

# **DEPARTMENT OF VETERANS AFFAIRS (VA)**

## **Nonprofit Research and Education Corporations (NPC)**



### **2019 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	12
VII.	CONFLICTS OF INTEREST	13
VIII.	VA NONPROFIT PROGRAM OVERSIGHT BOARD	13
IX.	INDEPENDENT AUDIT REPORTS	13
X.	NONPROFIT PROGRAM OFFICE (NPPO) OVERSIGHT PLAN AND RESULTS	15
XI.	NONPROFIT PROGRAM OFFICE (NPPO) TRAINING	17
XII.	CONCLUSION	18

## I. BACKGROUND

In 1988, Congress passed P.L. 100-322, now codified at 38 U.S.C. §§ 7361-66, which permitted the Secretary of the Department of Veterans Affairs (VA) to authorize the establishment of Nonprofit Research and Education Corporations (NPC) at VA medical centers (VAMC). This laid the foundation for the 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. NPC ROLE IN SUPPORT OF VA RESEARCH AND EDUCATION

In 1999, Congress expanded the authority of NPCs 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. NPCs 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 2019, there were 81 NPCs located in 43 states, Puerto Rico and the District of Columbia. All NPCs filed annual reports. During 2019, there were 74 research and education NPCs and 7 research-only NPCs. As shown in Table 1 below, NPCs vary greatly in size and revenue indicates the funds received by the NPC.

**Table 1: NPCs by Revenue**

Revenues Range	# of NPCs (2019)	# of NPCs (2018)	# of NPCs (2017)	# of NPCs (2016)	# of NPCs (2015)	# of NPCs (2014)
Below \$500,000	19 (23%)	22 (27%)	27 (33%)	22 (27%)	23 (28%)	29 (36%)
\$500,000 - \$1 Million (M)	14 (17%)	13 (16%)	12 (14%)	19 (23%)	14 (17%)	12 (14%)
\$1M - \$10M	42 (53%)	41 (50%)	38 (46%)	36 (43%)	39 (47%)	35 (42%)
\$10M & Above	6 (7%)	6 (7%)	6 (7%)	6 (7%)	7 (8%)	7 (8%)
Total NPCs	81	82	83	83	83	83

#### IV. ANNUAL REPORTING

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

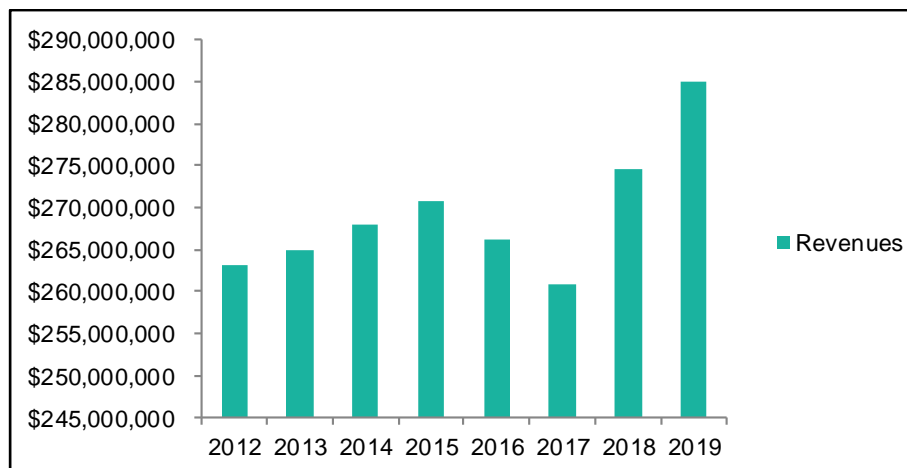
Veterans Health Administration (VHA) Handbook 1200.17, *VA Nonprofit Research and Education Corporations Authorized by Title 38 U.S.C. Sections 7361 through 7366*, dated April 27, 2016, requires each NPC to submit an annual report to VA's Chief Research and Development Officer on or before June 1 of each year. VA's Nonprofit Program Office (NPPO), located in VHA's Office of Research and Development (ORD), 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, Internal Revenue Service (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

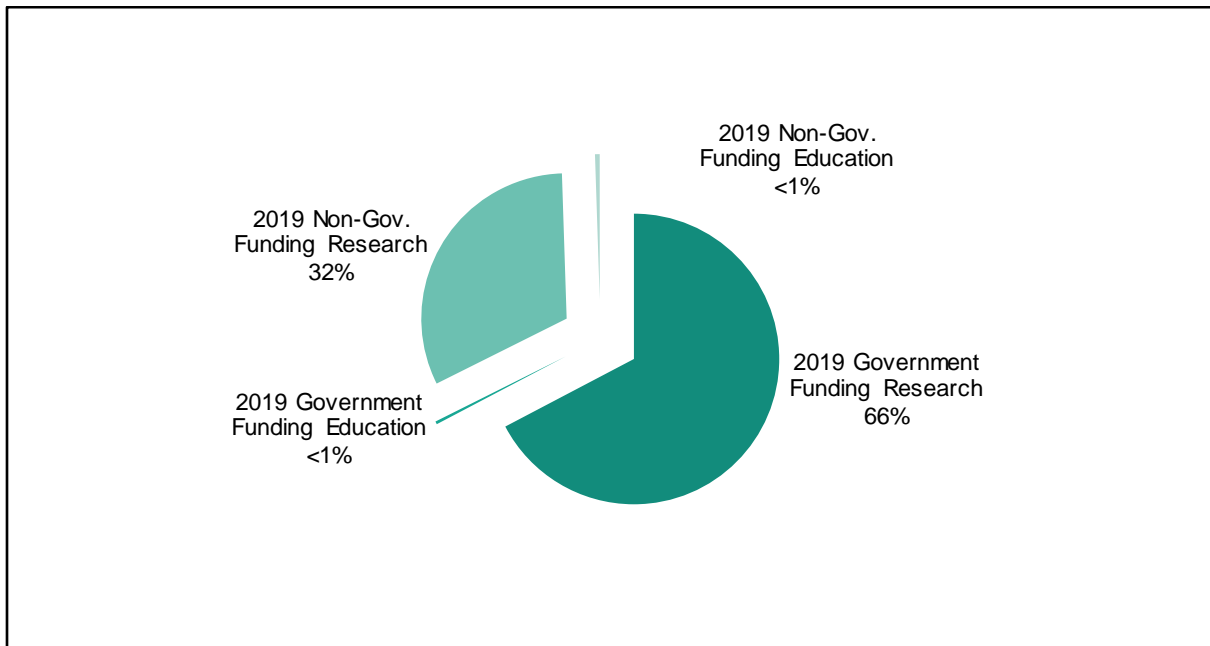
In June 2020, NPCs reported \$284,928,226 total revenues during the 2019 reporting period, including interest income and other miscellaneous receipts. (See Figure 1.) This was a record high for NPC revenues and represents a 3.8% increase in NPC revenues from the previous year. From 2000 through 2007, 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 1.7% and again decreased by 2.8% for 2017. Forty-three NPCs reported an increase in overall revenues in 2019 compared to 49 in 2018. For 2019, 38 NPCs experienced declines in revenues.

**Figure 1. NPC Annual Revenues – 2012 to 2019**



Under the title 38 statutory reporting requirements, NPCs are required to report research and education revenues and expenditures separately. (See Figure 2.) 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 less than 1% was received in support of education. The remaining 1% was received from other sources such as interest income.

**Figure 2. 2019 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%). In 2019 governmental funding increased by 3.8% to \$189 million, from the previous \$183 million in 2018.

Revenues from non-governmental sources increased 2.9%, from \$88 million in 2018 to \$91 million in 2019. Other revenue sources (e.g. interest income) increased by slightly less than \$1 million to a total of \$4.4 million.

In 2019, the number of NPCs reporting revenue from governmental sources (including VA) was 67, the same as in 2018.

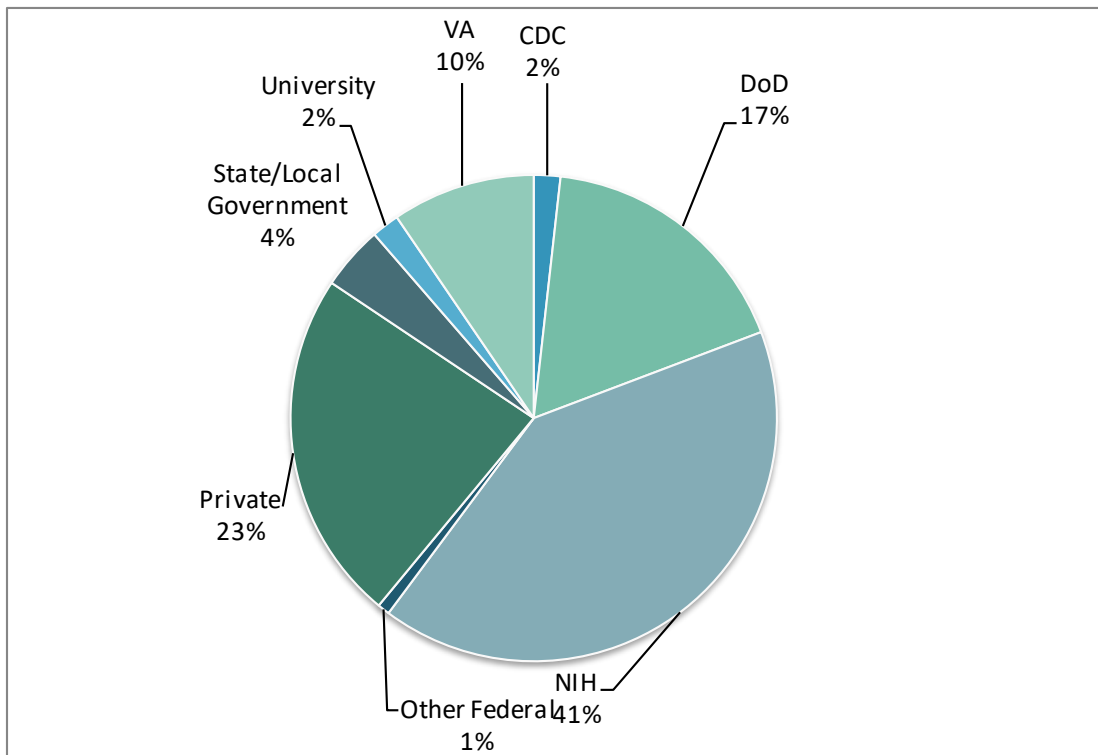
### **Funding Sources**

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 Figure 3 below for the breakdown). For 2019, the total revenue received from these sources was \$257 million.

**Figure 3. 2019 Revenues >\$25,000 by Funding Source**

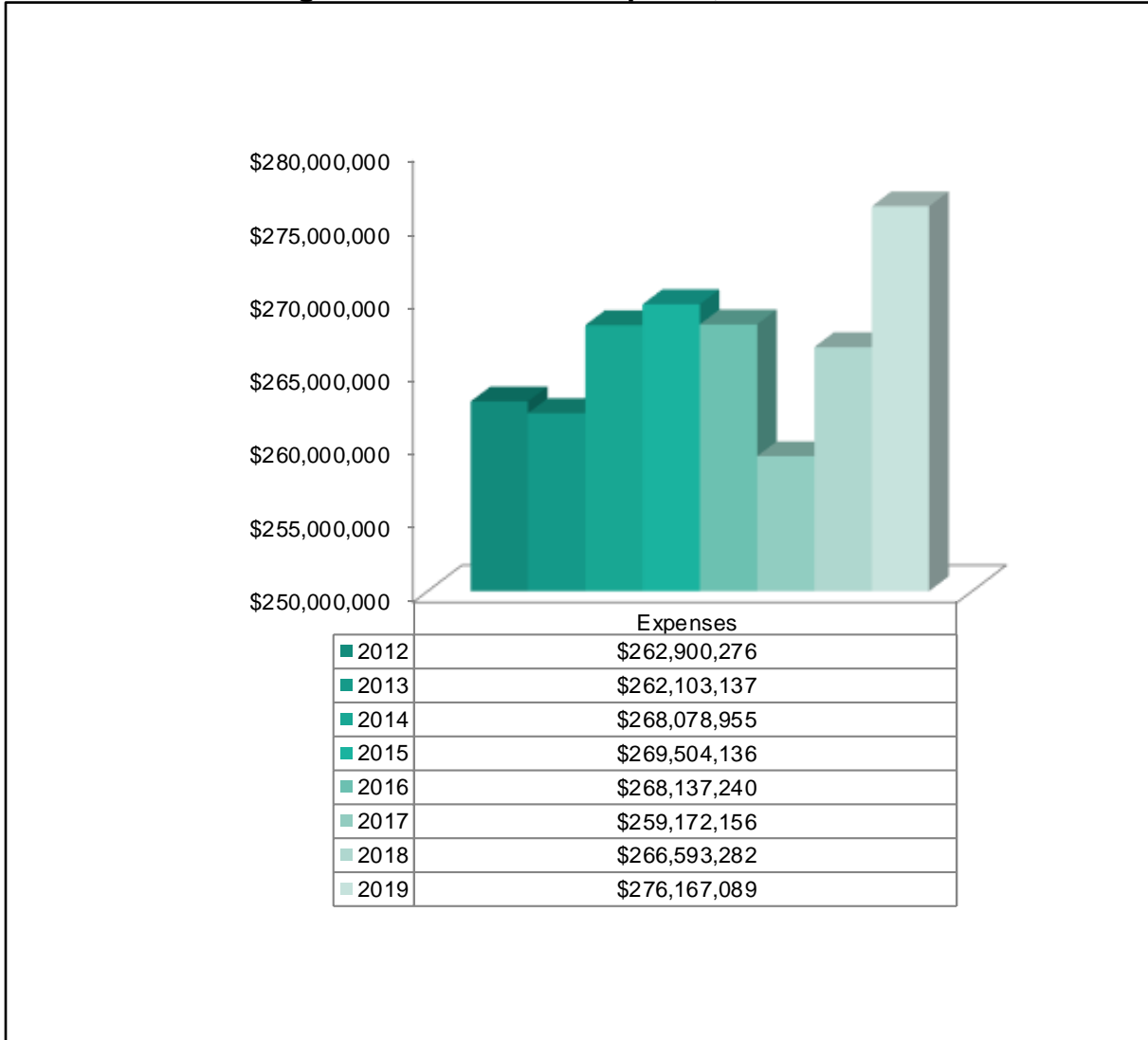


**Expenses**

In June 2020, NPCs reported expenses totaling \$276,167,089 during 2019, an increase from 2018 expenses of \$267 million. These expenses financed research projects and supporting infrastructure as well as salaries, equipment and other research and education-related costs. NPCs employed approximately 2,500 people, supported more than 2,000 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 except for amounts that cover NPC administration. Figure 4 below highlights the expenses over the past 8 years. The expenses increase as the revenues increase.

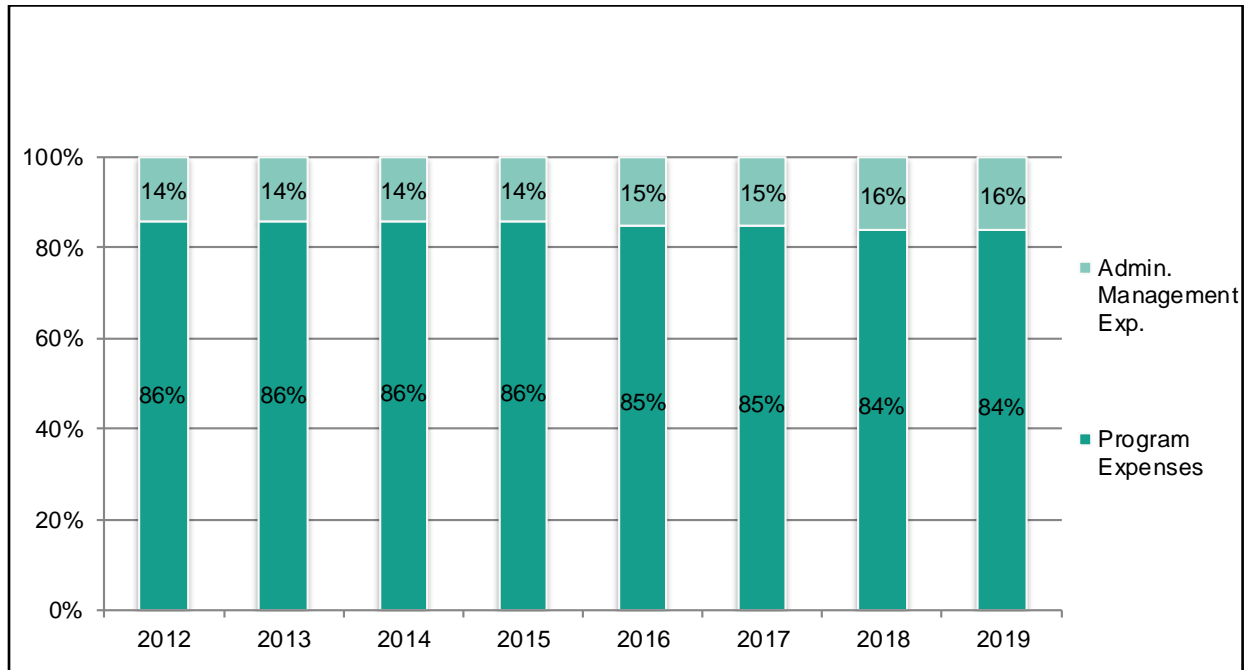
**Figure 4. NPC Annual Expense, 2012-2019**



During 2019, approximately 56% of total expenses covered salaries and benefits; approximately 1% of total expenses covered travel; and the remaining 43% 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 16% (\$43 million) of total expenditures for 2019. Figure 5 below notes the average of administrative costs for NPCs. This has remained steady for many years increasing by 1% at a time.

**Figure 5. NPC Total Combined Administrative Management Expenses vs. Direct Program Expenses 2012-2019**



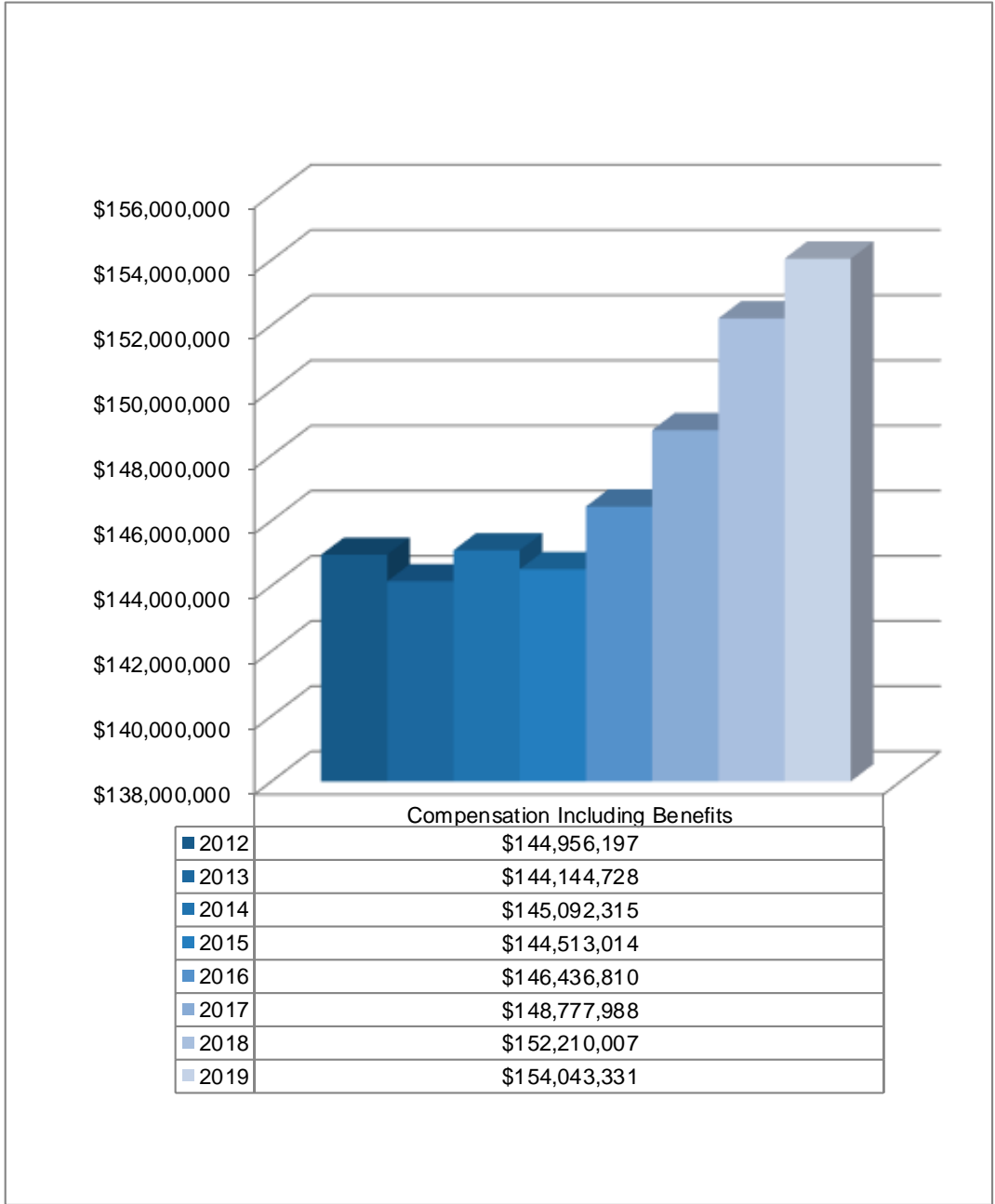
### Compensation Expense

During 2019, 81 NPCs reported compensation expenses, including benefits, totaling \$154 million, a 1.2% increase from 2018. NPC salary expenditures supported a variety of personnel (including research technicians, pharmacists, scientists, nurses, physicians and administrative staff).

Of the \$154 million spent for compensation, 79% (\$122 million) was used to support personnel directly engaged in VA research. Approximately 20% (\$31 million) was expended for NPC administrative salaries and benefits. Slightly more than \$1 million, or 1.3%, was expended in support of staff involved in educational activities. Figure 6 below highlights the compensation paid to NPC personnel. Some are involved in research or education while others are strictly administrative personnel. Expenses increase when revenues increase based on new grants or clinical studies.



**Figure 6. NPC Compensation Expense  
2012-2019**

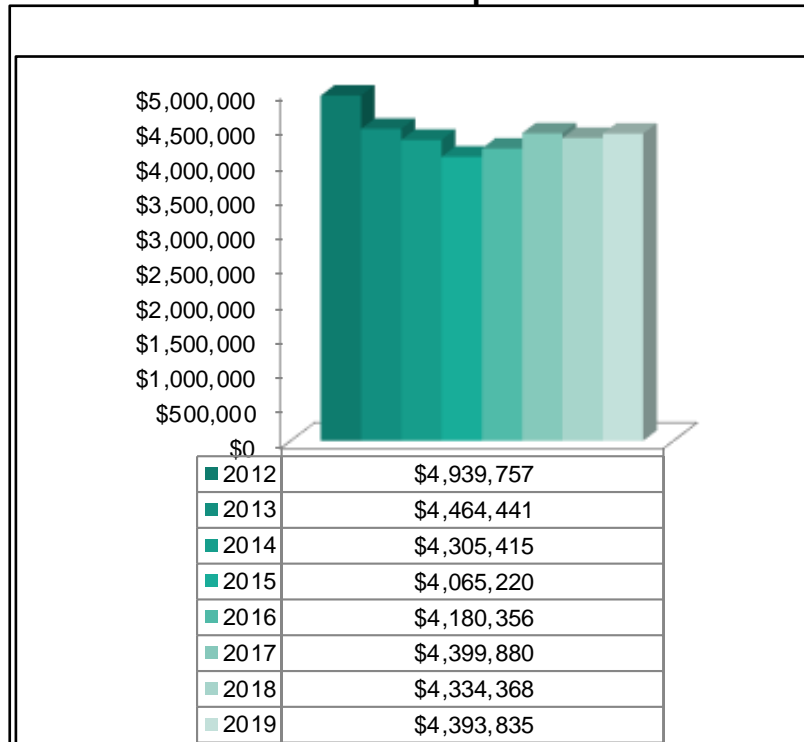


**Travel Expense**

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-six NPCs reported travel expenditures totaling \$4 million for 2019, approximately the same as for 2018. (See Figure 7.)

Of the \$4 million in travel expenditures, approximately 86% supported travel for personnel directly engaged in research or education activities.

**Figure 7. NPC 2012-2019  
Total Travel Expense**



### Other Expenditures

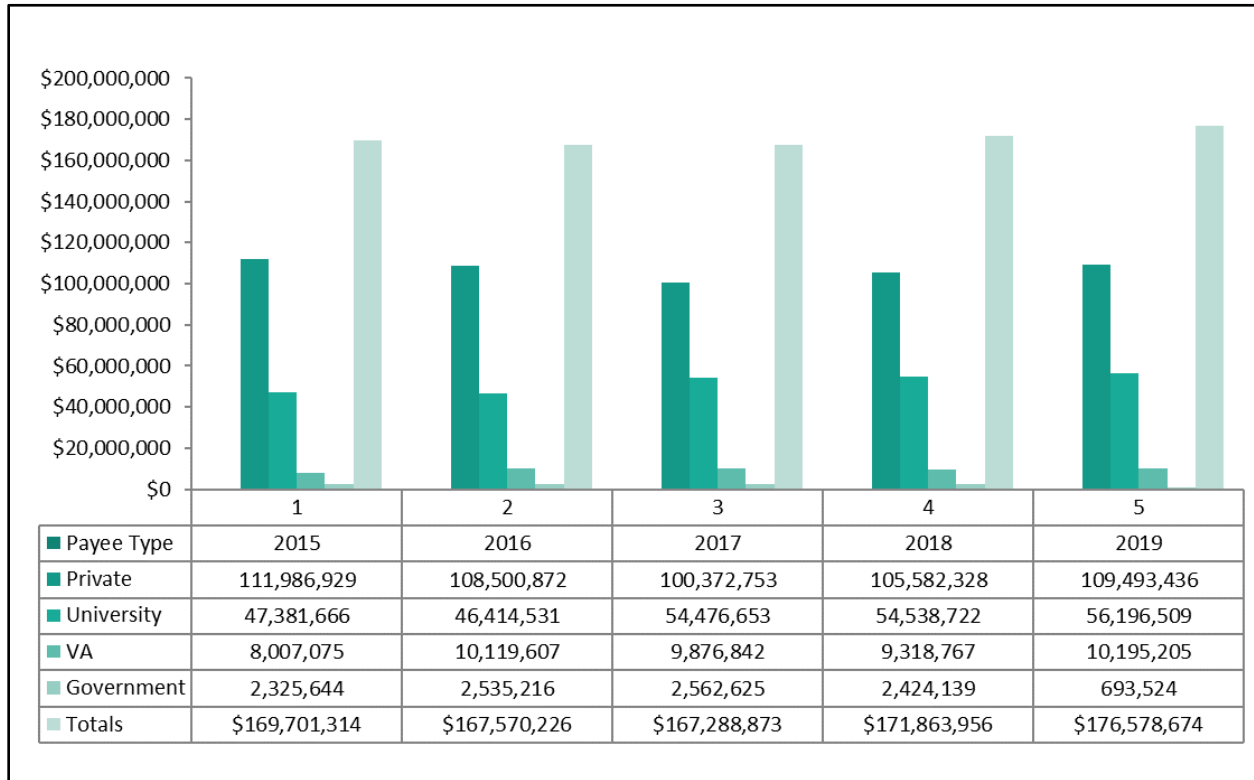
While furthering VA’s research and education missions, NPCs incur other costs in addition to payroll, benefits and travel. During the 2019 reporting period, other expenses totaled \$118 million, up by 7% from \$110 million in 2018. They included, but were not limited to: legal fees, insurance, accounting, 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 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 shown in Figure 8 below.

**Figure 8. Chart of NPC Payees Greater than \$50,000 by Type  
2015-2019**



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

### Financial Position

NPCs reported a net worth totaling \$214,173,068 at the end of 2019, which amounted to a 4.6% increase from 2018. Gross assets under management were \$312 million, and liabilities were \$98 million. It should be noted that in many cases, 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 NPCs combined is estimated at \$43 million.

The ratio of net worth to revenues was 75% for all NPCs. For the top 20 NPCs by revenue that comprised 74% of total revenues, the net worth ratio was 53%. Some large NPCs that rely heavily upon awards from NIH, DoD 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**

VA researchers conducted a variety of projects during the 2019 reporting period. NPCs facilitated these projects. Many of these research projects were clinical trial 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 clinical trial studies benefit from the actual “hands on” care provided but also directly from the interaction between NPC staff and patients.

In September 2012, VA’s Office of General Counsel (OGC) established the Specialty Team Advising Research (STAR) to support VA’s research programs. This is a small group of VA attorneys who address the needs of NPCs in their role supporting VA’s approved research and education programs. STAR advises on any number of topics including review and approval of various research agreements such as Cooperative Research and Development Agreements, nondisclosure agreements, subawards and various partnerships. This highly-capable team of legal specialists has helped greatly with the growth of VA’s research programs and NPCs.

The quality of care given to Veterans enrolled in clinical trial studies is exceptional and is a direct result of the close one-on-one relationships between the health care professional conducting research and 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 trial 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 VA;
- 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 on 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 care 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, if 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 NPCs for consistency with VA policy and interests. The Board may also make recommendations to the Secretary and Under Secretary for Health (USH) concerning changes to, and implementation of, VA policy regarding NPCs. Board membership is limited to VA employees and includes the following individuals:

- USH, or designee;
- General Counsel;
- Assistant Deputy Under Secretary for Health for Operations and Management;
- Chief Research and Development Officer;
- Chief Academic Affiliations Officer;
- Chief Financial Officer for VHA, or designee;
- Member, Office of Research and Development Field Research Advisory Committee;
- Field Associate Chiefs of Staff for Research (ACOS-R) from VAMCs; and
- Field Designated Education Officers from VAMCs.

## **IX. INDEPENDENT AUDIT REPORTS**

VA NPPO reviews the independent audit reports and related NPC audited financial statements for NPCs. 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 overview of NPC program activity.

Any material weaknesses or significant deficiencies in internal controls and related recommendations made by the NPC independent auditors are noted. NPPO tracks

these from year to year to determine whether NPCs have taken the appropriate corrective actions as recommended by their independent audits.

Under 38 U.S.C. § 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 3 years. For those NPCs with \$100,000 or less in annual revenues, an independent external audit is not required. For 2019, 20 NPCs were not required to obtain an independent audit. Of the 81 NPCs, 61 (or 75%) submitted audited financial statements. For 2019, 97% of total NPC revenues and 98% 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 3 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 or Single Audit: This audit is performed in accordance with Office of Management and Budget-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.

Six NPCs were cited by their auditors for material weaknesses. Four of these material weaknesses are different than those reported in 2018. NPCs with material weaknesses are working closely with NPPO and their external auditors to ensure correction of the weaknesses prior to the next audit.

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

All NPCs reporting material weaknesses were audited under the uniform guidance provisions. NPPO will follow up to ensure these material weaknesses and other deficiencies are corrected.

The Executive Director (ED) of each NPC is responsible for providing a copy of the auditor's report to the NPC 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**

NPPO is charged with conducting oversight for the 81 VA-affiliated NPCs Nationwide. NPPO reviews the Operations Oversight Questionnaire with the ED and the Internal Control Questionnaire that is provided in advance of the on-site visit. 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 NPCs are audited each year.
2. More frequent or off-cycle on-site reviews may be scheduled at the discretion of the NPPO 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 EDs are welcomed and notified of the next ED workshop and the availability of the NPPO website. 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 81 NPCs were reviewed by NPPO in the first three triennial periods, fiscal year (FY) 2011 through 2013, FY 2014 through 2016 and FY2017 through 2019. NPPO is pleased to report that there has been a trend to much improved on-site review results in the last 3 years. Wherever there are prior required actions, NPPO always follows up on them in the subsequent review.

Results for the three completed triennial review periods were:

First triennial period, FY 2011 – 2013:

- 585 required actions
- 219 consultative suggestions
- 14 perfect reviews

Second triennial period, FY 2014 – 2016:

- 46 prior required actions
- 567 new required actions
- 92% success rate for implementing prior required actions
- 153 consultative suggestions
- 13 perfect reviews

Third triennial review period, FY 2017 – 2019:

- 27 prior required actions
- 270 new required actions (less than half of previous period)
- 95% success rate for implementing prior required actions
- 142 consultative suggestions

NPPO developed and implemented ED and Financial Manager training classes held in Kansas City late in the second triennial period. Largely, as a result of these trainings, on-site review results greatly improved in the third triennial period.

Formal review reports are prepared for each NPPO on-site review and discussed with the NPC ED and VAMC Directors and their key staff while on site. Additionally, the



written responses from 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. NPPO has also performed several on-site management consulting engagements.

Other routine oversight conducted at NPPO include reviews of the following:

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 Inspector General (OIG) has investigated five NPCs in the past 2 years. VAOIG has recently extended its investigation to two additional NPCs. It is expected that VA OIG will make appropriate recommendations to VHA for oversight improvements.

## **XI. NPPO TRAINING**

Over the past 4 years, NPPO has been engaged in training the NPC 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 2-day workshop for ED.
3. Developing and initiating a 2-day workshop for NPC top level financial managers.
4. Developing training courses designed for VA's Talent Management System for mandatory courses on:
  - 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 IPA assignment agreements and for preparing for NPPO on-site reviews.

## **XII. CONCLUSION**

VA-affiliated NPCs continue to make a substantial contribution to VA research and education missions. The 2019 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 NPC 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 supporting 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.

Department of Veterans Affairs  
December 2020