

DEPARTMENT OF VETERANS AFFAIRS (VA)

Nonprofit Research and Education Corporations (NPC)



2018 Annual Report

Table of Contents

| | | |
|-------|--|----|
| I. | BACKGROUND | 3 |
| II. | NPC's ROLE IN SUPPORT OF VA RESEARCH AND EDUCATION | 3 |
| III. | NPC LOCATIONS | 3 |
| IV. | ANNUAL REPORTING | 4 |
| V. | FINANCIAL REPORTING | 4 |
| VI. | PROJECTS, ACTIVITIES AND ACCOMPLISHMENTS | 11 |
| VII. | CONFLICTS OF INTEREST | 12 |
| VIII. | VA NONPROFIT OVERSIGHT BOARD | 12 |
| IX. | INDEPENDENT AUDIT REPORTS | 12 |
| X. | NONPROFIT PROGRAM OFFICE (NPPO) OVERSIGHT PLAN AND RESULTS | 14 |
| XI. | NONPROFIT PROGRAM OFFICE (NPPO) TRAINING | 16 |
| XII. | CONCLUSION | 16 |

I. BACKGROUND

In 1988, Congress passed Public Law (P.L.) 100-322, now codified at sections 7361-66 of title 38, United States Code (U.S.C.), which permitted the Secretary of the Department of Veterans Affairs (VA) to authorize the establishment of Nonprofit Research and Education Corporations (NPCs) at VA medical centers (VAMCs). This laid the foundation for creation of unique partnerships to conduct VA-approved research. P.L. 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.

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

In 1999, Congress expanded the NPCs' authority to include support for VA's education and training missions. The fundamental purpose of NPCs is to serve Veterans by supporting VA research and education to improve the quality of care that Veterans receive.

Beyond administering research projects and education activities, NPCs support a variety of VA research infrastructure and administrative expenses. They have provided seed and bridge funding for investigators, staffed animal care facilities, funded recruitment of clinician researchers, paid for research administrative and compliance personnel, supported staff and training for institutional review boards, and much more.

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 2018, there were 82 NPCs located in 44 states, Puerto Rico, and the District of Columbia. All of the NPCs filed annual reports. During 2018, there were 75 research and education NPCs and 7 research-only NPCs. As shown in the table below, the NPCs vary greatly in size:

| Revenues Range | # of NPCs (2018) | # of NPCs (2017) | # of NPCs (2016) | # of NPCs (2015) | # of NPCs (2014) | # of NPCs (2013) |
|-------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Below \$500K | 22 (27%) | 27 (33%) | 22 (27%) | 23 (28%) | 29 (36%) | 27 (33%) |
| \$500K- \$1M | 13 (16%) | 12 (14%) | 19 (23%) | 14 (17%) | 12 (14%) | 15 (18%) |
| \$1M- \$ 10M | 41 (50%) | 38 (46%) | 36 (43%) | 39 (47%) | 35 (42%) | 34 (41%) |
| \$10M & Above | 6 (7%) | 6 (7%) | 6 (7%) | 7 (8%) | 7 (8%) | 7 (8%) |
| Total NPCs | 82 | 83 | 83 | 83 | 83 | 81 |

IV. ANNUAL REPORTING

Under title 38, U.S.C., section 7366(b), NPCs must submit to the Secretary of VA a detailed statement of their operations, activities and accomplishments during the previous year.

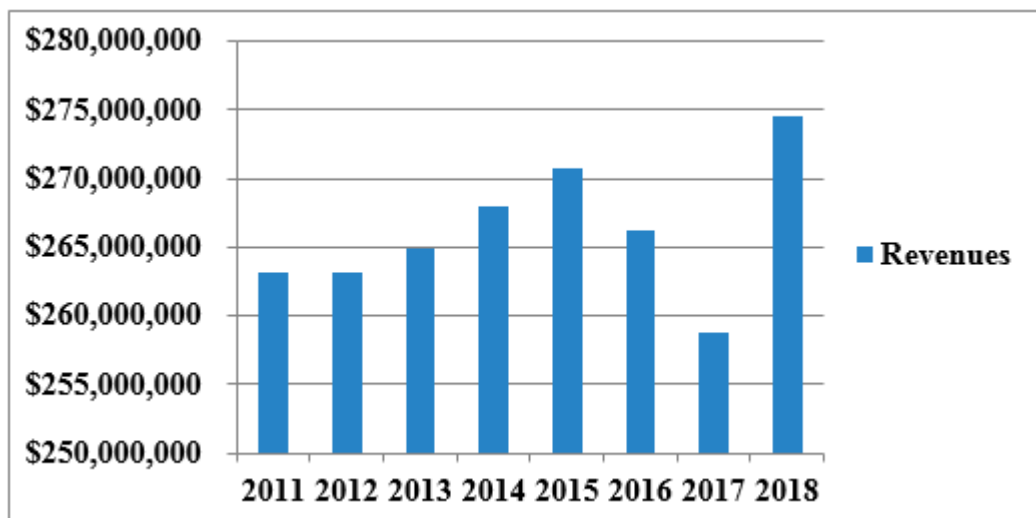
Veterans Health Administration (VHA) *Handbook 1200.17, VA Nonprofit Research and Education Corporations Authorized by Title 38 U.S.C., Sections 7361 through 7366*, dated April 27, 2016, requires each NPC to submit an Annual Report to VA's Chief Research and Development Officer on or before June 1 of each year. VA's Nonprofit Program Office (NPPO), located in VHA Office of Research and Development (ORD), reviews the NPC Annual Reports and is responsible for summarizing the information for NPC Annual Report to Congress. The information submitted by NPCs consists of, but is not limited to, IRS Form 990 – *Return of Organizations Exempt from Income Tax*, audited financial statements, auditor's management letter (if applicable), and related revenue and expense information.

V. FINANCIAL REPORTING

Revenues

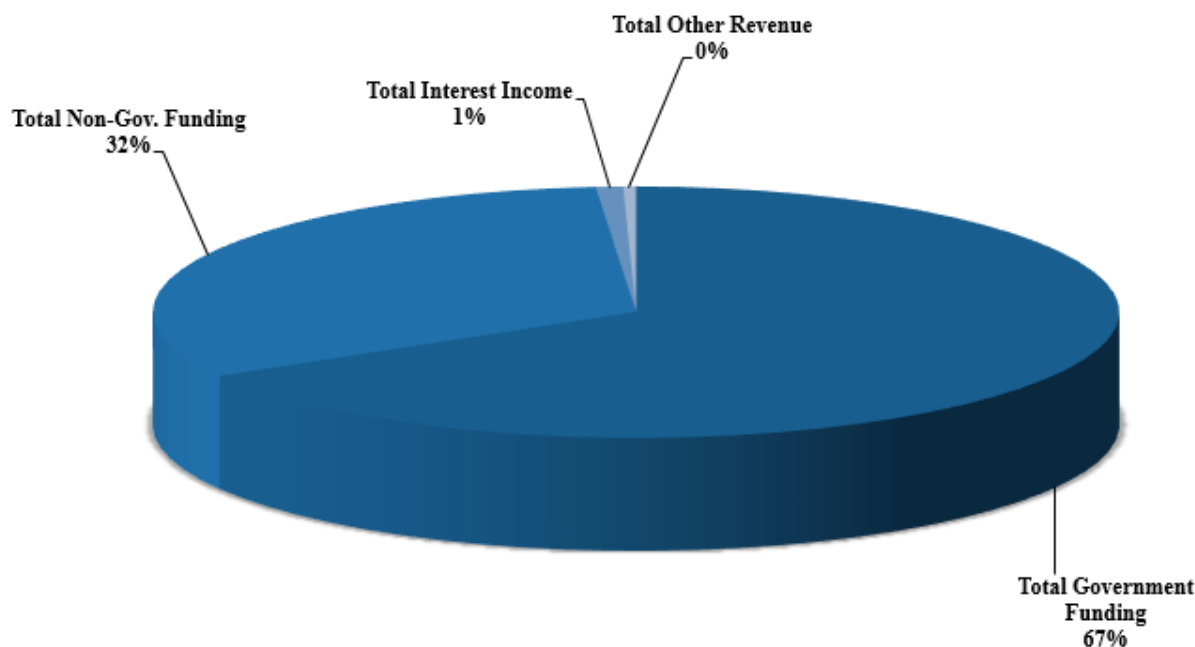
In June 2019, NPCs reported \$274,532,436 total revenues during the 2018 reporting period, including interest income and other miscellaneous receipts. This represents an approximately six percent increase in NPC revenues from the previous year. From 2000 through 2007, total NPC revenue trended up. In 2008 and 2009, revenues decreased. Revenues increased substantially in 2010 and 2011, were flat for 2012, but increased again in 2013, 2014, and 2015. Revenues for 2016 decreased by two percent as did revenues for 2017. Forty-nine NPCs reported an increase in overall revenues in 2018 compared to 40 in 2017. For 2018, 33 NPCs experienced declines in revenues.

NPC Annual Revenues – 2011 to 2018



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 governmental or non-governmental (private) funding sources. Ninety-eight 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.

2018 NPC Revenues by Funding Source



As in the previous year, revenue from governmental research and education sources comprised the largest component of funding received by NPCs (approximately 67 percent). In 2018 governmental funding increased by one percent to \$183 million, from the previous \$181 million in 2017.

Revenues from non-governmental sources increased 15 percent, from \$75 million in 2017 to \$88 million in 2018. Other revenue sources (e.g. interest income) increased by slightly more than \$1 million to a total of \$3.7 million.

In 2018, the number of NPCs reporting revenue from governmental sources (including VA) was 65 as compared to 67 in 2017

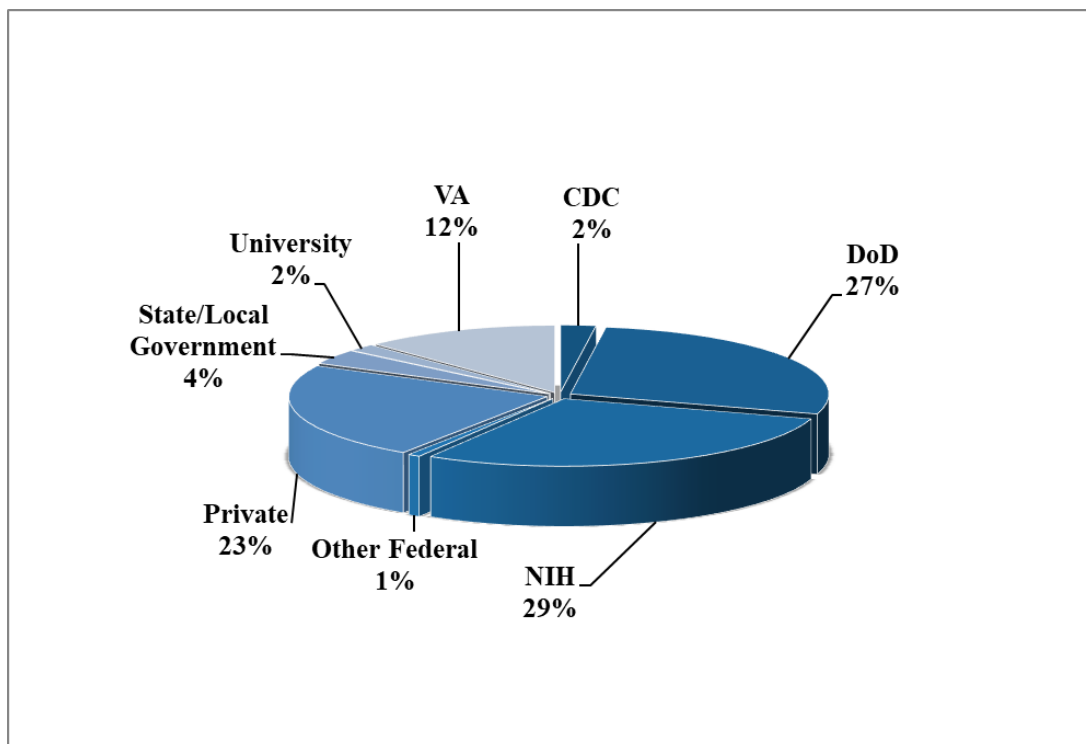
Funding Sources

NPCs continue to obtain funding from diverse sources, including private sector companies, charitable foundations, private individuals, state and local governments, universities, and Federal entities such as the National Institutes of Health (NIH), Department of Defense (DoD), and Centers for Disease Control and Prevention (CDC).

Funds coming to NPCs from VA are for Intergovernmental Personnel Act (IPA) assignment agreement 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 both governmental and non-governmental amounts greater than \$25,000 (see chart below for the breakdown). For 2018, the total revenue received from these sources was \$243 million.

2018 Revenues >\$25,000 by Funding Source

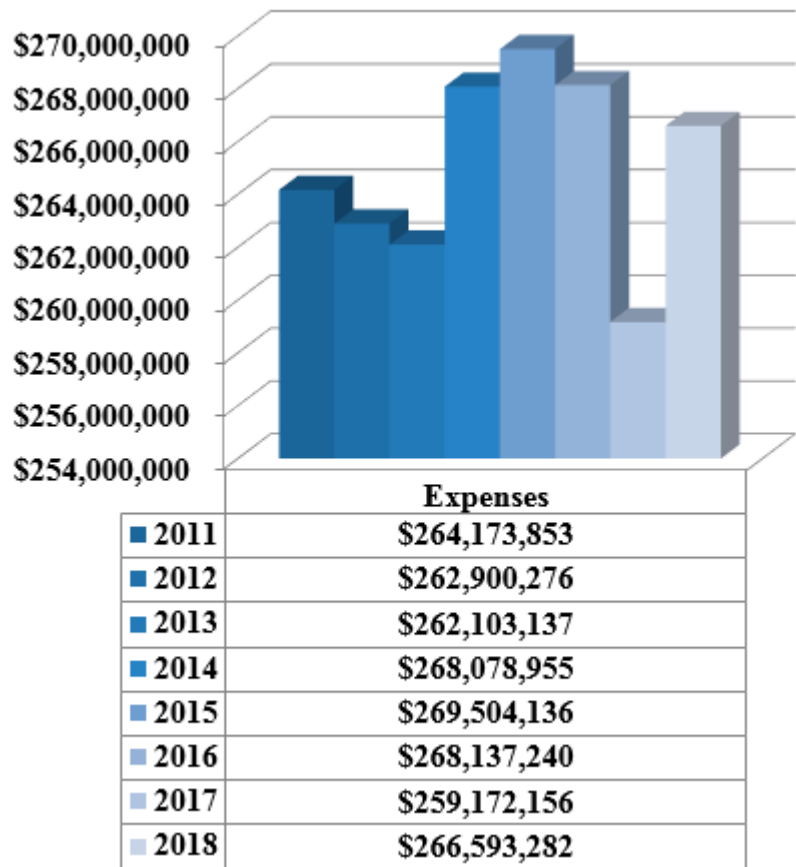


Expenses

In June 2019, NPCs reported expenses totaling \$266,593,282 during 2018, an increase from 2017 expenses which were \$259 million. These expenses financed research projects and their supporting infrastructure as well as salaries, equipment, and other research and education-related costs. NPCs employed approximately 2,600 people, supported more than 2,100 principal investigators, and administered approximately 3,300 research projects.

Because the statutory purpose of NPCs is to facilitate VA research and education, all funds spent must support those activities with the exception of amounts that cover NPC administration.

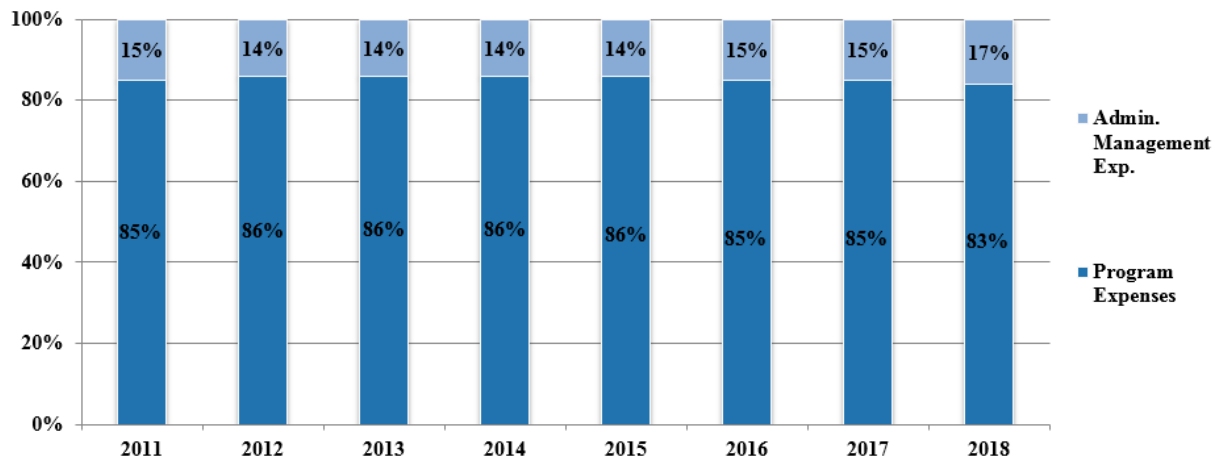
**NPC Annual Expense
2011-2018**



During 2018, approximately 57 percent of total expenses covered salaries and benefits; approximately 2 percent of total expenses covered travel, and the remaining 41 percent represented other expenses in direct support of VA research and education activities or NPC business operations.

NPCs continue to spend a relatively small amount on administrative expenses, averaging 17 percent (\$45 million) of total expenditures for 2018.

NPC Total Combined Administrative Management Expenses vs. Direct Program Expenses 2011-2018

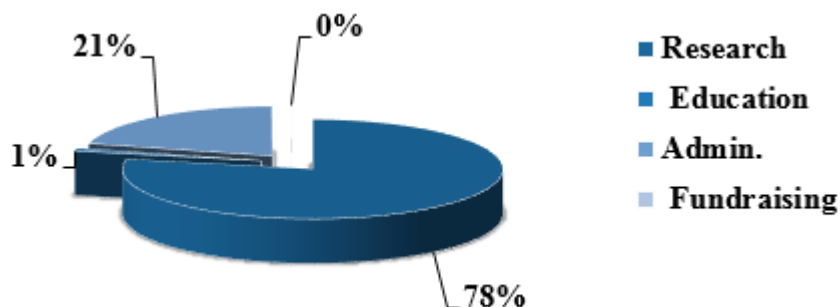


Compensation Expense

During 2018, 81 NPCs reported compensation expenses including benefits totaling \$152 million, approximately a four percent increase from 2017. The NPC salary expenditures supported a variety of personnel (including research technicians, pharmacists, scientists, nurses, physicians, and administrative staff).

Of the \$152 million spent for compensation, 78 percent (\$119 million) was used to support personnel directly engaged in VA research. Approximately 21 percent (\$32 million) was expended for NPC administrative salaries and benefits. Slightly more than \$1 million or one percent was expended in support of staff involved in educational activities.

2018 Compensation Expense by Category

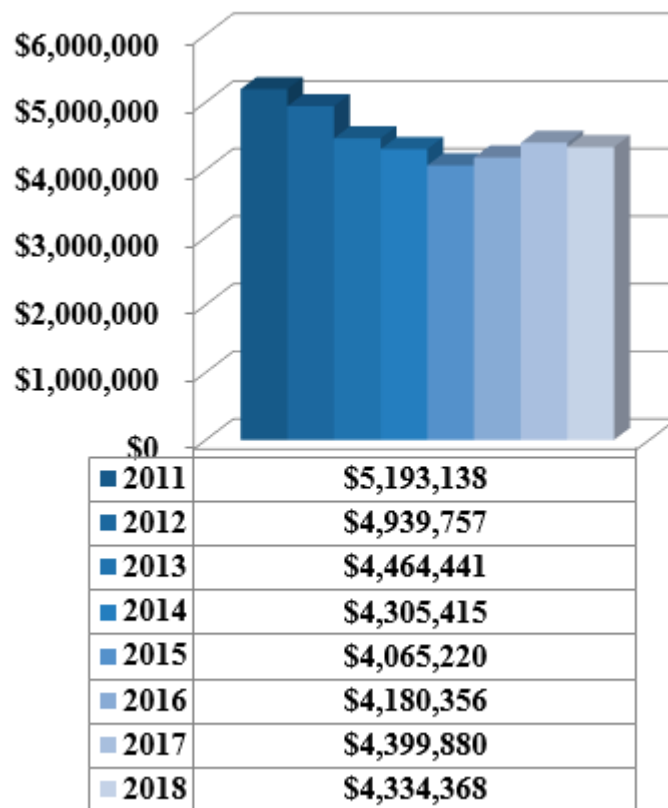


Travel Expense

NPCs support 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 VA's health care, training, and research missions. Seventy-three NPCs reported travel expenditures totaling \$4 million for 2018, approximately the same as for 2017.

Of the \$4 million in travel expenditures, approximately 85 percent supported travel for personnel directly engaged in research or education activities.

**NPC 2011-2018
Total Travel Expense**



Other Expenditures

While furthering VA's research and education missions, NPCs incur a number of costs in addition to payroll, benefits, and travel. During the 2018 reporting period, other expenses totaled \$110 million, up by slightly more than one percent from \$108

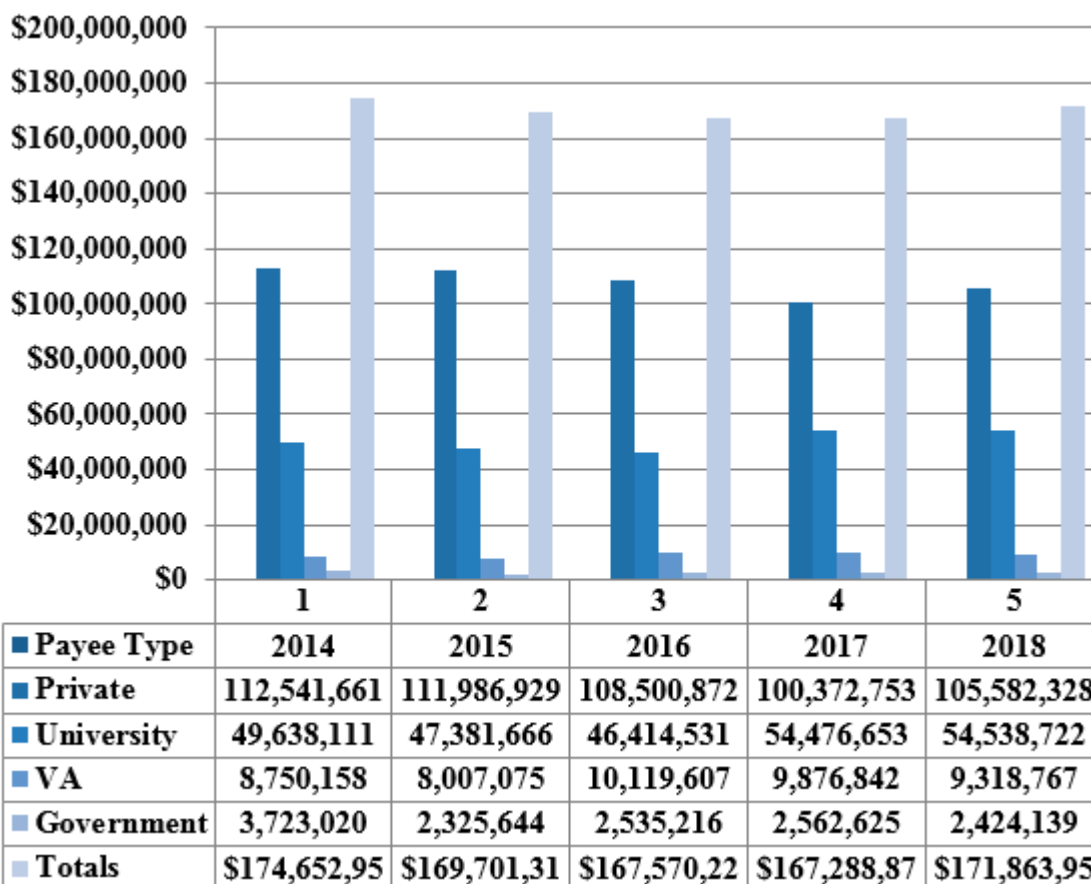
million in 2017. They included, but were not limited to, legal fees, insurance, accounting, auditing, consulting services (statisticians, information technology experts, etc.), supplies, postage, shipping, equipment purchases, rentals and maintenance, printing, publications, utilities, and conference registrations.

Payees

Each NPC hires employees and contracts with various vendors (“payees”) to support the conduct of VA-approved research and education activities.

The vendors provide products and services that sustain research, education, and business operations. Any payee receiving more than \$50,000 per year is identified in the NPC report and is presented in the chart below:

**Chart of NPC Payees Greater than \$50K
by Type 2014-2018**



The table above lists the four major types of payees and provides the total amount paid to each type. Private payees include employees, consultants, etc. State and private university payees may include reimbursements from grants or sub-awards. VA reimbursements are costs reimbursed in support of VA research and education activities. Other governmental payees include sub-awards or pass-through funds to non-VA government entities.

Financial Position

NPCs reported net worth totaling \$204,846,632 at the end of 2018, which amounted to approximately a two percent increase from 2017. Gross assets under management were \$289 million and liabilities were \$84 million. It should be noted that in many cases the NPC's include funds that are obligated for the future performance of research projects in net worth. Although this is acceptable under U.S. generally accepted accounting principles, there is nonetheless an obligation to expend project funds counted as equity in order to accomplish research and education projects. Unencumbered net worth for all the NPCs combined is estimated at \$57 million.

The ratio of net worth to revenues was 75 percent for all the NPCs. For the top 20 NPCs by revenues that comprised 74 percent of total revenues, the net worth ratio was 58 percent. Some individual large NPCs that rely heavily upon awards from the National Institutes of Health, Department of Defense, and other Federal agencies, had substantially lower net worth ratios than the average and have been advised to conserve their net worth as best they can and to augment it when possible.

VI. PROJECTS, ACTIVITIES AND ACCOMPLISHMENTS

NPCs facilitated a variety of projects during the 2018 reporting period. 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 innovative cutting-edge pharmaceuticals and medical devices. Many Veterans who participate in VA studies benefit from the actual "hands on" care provided, but also directly from the interaction between NPC staff and patients.

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 caregivers conducting research and the Veterans. 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.

NPCs also support VA in many ways beyond administering funds. Several examples are listed below:

- Renovate and upgrade VA research infrastructure;
- Provide funds, staffing, and training support to VA and affiliate universities to help cover Institutional Review Board requirements;
- Pay for expenses related to recruitment of research investigators to the 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;
- Support travel and registration fees for VA investigators to attend scientific conferences;
- Procure personnel, equipment, and supplies for VA animal research facilities;
- Provide funds for research pharmacy staff and equipment; and
- Host national educational conferences for VA personnel with incidental attendance by health professionals from surrounding communities.

VII. CONFLICTS OF INTEREST

NPC directors, officers, and employees are subject to the conflict of interest policy adopted by that NPC. VA employees who serve as NPC directors as part of their official VA duty are also subject to the Federal conflict of interest laws and regulations. At any time there is a conflict with the NPC policy, the Federal conflict of interest laws and regulations take precedence.

VIII. VA NONPROFIT PROGRAM OVERSIGHT BOARD

In 2004, VA senior leadership created the VA Nonprofit Program Oversight Board to serve as VA's senior management oversight body over NPC activities and programs. The Board meets on a quarterly basis to review the activities of the NPCs for consistency with VA policy and interests. The Board may also make recommendations to the Secretary and Under Secretary for Health concerning changes to, and implementation of, VA policy regarding NPCs. Board membership is limited to VA employees and includes:

- Under Secretary for Health, or designee;
- General Counsel;
- Assistant Deputy Under Secretary for Health for Operations and Management;
- Chief Research and Development Officer;
- VA Nonprofit Program Officer;
- Chief Academic Affiliations Officer;
- Chief Financial Officer for VHA, or designee.
- Member, Office of Research and Development Field Research Advisory Committee; and
- Executive Director, VA Office of Research Oversight.

IX. INDEPENDENT AUDIT REPORTS

The VA Nonprofit Program Office (NPPO) reviews the independent audit reports and related NPC audited financial statements for the NPCs. The NPPO also reviews other documents such as the independent audit management letters, lists of program activities and accomplishments, and supplemental revenue and expenditure information. This oversight is performed to obtain substantive evidence of accountability and to have a balanced picture of NPC program activity.

Any material weaknesses or significant deficiencies in internal controls and related recommendations made by the NPCs' independent auditors are noted. NPPO tracks these from year to year to determine whether the NPCs have taken the appropriate corrective actions as recommended by their independent audits. Under title 38 U.S.C. section 7366(b) each NPC with annual revenues more than \$500,000 for the year is required to obtain an independent external audit of its financial statements for the year. NPCs with annual revenues between \$100,000 and \$500,000 must obtain independent external audits every three years. For those NPCs with \$100,000 or less in annual revenues, an independent external audit is not required. For fiscal year (FY) 2018, 16 NPCs were not required to obtain an independent audit. Of the 82 NPCs, 66 (or 80 percent) submitted audited financial statements. For 2018, 99 percent of total NPC revenues and 99 percent of total expenses were subject to independent external audits.

There are three ascending levels of independent audits:

- (1) Generally Accepted Auditing Standards (GAAS) in the United States of America Audit: This audit requires the auditor to plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatements. The auditor assesses internal controls, management, and governance. An NPC receiving more than \$100,000 but less than \$500,000 in funding is required to obtain, at a minimum, an audit in accordance with GAAS once every three years.
- (2) Generally Accepted Government Accounting Standards (GAGAS) Audit: This audit obtains reasonable assurance that the financial statements are free of material misstatements. The GAGAS audit is used when required by provisions of laws, regulations, contracts, and grants.
- (3) Uniform Guidance Audit: This audit is performed in accordance with Office of Management and Budget (OMB) published Rules and Regulations, when annual expenditures are from Federal funds exceeding \$750,000. The uniform guidance audit is designed to provide assurance that the financial statements are reasonable and there is compliance with the legal and regulatory requirements of the Federal contract(s) and grant(s), and with sound internal controls.

Five NPCs were cited by their auditors for material weaknesses. These material weaknesses are different than those reported in 2017. NPCs with material weaknesses are working closely with the NPPO and their external auditors to ensure correction of the weaknesses prior to the next audit.

The NPPO requires an in-depth action plan from each NPC with material weaknesses and significant deficiencies and follows-up on these by email and during periodic on-site reviews.

Four of the NPCs reporting material weaknesses was audited under GAAS and one was audited under uniform guidance provisions. NPPO will follow-up to ensure these material weaknesses and other deficiencies 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. NPPO has requested a remediation action plan from these NPCs.

X. NPPO OVERSIGHT PLAN AND RESULTS

The NPPO is charged with conducting oversight for the 82 VA affiliated nonprofit research and education corporations nationwide. The NPPO reviews the Operations Oversight Questionnaire with the Executive Director and the Internal Control Questionnaire that is provided in advance of the on-site visit. The NPPO routinely tests samples of various transactions and accounting records, such as policies and procedures, cash disbursements, credit card purchases, bank statements and reconciliations, payrolls, and IPA assignment agreements.

The limited on-site reviews by NPPO are for the purpose of providing audit, investigative, and oversight-related services that do not involve a GAGAS full financial, attestation, or performance audit examination. NPPO's limited reviews are performance audits that emphasize compliance with VA policy and conformity to sound business practices and accepted internal control standards. NPPO's limited reviews are not designed to detect fraud, waste, abuse, or other irregularities. NPPO's reviews are substantially narrower in scope than a financial audit examination. The objective of a financial audit examination is the expression of an opinion on the subject matter, and accordingly, no such opinions are expressed. *Ref. Government Auditing Standards 2011 Revision, Chapters 2.12 and 5.56, Pages 19 and 116.* Nonetheless, NPPO reserves the rights to extend its limited reviews; initiate other reviews or investigations; and arrange for the conduct of complete GAGAS financial, attestation, or performance audits if needed for effective VHA oversight. NPPO observes auditing standards set by the Comptroller General of the United States.

1. All NPCs will be reviewed triennially regardless of financial condition. To accomplish this, one-third of the NPCs are audited each year.
2. More frequent or off-cycle on-site reviews may be scheduled at the discretion of the Nonprofit Program Oversight Board or the NPPO Director, as they are deemed necessary or desirable.
3. NPCs with identified operating problems or serious internal control weaknesses will be reviewed on-site annually or more often, if necessary, and monitored. Once the issues are resolved and the NPC receives a satisfactory review, its review schedule will generally be moved back to the triennial schedule.

4. New Executive Directors (ED's) are welcomed and notified of the next ED workshop and the availability of the NPPO Web site. They are also given NPPO staff contact information within the first 45 days of employment.
5. NPCs that are starting-up, reactivating, merging, or deactivating will be visited as needed.
6. NPCs with reported irregularities (e.g., by whistleblowers) will be reviewed on-site as soon as practicable and have appropriate follow-up action taken.
7. NPCs requesting on-site visits to resolve internal control, financial systems, or financial management problems will be visited as soon as possible.

All 82 NPCs were reviewed by NPPO in the first two triennial periods, FY 2011 through 2013 and FY 2014 through 2016. NPPO is on schedule for accomplishing the reviews required for the third triennial period, FY 2017 through FY 2019. NPPO is pleased to report that there has been a marked improvement in the on-site review results posted so far for the third triennial period. For the second triennial reviews all prior required actions were followed-up upon along with the normal review. Results for the first and second triennial review periods were:

First triennial period, FY 2011 – 2013:

- 585 required actions
- 219 consultative suggestions

Second triennial period, FY 2014 – 2016:

- 577 required actions
- 153 consultative suggestions
- 92 percent success rate for implementing prior required actions

As noted above, much improved results are anticipated for FY 2017 through 2019 based upon actual results through late FY 2019. It is believed that because NPPO developed and implemented Executive Director and Financial Manager training classes held in Kansas City, results have improved greatly. Formal review reports are prepared for each NPPO review and discussed with the NPC Executive Directors and the Medical Center Directors and their key staff while on site. Additionally, the written responses from the NPCs to the review reports are incorporated into the reports before they are forwarded to the VHA Chief Financial Officer's office.

In addition to the routine triennial reviews, NPPO has performed non-routine whistleblower complaint, timekeeping, and fraud investigations.

Other routine oversight conducted at NPPO offices include reviews of:

1. Annual reports due June 1 on forms prescribed by NPPO.
2. Annual audited financial statements due to NPPO by June 1.
3. Annual Form 990 income tax returns due to NPPO by June 1.

4. Remediation plans for all NPCs with material weaknesses reported by their independent auditors.
5. Remediation plans for all NPCs with significant deficiencies and auditor recommendations.
6. Monthly financial statements compared to budget and last year for NPCs with identified operating problems and/or inadequate reserves.
7. Immediate attention to all NPC requests for assistance or advice.

VA's Office of the Inspector General (VAOIG) began an investigation of the Boston NPC in FY 2018. VAOIG has extended its investigation to four additional NPCs. It is expected that VAOIG will make appropriate recommendations to VHA for oversight improvements.

XI. NPPO TRAINING

Over the past four years, NPPO has been engaged in training the NPCs' boards of directors and other personnel by:

1. Providing a half-hour presentation on board governance during each on-site review.
2. Developing and facilitating a two-day workshop for Executive Directors that is held twice a year.
3. Developing and initiating a two-day workshop for NPC top level financial managers.
4. Developing training courses designed for VA's Talent Management System for mandatory courses:
 - a. Internal Controls;
 - b. Conflict of Interest.
5. Maintaining an easy-to-navigate, user friendly and informative website.
6. Developing PowerPoint trainings for the proper completion of Intergovernmental Personnel Act assignment agreements and for preparing for NPPO on-site reviews.

NPPO has put on hold trainings for Executive Directors and Financial Managers pending the outcome of the VAOIG's findings and recommendations from its present investigation.

XII. CONCLUSION

VA-affiliated NPCs continue to make a substantial contribution to VA research and education missions. The 2018 NPC Annual Report to Congress demonstrates that NPCs are fulfilling their Congressional mandate in a responsible and conscientious manner.

Expertise in NPC governance and management is improving as evidenced in the on-site reviews and the NPCs' annual reporting to VA. VA-affiliated NPCs contribute significantly to the success of VA's research and education programs.

This report and NPPO's on-site reviews illustrate that NPCs are a highly efficient means to maximize the benefits to VA of externally funded research conducted in VA facilities. NPCs greatly facilitate research and education that benefit Veterans. Additionally, NPCs foster vibrant research environments at VAMCs, enhancing VA's ability to recruit and retain clinician-investigators and other talented personnel who apply their knowledge to state-of-the-art care for Veterans.