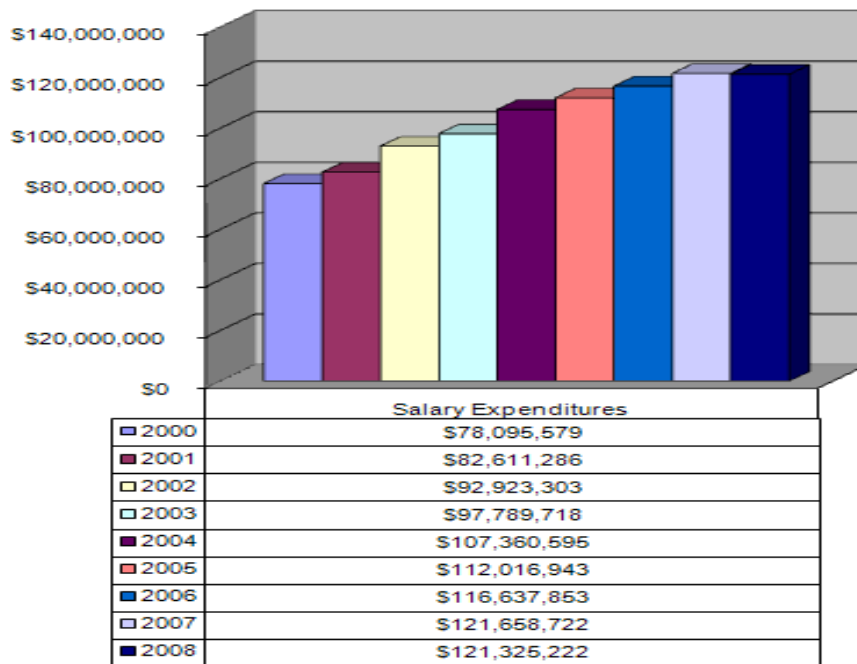
**NPC
Average Administrative Overhead
Management (Support) Expenditures vs Program Expenditures
2000-2008**



Salary

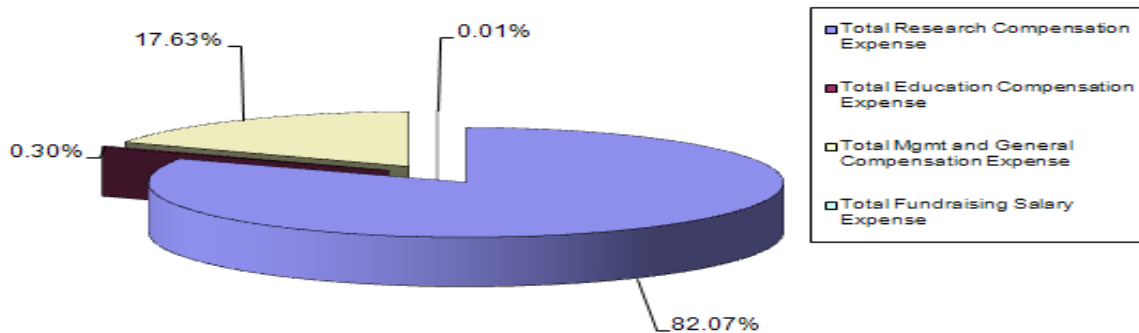
In 2008, 71 NPCs reported salary and benefits expenditures totaling \$121.3 million, a slight decrease over 2007. NPC salary expenditures supported a variety of personnel including research technicians, pharmacists, scientists, nurses, physicians and administrative staff. Many Veterans benefit from their involvement in research studies; not only directly, from the actual “hands on” care provided but also indirectly, from the interaction between NPC staff and patients.

**NPC
Salary Expenditures
2000-2008**



Of the \$121.3 million expended in salary support, 82 percent (\$99.5 million) was used to support personnel directly engaged in VA research activities. Approximately 17 percent (\$20.6 million) was expended for administrative salaries and less than one percent (\$360,846) was expended in support of staff involved in educational activities.

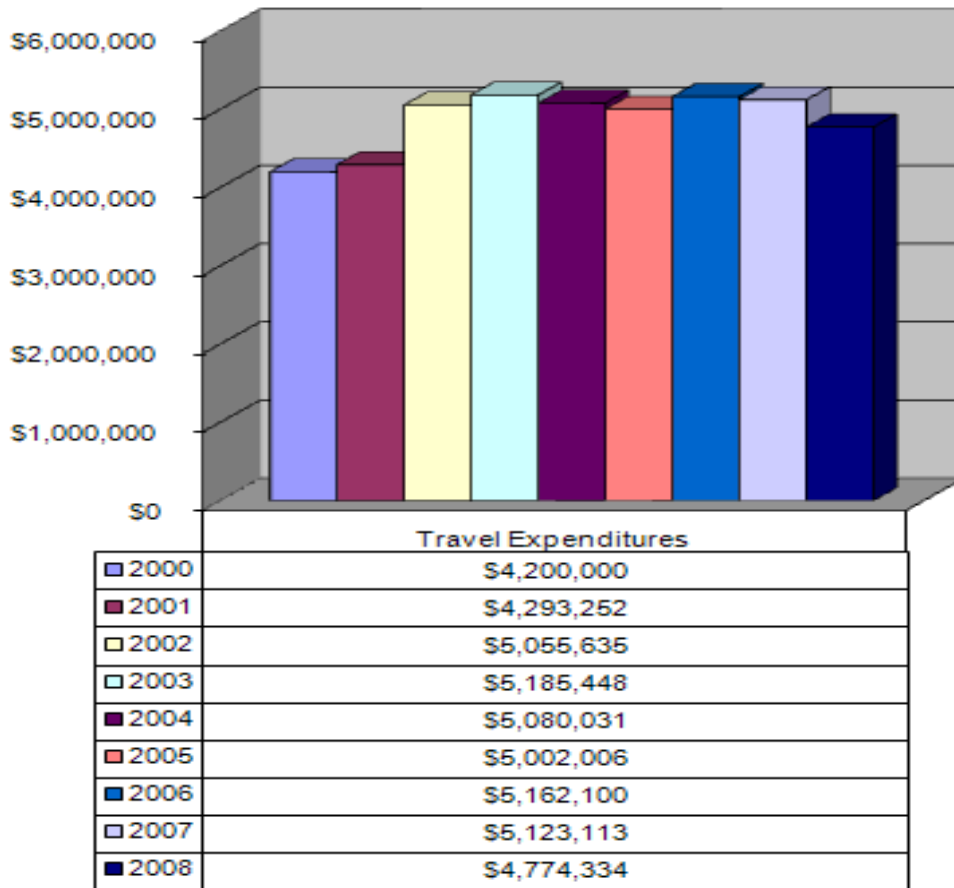
**NPC 2008
Salary Expenditures by Category**



Travel

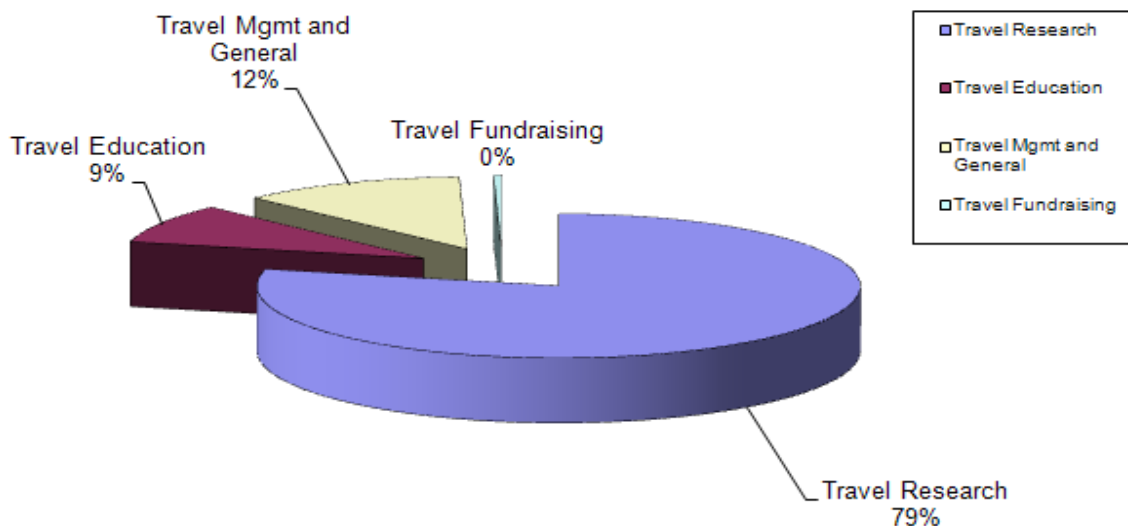
NPCs support domestic and foreign travel for VA and NPC personnel to attend scientific and educational meetings, seminars and conferences. VA benefits from such travel because it enhances the ability of VA staff to pursue research and education endeavors important to the health care, training and research mission of VA. Seventy-four NPCs reported travel expenditures totaling \$4.8 million, a seven percent decrease from \$5.1 million in 2007.

**NPC
Travel Expenditures
2000-2008**



Of the \$4.8 million in travel expenditures, approximately 84 percent, or \$3.9 million, supported travel for personnel directly engaged in research or education activities. Compared to 2007, direct expenditures for research travel decreased by approximately nine percent. Direct expenditure for education-related travel decreased by 9.6 percent. Twelve percent or \$574,068 was expended for management travel, increasing by approximately 5 percent over the previous year.

NPC 2008 Travel Expenditures by Category



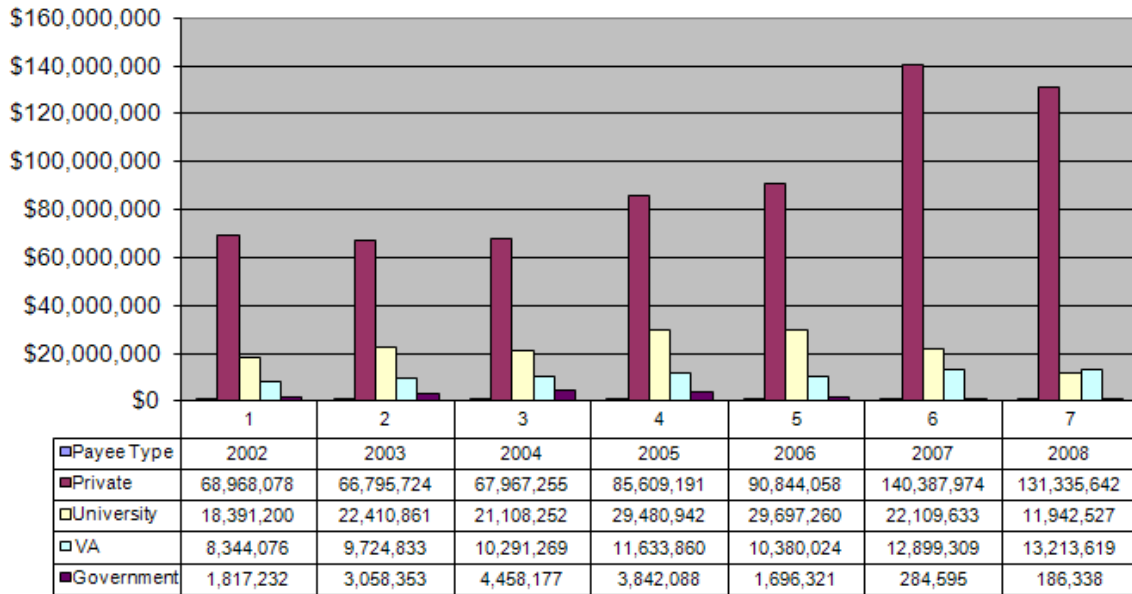
Other Expenditures

While furthering VA's research and education mission, NPCs incur a number of costs in addition to payroll and travel. During the 2008 reporting period, these other expenses totaled \$117.4 million, up from \$115.9 million in 2007. They included, but were not limited to, legal fees; insurance, accounting; consulting services (statisticians, information technology experts, etc.); supplies; postage and shipping; equipment purchases; rental and maintenance; printing and publications; utilities; and conference registrations.

Payees

Each NPC hires employees and contracts with various vendors ("payees") to support the conduct of VA-approved research and education activities and to provide products and services to sustain business operations. Any payee receiving in excess of \$35,000 per year is identified in the NPC report. The following table lists the four major types of payees and provides the total amount paid to each. (Note: NPCs provide reimbursements to VA facilities for various services provided in support of approved research projects and education activities.)

**NPC
Summary of Major Payees
2002-2008**



Financial Position

During the 2008 reporting year, NPCs reported **\$206.4** million in total net assets, a one percent decrease from 2007. This amount includes research project funds held by NPCs as well as operating funds and fiscally prudent reserves.

Net Asset Range	Number of NPCs					
	2008	2007	2006	2005	2004	2003
Below \$500K	23	21	17	26	31	35
\$500K - \$1M	10	11	15	15	15	17
\$1M - \$5M	36	34	33	32	34	32
\$5M & Above	15	<u>16</u>	<u>17</u>	<u>12</u>	<u>9</u>	<u>8</u>
Total Number of NPCs	<u>84</u>	<u>82</u>	<u>82</u>	<u>85</u>	<u>89</u>	<u>92</u>

Every organization, commercial or nonprofit, must generate revenue sufficient to sustain its programmatic activities as well as fund growth, replace equipment, and accumulate reserves to carry the organization during downturns in revenues.

VI. PROJECTS, ACTIVITIES & ACCOMPLISHMENTS

During the 2008 reporting period, NPCs facilitated a variety of projects. Many of these research projects were clinical studies that focused on the treatment of medical conditions prevalent in the Veteran population. Veterans benefit from getting access to cutting edge pharmaceuticals and medical care devices. The quality of care given to Veterans enrolled in clinical studies is exceptional and is a direct result of the close one-on-one relationships between the caregiver conducting research and the Veteran. VAMCs may potentially benefit from drugs and devices donated by sponsoring institutions and pharmaceutical companies, as well as from NPC salary support for nurses and physicians caring for Veteran patients enrolled in clinical studies. Consequently, the general public benefits from the results and findings of research conducted with the support of NPCs.

NPCs also support VA in many different areas beyond administering funds specifically for VA-approved research projects and education activities. From awarding seed money to young VA investigators to supporting IRB/compliance personnel and training, NPCs supported a wide-variety of activities to further VA's research and education mission during the 2008 reporting period. Below is a list of selected NPC activities:

- Support travel and registration fees for VA investigators to attend scientific conferences;
- Renovate and upgrade VA research infrastructure;
- Provide funds, staffing, and training support to VA and affiliate universities to help cover IRB requirements;
- Pay for expenses related to recruitment of research investigators to VA system;
- Fund seed grants to new investigators to aid them in establishing their VA research careers;
- Employ support staff for VA research projects;
- Cover the cost of training VA research personnel in topics such as research compliance, good clinical practice, and board governance;
- Underwrite bridge funding for VA investigators who are between research grant awards;
- Procure personnel, equipment, and supplies for VA animal research facilities;
- Provide funds for research pharmaceutical staff and equipment; and
- Host national educational conferences for VA personnel with incidental attendance by health professionals from surrounding communities.

VII. CONFLICTS OF INTEREST

All NPC board members, officers, and employees are subject to Federal statutes and regulations applicable to Federal employees with respect to ethical and financial conflicts of interest. When the NPC relationship or employment is initiated, each NPC board member, officer, and employee must sign a statement certifying awareness of and compliance with Federal conflicts of interest laws and regulations. As part of the NPC annual report, each NPC executive director must certify that a Conflict of Interest statement is on file for every board member, officer, and employee. In addition, the Designated Agency Ethics Official has determined all VA statutory Board Members who are not already filing a Public Financial Disclosure report (SF-278) will complete the OGE Form 450 Confidential Financial Disclosure report.

VIII. VA NONPROFIT OVERSIGHT BOARD

In 2004, VA senior leadership created the VA Nonprofit Oversight Board to serve as VA's senior management oversight forum on NPC activities and programs. The Board meets on a quarterly basis to review the activities of NPCs for consistency with VA policy and interests. The Board also makes recommendations to the Secretary and Deputy Secretary concerning changes to, and implementation of, VA policy regarding NPCs. Board membership is limited to VA participants and includes: the Under Secretary for Health; General Counsel; Assistant Secretary for Management; Chief of Staff to the Secretary; Chief Research and Development Officer; VA Nonprofit Program Officer; Academic Affiliations Officer; and Chief Financial Officer for VHA, or their designees. In addition, the Board has approved three *ex officio*, non-voting members:

- Executive Director, National Association of Veterans' Research and Education Foundations
- Member, Office of Research and Development Field Research Advisory Committee
- Chief Officer, VA Office of Research Oversight.

IX. AUDIT REPORTS

Under title 38 U.S.C 7361-7366, each NPC with annual revenues in excess of \$300,000 for the prior year is required to obtain an independent audit of the financial statements of the NPC for that year. NPCs with annual revenues between \$10,000 and \$300,000 must obtain an audit every 3 years. Every NPC required to undergo an audit this past year submitted the appropriate type of audit in time to ensure its inclusion in the 2008 annual report. Of the 84 active

NPCs, 70 (83 percent) submitted audited financial statements. Fourteen NPCs either fell below the amount that triggers the annual audit requirement or fell within the 3-year intervening period. Of these fourteen NPCs, five submitted audited financial statements. For the 2008 reporting period, 99.6 percent of NPC revenues and/or expenditures were subject to the audit requirement.

Like other nonprofits, NPCs are subject to three ascending levels of audits. The first is an audit conducted in accordance with Generally Accepted Auditing Standards in the United States of America (GAAS). These standards require that the auditor plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatements. The auditor also assesses internal controls, management, and governance. An NPC receiving more than \$10,000 but less than \$300,000 in funding is required to obtain, at a minimum, an audit in accordance with GAAS once every 3 years.

NPCs receiving funding in excess of \$300,000 that do not have expenditures of Federal funds exceeding \$500,000 are subject to annual GAAS audits.

When required by law, regulation, agreement, contract or policy, NPCs undergo the second level of audit. That is, an audit conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). Along with obtaining reasonable assurance that the financial statements are free of material misstatements, GAGAS standards require the auditor to examine internal controls over the financial reporting and compliance with certain provisions of laws, regulations, contracts, and grants. An audit conducted in accordance with GAGAS provides additional assurance that the audit is conducted with competence, integrity, objectivity, and independence.

The third level of audit is conducted in accordance with Office of Management and Budget (OMB) Circular A-133 ("A-133 Audit"). OMB requires nonprofit entities to undergo the A-133 audit when annual expenditures using Federal funds exceed \$500,000. The A-133 audit is designed to provide assurance regarding compliance with the legal and regulatory requirements of the Federal contract(s) or grant(s) and internal control. OMB Circular A-133 audits also include procedures performed in accordance with GAGAS. The table below is a summary schedule of NPC audits performed in 2008.

In the reports submitted in June 2009, eight NPCs were cited by their auditors for material weaknesses compared to five last year. Considering the large number of NPCs and the increasing complexity of some of their operations, as well as the small staff-size of many NPCs, a few material weaknesses are to be expected, but should be corrected before the next audit. A change in auditing standards implemented under Statement on Auditing Standards (SAS) 112 has contributed to this increase by expanding auditors' responsibilities in regard to assessing internal controls and by lowering the bar on reportable material weaknesses.

Each of the NPCs reporting material weaknesses were audited under GAAS, and the NPPO will follow-up to ensure these material weaknesses are corrected. The

executive director of each NPC is responsible for providing a copy of the auditor's report to the NPC's board of directors and involving the board directly in the resolution of any deficiencies. The NPPO has been in contact with each of these NPCs and an action plan for remediation has been submitted.

Type of NPC Audits Performed in 2008					
	A-133	GAGAS	GAAS	No Audit Report	Total
Number of Audits	23	3	44	14	84
Total Revenue	\$202.9 M (81.4 %)	\$ 3.4M (1.36%)	\$41.9M (16.82 %)	\$919,978 (.36%)	\$249. M
Total Expenditures	\$200.1M (82%)	\$3.5M (1.45%)	\$38.9M (15.9%)	\$960,113 (.39%)	\$243.M

X. VA OFFICE OF INSPECTOR GENERAL REPORT ON NPCs

VA OIG findings in Report No. 07.-00564-121 dated May 5, 2008 have been evaluated and actions taken. The NPC Steering Committee has developed an evaluation checklist by which all NPCs will be reviewed. This review will be performed by both the NPPO and the Veterans Integrated Service Networks (VISNs). A baseline report will be prepared at the conclusion of the reviews by the NPPO.

XI. CONCLUSION

VA-affiliated NPCs continue to make a substantial contribution to VA research and education missions. The 2008 Annual Report to Congress demonstrates that NPCs are fulfilling their congressional mandate in a responsible and conscientious manner. Revenues and expenditures in support of VA research and education programs are holding steady, and expertise in NPC governance and management is improving as evidenced by their annual reporting to VA. VA-affiliated NPCs contribute significantly to the success of VA's research and education programs.