

Date: January 16, 2004

From: Assistant Inspector General for Investigations (51)

Subj: Administrative Investigation—Use of Nonprofit Research Corporation Funds, VA San Diego Healthcare System, San Diego, CA, Report 03-00966-73 (Case IQ-0059)

To: Director, VA Desert Pacific Healthcare Network (10N22)

1. The Department of Veterans Affairs (VA), Office of Inspector General, Administrative Investigations Division, investigated alleged misuse of funds at the Veterans Medical Research Foundation of San Diego, a nonprofit corporation affiliated with the VA San Diego Healthcare System in San Diego, California. Mr. Gary J. Rossio has been the VA San Diego Healthcare System Director and the ranking VA official on the Foundation's board of directors since 1996. The current Foundation Executive Director has been in that position since January 2003. To investigate the issue, we obtained sworn, taped testimony from knowledgeable San Diego Healthcare System and Foundation employees; examined Foundation disbursement records from January 2001 through December 2002; and reviewed applicable laws, regulations, and policies.

2. The Veterans Medical Research Foundation of San Diego was created pursuant to Federal law authorizing the establishment of nonprofit corporations to serve as a flexible funding mechanism for the conduct of VA-approved research projects and education or training activities at its affiliated VA facility. The corporations exist solely to facilitate research projects and education activities. The law requires the applicable medical center director, in addition to other VA employees, to be a member of the corporation's board of directors [38 U.S.C. §7361-7363]. According to Veterans Health Administration (VHA) policy, VA employees involved in the affairs or operations of one of these nonprofit corporations are required to ensure the corporation furthers the interests of the Department. Medical center directors may order the dissolution of a corporation based on a determination that it no longer serves VA's interests [VHA Handbook 1200.17, paragraphs 2(a), 5, 10].

3. The nonprofit corporations are authorized to spend their funds, which the Office of General Counsel has determined are essentially "public monies," for VA-approved research projects and education or training activities; for travel directly related to such projects or activities; and for internal corporate management and administrative expenses, such as compensation for certain board members, officers, and employees; liability insurance; corporate memberships in professional organizations; publications facilitating VA research and education; and travel related to corporate business [38 U.S.C. §7364(b) and (c); VHA Handbook 1200.17, paragraphs 4(f), 5(b), 7(e), (f), and (g)]. All board members and corporation employees are subject to the Standards of Ethical Conduct for Employees of the Executive Branch, which, in part, prohibit them from using their