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Office of Audits and Evaluations

VETERANS HEALTH ADMINISTRATION

VHA Needs to Establish Internal Controls for Developing Its Ambulatory Care Budget Estimate

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Executive Summary

The Veterans Health Administration (VHA) is the largest healthcare system in the nation. VHA's mission to ensure veterans receive high-quality healthcare services relies on obtaining sufficient resources to meet those needs. To obtain the funding needed to provide these services, the VHA Office of Finance annually prepares and submits a medical care budget request, including the administration's budget estimates, supporting justification, and supplemental budget materials as part of VA's budget submission.

VHA's medical and ambulatory care budget estimates have steadily increased by about 34 percent from fiscal years (FY) 2021 to 2023. As of March 2022, VHA estimated it needed about $128.5 billion to care for patients in FY 2023. Ambulatory care accounts for approximately 51 percent of this estimated budget (about $65.1 billion) and, according to VA's budget submission, is considered one of the key drivers of VHA's increased medical care costs.

Ambulatory care is the basis by which most care is delivered within the VHA healthcare system. It refers to medical services performed in outpatient settings, such as primary care; a variety of specialty care such as radiology, pathology, and outpatient surgery; and professional services such as emergency visits, nutrition, and occupational, physical, and speech therapy. VHA's ambulatory care budget estimate represents the funding needed to support outpatient care services.

Because over half of VHA's medical care budget is for ambulatory care, the VA Office of Inspector General (OIG) conducted this audit to determine whether VHA has adequate controls over its budget formulation process to ensure its ambulatory care budget estimate is reliable.

What the Audit Found

The audit team found that VHA could strengthen internal controls over its budget formulation process to provide reasonable assurance that the ambulatory care budget estimate is reliable. VHA's process for developing the ambulatory care budget estimate lacks documented procedures to include assigned roles and responsibilities. VHA also did not establish a data governance structure with clearly defined authoritative data sources and designated data stewards. Documented procedures and a data governance structure could help provide reasonable assurance that VHA's internal control over operations, reporting, and compliance is effective.

VHA Has Not Documented the Process for Developing the Ambulatory Care Budget Estimate

VHA's process used to develop the ambulatory care budget estimate depends on coordination among multiple VHA offices, data from several VA and VHA systems, and the expertise of a contracted actuarial consulting firm. Internal controls, such as documented procedures,

consistent information among data sources, and accurate data, are an integral part of an agency's budgeting.

The audit team found that the VHA Office of Finance did not develop documented procedures, including roles and responsibilities, for each of the offices involved in developing the ambulatory care budget estimate. According to a senior official from the Office of Finance, VHA has not documented these procedures because the Office of Finance did not feel they were necessary and thus they did not dedicate resources to develop them. This official further explained that resources are limited, and staff focus on doing the work rather than documenting the work they are doing.

Because VHA does not have documented procedures for developing the ambulatory care estimate, the audit team interviewed staff from these offices to understand this process.[1] According to Office of Finance officials and staff, VHA's priority is to determine and obtain approval for its overall medical care budget estimate. As such, an Office of Finance official told the team that they develop VHA's ambulatory care budget estimate by first determining its overall medical care resource needs primarily via the Enrollee Health Care Projection Model (EHCPM), which accounted for approximately 89 percent of VHA's FY 2023 overall medical care budget request. VHA begins formulating its budget two years prior to the fiscal year for which it is requesting funding and uses data from the previous year.

The EHCPM is a deterministic model, which means it is based on a set of assumptions that affects the model projection output over time. The EHCPM scenario used for the budget formulation process produces three primary outputs: (1) enrollment, (2) utilization, and (3) expenditures. Each of these outputs is based on several complex adjustments to account for the unique characteristics of VA health care and the veterans who access these services.

According to an Office of Finance official, they determine the overall medical care obligations level to calculate a budget estimate for each year following the prior year for each of the healthcare programs displayed in the budget submission. Then, they manually apply the annual growth rate from the EHCPM for each respective healthcare program to actual obligations in each category in the prior year for all healthcare service programs except ambulatory care. An Office of Finance official informed the team that the remaining amount of the overall medical care obligations level, after these estimates for healthcare programs are determined, becomes the ambulatory care budget estimate. VHA's ambulatory care estimate includes adjustments to the modeled projection (derived from the EHCPM), nonmodeled projections, and projections for new legislation and program expansions.[2]

[1] For more information about the audit's scope and methodology, see appendix A.

[2] Nonmodeled projections are projections that occur outside of the EHCPM, such as legislative implementations and nonrecurring maintenance.

However, because VHA's ambulatory care budget estimate is the amount remaining after the estimates for healthcare programs have been determined, Office of Finance staff could not provide the dollar amounts for the specific program adjustments and projections that are built into the ambulatory care estimate. Office of Finance staff did provide the total dollar amount of the adjustment made to the ambulatory care estimate.

Despite the complexity of the medical care budget formulation process, VHA has not developed written procedures to help ensure staff from the involved offices are aware of and understand their roles and responsibilities. Without this documentation, VHA may not be able to maintain organizational knowledge for the development of the ambulatory care budget estimate. Documenting procedures—to include roles and responsibilities—could help provide reasonable assurance that VHA consistently develops the ambulatory care budget estimate.

Office of Finance staff acknowledged that it would be helpful to document the process used to develop the ambulatory care budget estimate but have not had time to develop procedures due to competing demands. They stated they intend to develop a standard operating plan for the annual budget cycle after they complete work on the budget submission and other plans that are currently under development.

VHA Data Governance over the Data Reported in the FY 2023 Budget Submission Could Be Strengthened

VA policy requires VHA to establish data governance, such as identifying authoritative data sources and nominating data stewards, for data management.[3]

The audit team found that VHA did not establish a data governance structure to help ensure the consistency of the information reported among its data sources and the accuracy of its data used to support the overall medical care budget request.

VHA uses unique enrollment data to support its overall medical care budget request and therefore the ambulatory care budget estimate.[4] The audit team requested the actual FY 2021 unique enrollment number and documentation to support the unique enrollment number reported in the FY 2023 budget submission. However, VHA could not provide data to justify its FY 2021 actual unique enrollees reported in the FY 2023 budget submission because this number was a projection from the EHCPM. Office of Finance staff stated that they thought the FY 2021 unique enrollment number had been updated to actual enrollment when the actuarial consulting firm updated the 2021 EHCPM.

Similar to the unique enrollment data, VHA inaccurately reported the FY 2021 number of unique veteran patients, which, according to Office of Finance, is used to trend future years' unique

[3] VA Directive 0900, *VA Enterprise Data Management*, December 8, 2020.

[4] Unique enrollment represents veterans enrolled for VA health care sometime during the year.

patient data.[5] VHA could not support the FY 2021 number of actual unique veteran patients reported in the FY 2023 budget submission. When the audit team requested the FY 2021 actual number of unique veteran patients, the Office of Finance provided a number that did not match VHA's FY 2023 budget submission. When the team asked for clarification, Office of Finance staff acknowledged they identified a discrepancy with the number of unique veteran patients reported in the FY 2023 budget submission because the data contained duplicates. The difference in the reported patients ranged from 96,000 to 160,000, depending on the source of VHA's data. Office of Finance staff stated that they will ensure the number of unique veteran patients is correct in future budget submissions.

Without establishing authoritative data sources and nominating data stewards to help establish data management procedures, VHA cannot provide reasonable assurance that consistent and accurate data are being reported in the budget submission and in support of the ambulatory care budget estimate. According to the Office of Management and Budget (OMB) and the Government Accountability Office (GAO), government agencies have a responsibility to report reliable information to Congress and the public.[6] Without internal controls, such as a data governance structure with defined authoritative data sources and designated data stewards, VHA is at risk of continuing to report inaccurate and inconsistent data.

During the OIG's audit, VHA approved the development of an enterprise data management functional area with a chief data officer who will support the data governance council in the areas of data stewardship, policy, and standards. The OIG recognizes VHA's efforts to establish documented procedures and a strong data governance structure over the process for developing the ambulatory care budget estimate and the data used in support of that estimate. However, until VHA strengthens the internal controls within this process, it cannot provide reasonable assurance that its ambulatory care budget estimate is reliable.

What the OIG Recommended

The OIG recommended the VHA chief financial officer establish and implement guidance for quality assurance measures over the data used to develop and support the ambulatory care budget estimate.

The OIG also recommended the under secretary for health ensure the deputy under secretary for health provides oversight and holds the Office of Finance accountable for developing, documenting, and implementing standard operating procedures to include defining roles and responsibilities and requirements for oversight and quality assurance for development of the

[5] According to the FY 2023 budget submission, unique patients are individuals treated by VA or whose treatment is paid for by VA. The OIG team's analysis focused on unique veteran patients, but the budget submission includes nonveteran patients (such as VA employees or veterans' family members).

[6] OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, July 15, 2016; GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G, September 2014.

ambulatory care budget estimate. In addition, the under secretary for health should implement the VHA Data Governance Council to include developing policies and processes for data management, identifying authoritative data sources, and nominating data stewards.

VA Comments and OIG Response

The VHA chief financial officer concurred with recommendation 1, and the under secretary for health concurred with recommendations 2 through 4.[7] The under secretary for health provided responsive action plans for all four recommendations with target completion dates of September 2025. The full text of the VA management comments is provided in appendix B.

The OIG will monitor the implementation of planned actions and will close recommendations when VHA provides sufficient evidence demonstrating progress in addressing the intent of the recommendations and the issues identified.

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[7] The under secretary for health submitted the action plan in response to the OIG's recommendations. The VHA chief financial officer concurred with recommendation 1 in a separate email.

Contents

Abbreviations

ADUSH	assistant deputy under secretary for health
ARC	Allocation Resource Center
EHCPM	Enrollee Health Care Projection Model
FY	fiscal year
GAO	Government Accountability Office
OIG	Office of Inspector General
OMB	Office of Management and Budget
VHA	Veterans Health Administration

Introduction

The Veterans Health Administration (VHA) is the nation's largest integrated healthcare system. VHA's mission is to honor US veterans by providing exceptional care that improves their health and well-being. As part of that mission, VHA provides inpatient and outpatient services, including pharmacy, prosthetics, and mental health care, and formulates a medical care budget request to help secure funding for these services. According to the budget submission dated March 2022, VHA estimated it needed about $128.5 billion to care for patients in fiscal year (FY) 2023.

Ambulatory care—which refers to medical services performed in outpatient settings, such as ambulatory surgery centers and dialysis—accounted for approximately 51 percent of the FY 2023 estimated budget (about $65.1 billion). Ambulatory care is the basis by which most care is delivered within the VHA healthcare system and, according to VA's budget submission, has been one of the key drivers for VHA's increased costs to provide services to veterans. These services include primary care; a variety of specialty care, such as radiology, pathology, and outpatient surgery; and professional services, such as emergency visits, nutrition, and occupational, physical, and speech therapy.

The estimated obligations for medical and ambulatory care in each year's budget submission have increased by about 34 percent from FY 2021 to FY 2023, as shown in table 1.[8]

Table 1. VHA Estimated Obligations for FYs 2021–2023

Budget	FY 2021 (in thousands)	FY 2022 (in thousands)	FY 2023 (in thousands)	Percent increase (2021–2023)
Medical care	$95,940,679	$119,751,907	$128,544,561	34%
Ambulatory care	$48,519,222	$59,651,738	$65,102,797	34%

Source: VA's budget submissions for FYs 2021–2023.

Because ambulatory care comprises over half of the VHA medical care budget, the VA Office of Inspector General (OIG) conducted this audit to determine whether VHA has adequate controls over its budget formulation process to ensure its ambulatory care budget estimate is reliable.

[8] VA FY 2021 Budget Submission, Medical Programs and Information Technology Programs, vol. 2, Feb. 2020; VA FY 2022 Budget Submission, Medical Programs and Information Technology Programs, vol. 2, June 2021; VA FY 2023 Budget Submission, Medical Programs and Information Technology Programs, vol. 2, March 2022.

Process for Developing the Ambulatory Care Budget Estimate

Estimating the financial resources VHA needs to perform ambulatory care services involves collaboration between multiple VHA offices, data inputs from several VA and VHA systems and applications, and the expertise of a contracted actuarial consulting firm.

VHA Office of Finance

Annually, VHA is required to develop its overall healthcare budget estimate pursuant to Office of Management and Budget (OMB) requirements. VHA begins formulating its budget two years prior to the fiscal year for which it is requesting funding and uses data from the previous year. For example, VHA began formulating the FY 2023 budget submission in FY 2021 and used FY 2020 data.

The VHA Office of Finance is responsible for developing, submitting, and justifying VHA's healthcare budget estimate. The ambulatory care budget estimate is determined using a combination of modeled and nonmodeled projections. The modeled projections are prepared using the EHCPM to project the initial amount of total funding. Nonmodeled projections are those that occur outside of the EHCPM, such as legislative implementations and nonrecurring maintenance.

The Office of Finance obtains the modeled projections from the Office of Enrollment and Forecasting and the nonmodeled projections from the program offices, such as those supporting veterans experiencing homelessness and oncology services. The modeled projections accounted for approximately 89 percent of VHA's FY 2023 overall medical care budget request. The Office of Finance then supplements the modeled projection amount by adding the nonmodeled amounts and submits the overall estimate to the Office of the Under Secretary for Health for review and approval. The Office of the Under Secretary for Health submits VHA's budget estimate to VA's Office of Budget; the overall estimate is then sent to VA's assistant secretary for management/chief financial officer. The VA Secretary approves and the Office of Budget submits the overall estimate to OMB.

Managerial Cost Accounting Office

The Managerial Cost Accounting Office is a component of the Office of Finance and oversees the Managerial Cost Accounting System (formerly the decision support system)—an activity-based accounting program that divides dollars by workload. In this system, the term "dollars" refers to financial data pulled from VA's financial and payroll systems.[9] Workload includes patient care encounters and is extracted from Veterans Health Information Systems and

[9] VA uses the Financial Management System, the Integrated Financial and Acquisition Management System, and the Human Resources Payroll Application System.

Technology Architecture and Cerner/Oracle electronic health records.[10] The Managerial Cost Accounting System assigns costs to workload, such as patient visits or clinic stops. These costs are based on the expense of performing the work and include overhead.

Allocation Resource Center

The Allocation Resource Center (ARC) is a component of the Office of Finance and is responsible for providing unit costs to the Office of Enrollment and Forecasting. According to an official, the ARC staff take the cost data from the Managerial Cost Accounting System, extract workload from several data sources for VHA care and care in the community, merge the files, and assign the unit cost. For example, unit cost represents the estimated cost of a specific clinic visit, such as oncology, at a specific facility.

Office of Enrollment and Forecasting

According to staff from the Office of Enrollment and Forecasting, the office is responsible for overseeing the contracted actuarial consulting firm, acting as the liaison for VHA, gathering the data, and creating various files for submission to the consulting firm to complete the modeled projections. In the first instance, staff informed the audit team that the Office of Enrollment and Forecasting provides the actuarial consulting firm with the ARC data sets. In addition, the Office of Enrollment and Forecasting compiles information from various sources and data sets, internal and external to VA, including

- workload data (inpatients, outpatients, fees, and census);
- program office data (dental, prosthetics, and pharmacy); and
- vital statistics.

According to Office of Enrollment and Forecasting staff, the office develops and submits an assistant deputy under secretary for health (ADUSH) enrollment file to the actuarial consulting firm. The ADUSH enrollment file is a group of monthly and fiscal year-end data sets comprising enrollment, eligibility, demographic, cost, and location information for VHA enrollees and nonenrollees who have received VA care, including some nonveterans. The actuarial consulting firm uses this group of data sets to develop a master enrollment file, which is one data set used in the Enrollee Health Care Projection Model (EHCPM) to project enrollment, utilization, and expenditures.

[10] Cerner/Oracle Electronic Health Record Modernization is an effort to update VA's electronic health record system. VA selected the Cerner Corporation to replace its existing electronic health record system (Veterans Health Information Systems and Technology Architecture) to provide VA healthcare staff easy access to veterans' records, including records from military service and external healthcare providers, by storing these records in one system. As of March 2024, VA had implemented the new system at six medical centers.

Actuarial Consulting Firm

The actuarial consulting firm uses these VHA-provided data to deliver the modeled projections that are derived using the EHCPM. The FY 2021 EHCPM projects enrollment, utilization, and expenditures for the enrolled veteran population for 143 categories of healthcare services for 21 years into the future. First, the model estimates how many veterans will be enrolled in VA in each projection year by age, priority, and geographic location.[11] Next, the model projects the total healthcare services needed for these enrollees, based on the complexity of care the veterans need, and then estimates the portion of that care those enrollees will seek from VA. Finally, the total healthcare expenditures are developed by multiplying the expected VA utilization by VA unit cost.[12]

The consulting firm is responsible for providing VHA with the modeled projections, which makes up most of the projected amount for VHA's total budget estimate. To project the initial amount of funding, the consulting firm produces the EHCPM, which projects enrollment, utilization, and expenditures for the enrolled veteran population. In addition to the total estimate, the EHCPM provides the total enrollee demand for VA health care projected separately for care expected to be provided in VA facilities and care expected to be purchased in the community.[13]

Figure 1 illustrates the various offices involved in VHA's ambulatory care budget estimate along with their roles and responsibilities. Office of Finance officials confirmed the accuracy of the OIG's illustration.

[11] Enrolled veterans are assigned to a priority group based on certain factors, such as military service history, disability rating, income level, and Medicaid qualifications, to ensure they receive care in order of assigned priority, in the event of VA funding limitations.

[12] According to the consulting firm's model limitations statement, if any of the data or other listings are inaccurate or incomplete, the analysis may be too. Although the consulting firm asserts the data have been reviewed for reasonableness and, when possible, compared to past data submissions and other information, the consulting firm has not audited these data for accuracy.

[13] The consulting firm is responsible for providing actuarial services, including comparisons of methodology, analysis, and projections. The consulting firm is also responsible for maintaining and updating the EHCPM based on the data VA provides. The Actuarial Standard of Practice states that the accuracy and completeness of data are the responsibility of the data owner. The standard does not require the actuarial consulting firm to perform an audit of the data.

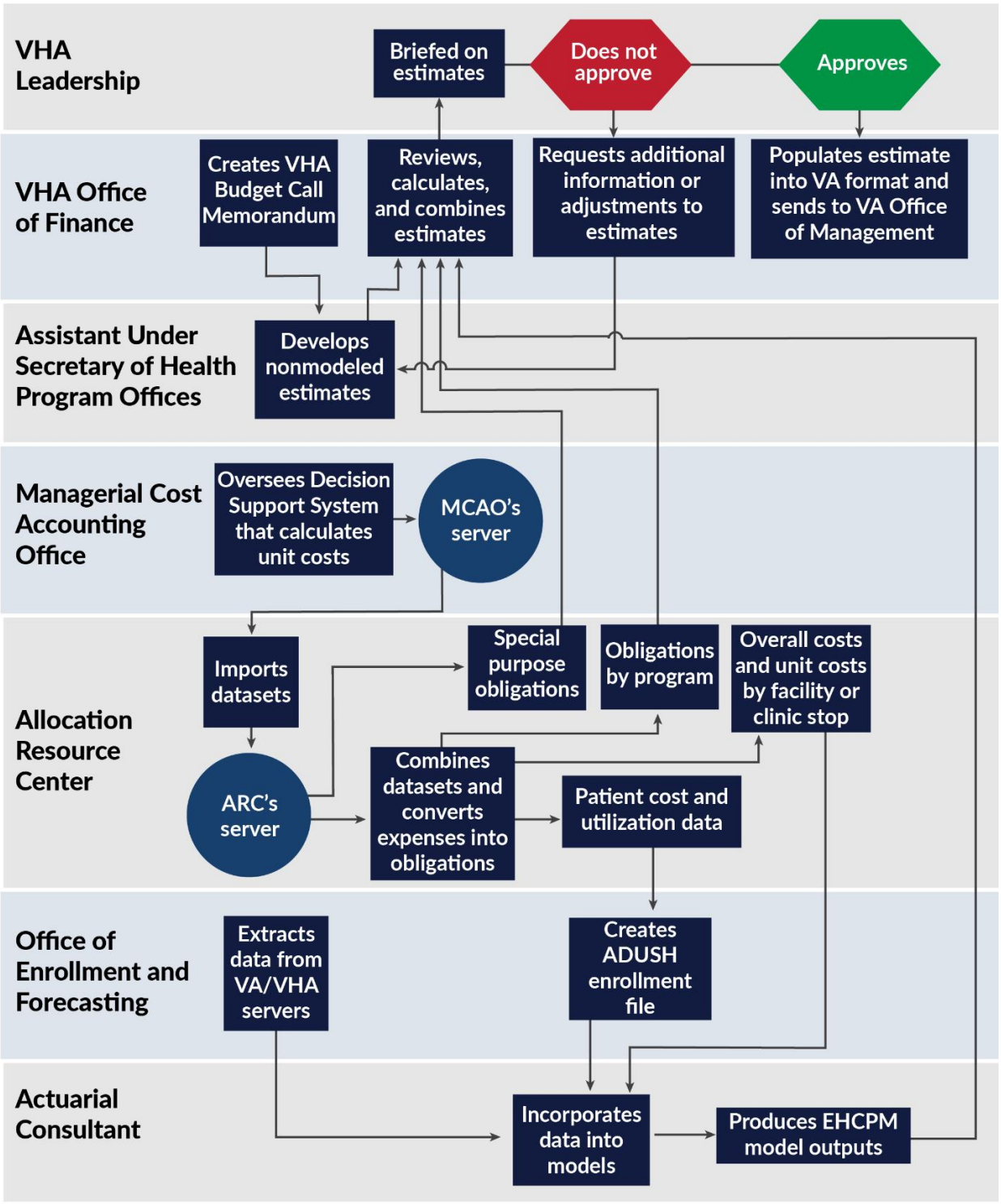

Figure 1. *VHA budget estimation process roles and responsibilities. The dark blue rectangles represent steps in the process; the light blue circles indicate servers; and the hexagons represent decisions about the budget estimate (green for approved and red for not approved).*

Source: OIG interviews with VHA leaders and staff.

Note: MCAO in the figure stands for Managerial Cost Accounting Office.

Results and Recommendations

Finding: VHA Could Help Ensure the Reliability of Its Ambulatory Care Budget Estimate by Strengthening Internal Controls over the Budget Formulation Process

VHA could strengthen the internal controls over the process to develop its ambulatory care budget estimate, which comprises about 51 percent of its overall medical care budget, to provide reasonable assurance that the estimate is reliable. The OIG identified the following opportunities to strengthen VHA's budget formulation process.

First, the VHA Office of Finance did not develop documented procedures, to include assigned roles and responsibilities, for developing its ambulatory care budget estimate to ensure organizational knowledge is maintained and consistent procedures are used to derive the estimate. A senior official from the Office of Finance told the audit team that the office had not felt that the absence of documented procedures hindered the budget formulation process and did not feel that documenting the procedures was necessary, further explaining that resources are limited and staff focus on doing the work rather than documenting the work they are doing. Nevertheless, maintaining institutional knowledge of the budget procedures could help ensure consistency when developing the ambulatory care budget estimate.

Second, VHA lacks an established data governance structure that (1) identifies the official sources of data used for the budget estimate and (2) designates the individuals responsible for overseeing these data sources and developing and maintaining policies to ensure data are accurate and consistent. The VHA Data Governance Council cochair told the OIG team that the data governance council did not have the authority to implement VA data management policies because a VHA data governance structure had not been prioritized.[14] Without an established data governance structure, VHA may continue to report inaccurate information in its budget submission and lack support for its budget request.

According to OMB, internal controls are an integral part of the entire cycle of an agency's strategic planning, including budgeting.[15] Internal controls are designed to provide reasonable assurance that an entity's objectives, such as operations, reporting, and compliance, will be achieved.[16]

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[14] VHA established a data governance council to implement VA policy and identify authoritative data sources, nominate data stewards, and develop policies and processes on data standards to ensure consistent and accurate data. VA Directive 0900, *VA Enterprise Data Management*, December 8, 2020.

[15] OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, July 15, 2016.

[16] Government Accountability Office (GAO), *Standards for Internal Control in the Federal Government*, GAO-14-704G, September 2014.

To meet the OMB requirements for adequate internal controls, VHA needs to establish and implement documented procedures that include roles and responsibilities for the process to develop its ambulatory care budget estimate. VHA should also establish official sources of data, delegate individuals responsible for overseeing the data, and develop and maintain policies to ensure accurate and consistent data are used. Without these controls, VHA lacks reasonable assurance that it has developed a reliable budget estimate.

The following determinations formed the basis for this finding and led to the OIG's recommendations:

- VHA has not documented the process for developing the ambulatory care budget estimate.
- VHA data governance over the data reported in the FY 2023 budget submission could be strengthened.

What the OIG Did

To understand the budget formulation process and assess controls over the process, the team interviewed VHA officials and staff and the contracted actuarial consulting firm, as well as reviewed VA's FY 2023 budget submission to determine the amount of VHA's overall medical care funding request, along with the individual programs within the funding request. The team also analyzed various EHCPM outputs and cost and enrollment data and reviewed applicable laws, regulations, and VA financial policy specific to budget formulation.[17]

VHA Has Not Documented the Process for Developing the Ambulatory Care Budget Estimate

VHA has not developed documented procedures for the process to develop its ambulatory care budget estimate, including documenting the roles and responsibilities for each of the offices involved in the process. According to a senior official from the Office of Finance, VHA has not established documented procedures for developing the ambulatory care budget estimate because the Office of Finance did not feel any impact from the lack of documented procedures and did not feel they were necessary. The senior official further explained that resources are limited, and staff focus on doing the work rather than documenting the work they are doing.

According to the Government Accountability Office (GAO), managers should document responsibilities through policies for each unit. The GAO's standards for internal control state that

[17] For more information about the audit's scope and methodology, see appendix A.

documentation provides a means to retain organizational knowledge and mitigate the risk of having limited knowledge over an organization's processes.[18]

The need for such documentation is highlighted because the budget formulation process requires data input from several VA systems and applications across the organization; actions from various staff within the Office of Finance and Office of Enrollment and Forecasting; as well as actions from the contracted actuarial consulting firm. Documenting the processes used to compile data and the roles and responsibilities of the staff within each office could help ensure consistency in the processes used to develop VHA's ambulatory care budget estimate.

The OIG's Compilation of the FY 2023 Process to Develop the Ambulatory Care Budget Estimate

Because VHA does not have documented medical care budget formulation procedures, the audit team had to interview Office of Finance staff to obtain an understanding of the process used to develop the FY 2023 ambulatory care budget estimate. According to Office of Finance officials and staff, VHA's priority is to determine and obtain approval for its overall medical care budget estimate. As such, an Office of Finance official told the team that they estimate VHA's ambulatory care budget by first determining VHA's overall medical care resource needs primarily via the EHCPM, which accounted for approximately 89 percent of VHA's FY 2023 overall medical care budget request.[19] The other factors that affect the budget include adjustments to the EHCPM output; nonmodeled projections for healthcare programs such as nonrecurring maintenance, community care network fees, new legislation, and program expansions; and other healthcare programs not projected by the EHCPM, such as the Program of Comprehensive Assistance for Family Caregivers.

According to an Office of Finance official, once they determine the overall medical care obligations level, totaling about $128.5 billion in FY 2023, they calculate a budget estimate for each healthcare program displayed in the budget submission, except ambulatory care. Then they apply the annual growth rate from the EHCPM for each respective healthcare program to actual obligations for that healthcare program beginning with the prior year. For example, in the FY 2023 budget submission the prior year was FY 2021, and VHA developed budget estimates for FY 2023 by applying two years of annual growth rates from the 2021 EHCPM for all healthcare programs except ambulatory care. Office of Finance officials informed the team that the remaining amount of the overall medical care obligations level after these estimates for

[18] GAO, *Standards for Internal Control in the Federal Government*.

[19] The EHCPM is a deterministic model, which means it is based on a set of assumptions that affects the model projection output over time. The EHCPM scenario used for the budget formulation process produces three primary outputs: (1) enrollment, (2) utilization, and (3) expenditures. Each of these factors is based on several complex adjustments to account for the unique characteristics of VA health care and the veterans who access VA's healthcare services.

healthcare programs are determined becomes the ambulatory care budget estimate. Table 2 shows how the Office of Finance arrived at the FY 2023 $65.1 billion ambulatory care budget estimate.

Table 2. FY 2023 Ambulatory Care Budget Estimate Calculation

FY 2023 category	FY 2023 amounts
Overall medical care obligations	$128,544,561,000
Less EHCPM healthcare program estimates (except ambulatory care)	–$56,569,330,000
Less non-EHCPM healthcare program estimates	–$6,872,434,000
Total ambulatory care budget estimate	**$65,102,797,000**

Source: VA OIG analysis of EHCPM output for FY 2023 and VHA Office of Finance calculations (net change, 2021 converted obligations, and 2021 actual obligations).

The ambulatory care budget estimate is determined based on the EHCPM and non-EHCPM healthcare program estimates. VHA's ambulatory care estimate includes adjustments to the modeled projections (derived from the EHCPM), nonmodeled projections, and projections for new legislation and program expansions.[20] However, because VHA's ambulatory care budget estimate is the amount remaining after determining the estimates for EHCPM-modeled and non-EHCPM-modeled healthcare programs, Office of Finance staff could not provide the dollar amounts for the specific program adjustments and projections that are built into the ambulatory care estimate. Office of Finance staff did provide the total dollar amount of the adjustment made to the ambulatory care estimate.

During the audit, Office of Finance staff provided explanatory footnotes to the ambulatory care line item in the FY 2025 medical care budget submission to disclose the adjustments to the cost category and the inflated healthcare program's EHCPM increases.

Effects of Not Having Documented Procedures

The need for documented procedures was apparent when an employee in the Office of Enrollment and Forecasting inherited the responsibility to compile the ADUSH enrollment file. The ADUSH enrollment file is a group of monthly and fiscal year-end data sets comprising enrollment, eligibility, demographic, cost, and location information for VHA enrollees and nonenrollees who have received VA care, including some nonveterans. The actuarial consulting firm uses this file to develop a master enrollment file, which is one data set used in the EHCPM

[20] Nonmodeled projections are projections that occur outside of the EHCPM, such as legislative implementations and nonrecurring maintenance.

to project enrollment, utilization, and expenditures. During the OIG team's interviews, the employee responsible for compiling the ADUSH enrollment file since June 2022 disclosed the need for documented procedures to compile this file, which is critical to the budget formulation process.

The employee explained that several personnel were responsible for compiling the ADUSH enrollment file before the employee inherited the responsibility, but the Office of Enrollment and Forecasting had no documentation about how to compile the file. The employee started to document processes used to compile the ADUSH enrollment file to ensure that any staff member can perform the steps needed to collect the enrollment files and generate these important data sets. An official within the Office of Enrollment and Forecasting told the OIG team that the office has been working with the Office of Finance to develop formal guidance, but with the "constant changes" in VA's leadership and annual changes to the congressional budget timeline, finalizing the guidance has been a challenge.

Despite the complexity of the medical care budget formulation process, VHA has not documented these procedures. Written processes could help ensure staff from the involved offices are aware of and understand their roles and responsibilities. Furthermore, without this documentation, VHA may not be able to retain the organizational knowledge of the processes used to develop the ambulatory care budget estimate. Documenting procedures—to include roles and responsibilities—could help provide reasonable assurance that there is consistency in the development of the ambulatory care budget estimate and could help establish oversight roles and quality assurance measures.

Office of Finance staff acknowledged that it would be helpful to document the process used to develop the ambulatory care budget estimate in addition to the roles and responsibilities of the offices involved. They stated they have not had time to develop procedures due to competing demands of work deliverables. Office of Finance officials stated they intend to develop a standard operating plan for the annual budget cycle after they complete work on the budget submission and other plans that are currently under development.

VHA Data Governance over the Data Reported in the FY 2023 Budget Submission Could Be Strengthened

VHA did not establish a data governance structure to help ensure the consistency of the information reported among its data sources and the accuracy of its data used to support the overall medical care budget request. VA policy requires VHA to establish data governance, such as identifying authoritative data sources and nominating data stewards, to ensure VHA is managing VA data in a consistent manner. The policy defines an authoritative data source as an official source of data that is recognized as trusted, timely, and secure and that is used in support of VA's business processes. According to the directive, when authoritative data are identified,

data stewards are responsible for nominating an authoritative data source.[21] A data steward is responsible for managing data, developing and maintaining policies and standards over data, and overseeing the implementation of the authoritative data sources.[22]

To comply with the requirements outlined in VA's data management policy, VHA took the initial step of establishing a data governance council, responsible for identifying authoritative data sources, nominating data stewards, and developing the policies and processes on data standards to ensure VHA provides consistent and accurate data. However, the council did not have the authority to implement VA data management policies because, according to the VHA Data Governance Council cochair, a VHA data governance structure had not been prioritized. In January 2024, during this OIG audit, VHA informed the audit team that it approved the development of an enterprise data management functional area, including a VHA chief data officer, that is structured specifically to support the VHA Data Governance Council functions, including data stewardship, policy, and standards.

As described in the following sections, VHA's lack of a data governance structure led to inconsistent and inaccurate data reported in the FY 2023 budget submission.

FY 2021 Unique Enrollment Data

According to the FY 2023 budget submission, unique enrollment data represent veterans enrolled for VA health care sometime during the year. VHA reported FY 2021, the most recently completed fiscal year, unique enrollment data for its FY 2023 overall medical care budget request. However, VHA could not provide data to support the FY 2021 actual unique enrollees reported in the FY 2023 budget submission because this number was a projection from the EHCPM, not actual enrollment. Office of Finance staff stated that they thought the FY 2021 unique enrollment number had been updated to actual enrollment when the actuarial consulting firm updated the EHCPM. The update did not include unique enrollment; therefore, the FY 2021 unique enrollment number was still a projection.

Because the FY 2021 unique enrollment information reported in the FY 2023 budget submission was a projection, the team attempted to obtain VHA's actual unique enrollment. The team requested the methodologies VHA used to obtain the data, but Office of Finance officials said that they do not have internal guidance that lists these methodologies. OMB guidelines state that data should be capable of being substantially reproduced to allow for independent analysis of the original or supporting data using identical methods.[23]

[21] VA Directive 0900.

[22] VA Data Governance Council, *Data Steward Principles for the Authoritative Data Source Selection and Implementation Guide* (draft), April 2018.

[23] OMB, *Guidelines for Ensuring and Maximizing the Quality, Objectivity, Utility, and Integrity of Information Disseminated by Federal Agencies*, October 1, 2001.

Because the Office of Finance could not provide its methodologies to determine FY 2021 actual enrollment, the team obtained and compared data from the Office of Finance and other VHA sources, including the Health Eligibility Center and the Support Service Center, for the same period.[24] The team identified a difference of about 876,000 unique enrollees reported by the Health Eligibility Center and the Office of Finance.[25] Table 3 shows the inconsistency in the number of unique enrollees reported in the FY 2023 budget submission compared to the numbers provided by the Health Eligibility Center, the Office of Finance, and the VHA Support Service Center.

Table 3. FY 2021 Unique Enrollment Inconsistencies

Data source	VHA-reported enrollees
FY 2023 budget submission (EHCPM projection)	9,134,760
Health Eligibility Center	8,383,731
Office of Finance	9,260,167
VHA Support Service Center	9,260,168

Source: VA FY 2023 Budget Submission, vol. 2; Health Eligibility Center; ARC; and VHA Support Service Center website.

Office of Finance staff stated that their numbers reflect the actual enrollee count, but a VHA directive states that the VHA Enrollment System, administered by the Health Eligibility Center, is the authoritative system for enrollment decisions.[26] However, the Health Eligibility Center briefing book clarifies that its data should not be used for budgetary purposes.[27] Because VHA has not established an authoritative source or steward for enrollment data for budget-related purposes, the team could not determine which number of unique enrollees should have been reported in the FY 2023 budget submission.

The team analyzed the ARC unique enrollment number, which is extracted from the ADUSH enrollment file, and found the file contained unique enrollees and veterans with a date of death before FY 2021 and/or a blank initial enrollment date, which means the veteran is not officially

[24] The VHA Support Service Center creates and maintains data platforms and analytic solutions that help providers work with veterans and their families.

[25] The Health Eligibility Center is VHA's program office responsible for enrollment and eligibility activities that support the delivery of VA healthcare benefits.

[26] VHA Directive 1604, *Data Entry Requirements for Administrative Data*, December 18, 2023.

[27] The Health Eligibility Center briefing book identifies VA enrollment and eligibility data for FYs 2016–2021.

enrolled in VA's healthcare system.[28] Therefore, these veterans should have been excluded from the ARC-reported number.[29] Table 4 provides more details about FY 2021 enrollment data.

Table 4. Analysis of FY 2021 Enrollment Data Reported by the ARC

Unique enrollees	Quantity
ADUSH enrollment file data extract	9,260,167
Dates of death prior to FY 2021 (exclusion)	–207,013
Blank initial enrollment date (exclusion)	–97,071
Total unique enrollees after exclusions	**8,956,083**

Source: VA OIG analysis of the ADUSH enrollment file extract.

Until VHA identifies official data sources or stewards to oversee the implementation of these sources and the development of data management procedures, VHA lacks reasonable assurance that consistent and accurate data are being used to support its overall medical care budget estimate.

FY 2021 Unique Veteran Patient Information

Similar to the unique enrollment data, VHA could not support the number of actual unique veteran patients treated in FY 2021 that, according to Office of Finance, is used to trend future years' unique patient data. According to the FY 2023 budget submission, unique patients are individuals treated by VA or whose treatment is paid for by VA. The OIG team's analysis focused on unique veteran patients, but the budget submission includes nonveteran patients (such as VA employees or veterans' family members).

The team compared the number of FY 2021 unique veteran patients reported in the FY 2023 budget submission to the number of unique veteran patients reported by the Office of Finance and VHA Support Service Center for the same period. The difference in the reported patients ranged from 96,000 to 160,000, depending on the source of VHA's data. Table 5 shows the inconsistency between the inaccurate number reported in the FY 2023 budget submission and the numbers reported by the Office of Finance and the VHA Support Service Center.

[28] The consulting firm uses the ADUSH enrollment file to develop a master enrollment file, which is one dataset used in the EHCPM to project enrollment, utilization, and expenditures.

[29] VA Information Resource Center (VIReC) Research User Guide, VHA Assistant Deputy Under Secretary for Health Enrollment Files, 2nd ed., September 2013.

Table 5. Discrepancies in Reported FY 2021 Unique Veteran Patients

Data source	VHA-reported unique veteran patients
FY 2023 budget submission	6,407,529
Office of Finance	6,311,074
VHA Support Service Center	6,247,420

Source: VA FY 2023 Budget Submission, vol. 2; Office of Finance; and VHA Support Service Center.

When the audit team requested the FY 2021 actual number of unique veteran patients, the Office of Finance provided a number that did not match VHA's FY 2023 budget submission. When the team asked for clarification, Office of Finance staff acknowledged they identified a discrepancy with the number of unique veteran patients reported in the FY 2023 budget submission because their data contained duplicates. Office of Finance staff stated that they will ensure the number of unique veteran patients is correct in future budget submissions.

Without establishing a data governance structure, VHA cannot provide reasonable assurance that consistent and accurate data are being reported in support of the VHA medical care budget and therefore the development of the ambulatory care budget estimate. According to OMB and the GAO, government agencies have a responsibility to report reliable information to Congress and the public.[30] Without internal controls, such as a data governance structure with defined authoritative data sources and designated data stewards, VHA is at risk of continuing to report inaccurate and inconsistent data.

Conclusion

VHA's Office of Finance uses a calculation to develop its ambulatory care budget estimate but does not have documented procedures to ensure the methodologies and processes are consistently applied. Moreover, the Office of Finance cannot provide the methodologies used for independent analysis and validation of the data used in developing and supporting its ambulatory care budget estimate. Without written procedures, VHA may not be able to retain the organizational knowledge of the processes used to formulate the ambulatory care budget estimate.

In addition, VHA has not established a data governance structure to include establishing authoritative data sources and nominating data stewards. Authoritative sources of data could help ensure that the data used in support of VHA's businesses processes is consistent, and data stewards could help ensure that VA's data management policies are implemented within VHA. Establishing these controls could help ensure consistency in the data reported to Congress.

[30] OMB Circular A-123; GAO, *Standards for Internal Control in the Federal Government*.

Strengthening these internal controls could also help VHA improve transparency and accountability for the data and methods used in developing its ambulatory care budget estimate. VHA has taken steps to establish documented procedures and a strong data governance structure, and the OIG recognizes these efforts. However, until VHA strengthens the internal controls for developing its ambulatory care budget estimate, it cannot provide reasonable assurance that its ambulatory care budget estimate is reliable.

Recommendations 1–4

The OIG made one recommendation to the VHA chief financial officer:

1. Establish and implement guidance for quality assurance measures over the data used to develop and justify the ambulatory care budget estimate.

The OIG made three recommendations to the under secretary for health:

2. Ensure the deputy under secretary for health provides oversight and holds the Office of Finance accountable for developing, documenting, and implementing standard operating procedures to include defining roles and responsibilities and requirements for oversight and quality assurance for development of the ambulatory care budget estimate.
3. Implement the Veterans Health Administration Data Governance Council, to include developing policies and processes for data management across the Veterans Health Administration.
4. Ensure the Veterans Health Administration Data Governance Council identifies authoritative data sources and nominates data stewards for approval by the VA Data Governance Council.

VA Management Comments

The VHA chief financial officer concurred with recommendation 1, and the under secretary for health concurred with recommendations 2 through 4.[31] The under secretary for health provided responsive action plans for all four recommendations with target completion dates of September 2025. For recommendation 1, the Office of Finance will document the sources used to produce the unique veteran enrollee count and the unique veteran patient count; will develop, document, and implement a standard operating procedure that outlines the roles and responsibilities for reporting these two counts for the prior year in the annual budget submission; and will develop quality control measures to mitigate inconsistency in reporting of these counts in the annual budget submission. For recommendations 2 through 4, the Office of Finance is developing standard operating procedures for developing the ambulatory care budget estimate;

[31] The under secretary for health submitted the action plans in response to the OIG's recommendations. The VHA chief financial officer concurred with recommendation 1 in a separate email.

the VHA Digital Health Office will work with the VHA Data Governance Council to implement the VHA Data Strategy and Roadmap; and the VHA Data Governance Council will identify authoritative data sources and nominate data stewards. The full text of the under secretary's comments is provided in appendix B.

OIG Response

The OIG will monitor the implementation of planned actions and will close recommendations when VHA provides sufficient evidence demonstrating progress in addressing the intent of the recommendations and the issues identified.

Appendix A: Scope and Methodology

Scope

The audit team conducted its work from April 2023 through July 2024.

Methodology

To understand the budget formulation process, the team reviewed the Veterans Health Administration (VHA)'s fiscal year (FY) 2023 budget submission to determine the amount of VHA's overall medical care funding request, along with the individual programs contained within the funding request. To assess controls over VHA's process to develop its FY 2023 ambulatory care budget estimate, the team interviewed VA and VHA officials and staff, including the actuarial consulting firm. The team also analyzed various Enrollee Health Care Projection Model (EHCPM) output and cost data and reviewed applicable laws, regulations, and VA financial policy specific to budget formulation.

Internal Controls

The team assessed VHA's internal controls to determine whether they were significant to the audit objective. This included an assessment of the five internal control components: control environment, risk assessment, control activities, information and communication, and monitoring.[32] In addition, the team reviewed the principles of internal controls as associated with the objective. The team identified two components and four principles as significant to the objective.[33] The team identified internal control weaknesses during this audit and proposed recommendations to address the control deficiencies listed in table A.1.

Table A.1. VA Office of Inspector General (OIG) Analysis of Internal Control Components and Principles Identified as Significant

Component	Principle	Deficiency identified by this report
Control environment	2. The oversight body should oversee the entity's internal control system.	VHA lacks internal controls over the ambulatory care budget estimate.

[32] Government Accountability Office (GAO), *Standards for Internal Control in the Federal Government*, GAO-14-704G, September 2014.

[33] Since the audit was limited to the internal control components and underlying principles identified, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

Component	Principle	Deficiency identified by this report
	3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.	VHA lacks defined roles and responsibilities within the staff offices and for individuals involved in the budget formulation process.
Control activities	10. Management should design control activities to achieve objectives and respond to risks.	VHA officials have not developed internal controls that address control activities over the budget formulation process.
	12. Management should implement control activities through policies.	VHA officials have not developed or implemented policies or standard operating procedures to govern the development of the ambulatory care budget estimate.

Source: VA OIG analysis of internal control components and principles. The principles listed are consistent with the GAO Standards for Internal Control in the Federal Government.

Data Reliability

The team obtained unit cost data that, according to the Office of Enrollment and Forecasting staff, are used to justify and/or formulate VHA's healthcare budget estimate. In addition, the team reviewed the FY 2021 ambulatory care services obligations reported as actual in the FY 2023 budget submission. The team attempted to test the data for reliability and completeness and encountered the following challenges:

- **Unit costs.** According to the VA 2021 EHCPM Model Documentation Report, VA unit costs were used in the development of projected expenditures in the EHCPM for VHA's FY 2023 medical care budget estimate.[34] An Allocation Resource Center (ARC) official told the audit team that it produced the unit cost data using a web of coding to convert unit costs calculated based on total expenses to unit costs based on total obligations. Because of the significant coding process, the audit team could not independently validate the unit costs; therefore, the team was unable to determine whether these amounts were sufficiently reliable for the purposes of this audit.
- **Obligations.** The FY 2021 ambulatory care obligation amount is reported in the budget submission to reflect the effect of budget decisions over time.[35] However, the team was unable to determine the actual FY 2021 obligation amount for ambulatory care. An ARC official informed the audit team that the number used in

[34] VA EHCPM Model Documentation Report, 2021 Model Documentation and Analysis, January 14, 2022.

[35] OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, August 2021.

the budget submission is calculated and not supported by a list of transactions. According to the Office of Finance, this is because the Financial Management System accounting strings, which are used to execute the medical center's budgets, do not allow the capture of granular clinical details. Accordingly, the Office of Finance could not provide a list of ambulatory care obligations aligning with the obligation amounts reported for ambulatory care. Moreover, the ARC official said that they used coding methods to determine the reported obligations. Consequently, the team was unable to determine whether these amounts were sufficiently reliable for the purposes of this audit.

Consequently, the team was unable to perform data reliability testing and determined the data were not sufficiently reliable for the purposes of this audit.

Government Standards

The OIG conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that the OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on audit objectives. The OIG believes the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

Appendix B: VA Management Comments

Department of Veterans Affairs Memorandum

Date: August 2, 2024

From: Under Secretary for Health (10)

Subj: Office of Inspector General (OIG) Draft Report, Veterans Health Administration (VHA) Needs to Establish Internal Controls for Developing Its Ambulatory Care Budget Estimate. (VIEWS 11966767)

To: Assistant Inspector General for Audits and Evaluations (52)

1. Thank you for the opportunity to review and comment on OIG's draft report on VHA Needs to Establish Internal Controls for Developing Its Ambulatory Care Budget Estimate. VHA concurs with recommendations 1-4 made to the Under Secretary for Health and provides an action plan in the attachment.

2. VHA appreciates OIG's assistance in identifying an opportunity to strengthen our processes by developing, documenting, and implementing standard operating procedures for the development of the ambulatory care budget estimate. VHA also appreciates OIG for assisting in identifying an opportunity to strengthen our data governance process. This will provide assurance that we report consistent and accurate data in the budget submission, supporting the ambulatory care budget estimate.

The OIG removed point of contact information prior to publication.

(Original signed by)

Shereef Elnahal M.D., MBA

Attachment

Attachment

VETERANS HEALTH ADMINISTRATION (VHA)

Action Plan

OIG Draft Report, Audit of VHA's Medical Care Budget Formulation Process

(OIG Project Number 2023-01624-AE-0064)

Recommendation 1. Establish and implement guidance for quality assurance measures over the data used to develop and justify the ambulatory care budget estimate.

VHA Comments: Concur

The Veterans Health Administration (VHA) Office of Finance will document the sources used to produce the unique Veteran enrollee count that is reported for the prior year in each year's annual budget submissions. The VHA Office of Finance will also document the sources used to produce the unique Veteran patient count that is reported for the prior year in each year's annual budget submission.

In addition to documenting the sources used to produce the unique Veteran enrollee and patient counts, the VHA Office of Finance will develop, document, and implement a standard operating procedure that outlines the roles and responsibilities for the reporting of the unique Veteran enrollee and patient counts for the prior year in each year's annual budget submission. The VHA Office of Finance will also develop quality control measures designed to mitigate against sources of inconsistency in the reporting of the unique Veteran enrollee and patient counts in the annual budget submission.

Status: In Progress Target Completion Date: September 2025

Recommendation 2. Ensure the Deputy Undersecretary for Health provides oversight and holds the Office of Finance accountable for developing, documenting, and implementing standard operating procedures to include defining roles and responsibilities and requirements for oversight and quality assurance for development of the ambulatory care budget estimate.

VHA Comments: Concur

VHA is committed to continuous process improvement. The VHA Office of Finance is in the process of developing, documenting, and implementing standard operating procedures, to include defining roles and responsibilities and requirements for oversight and quality assurance, for development of the ambulatory care budget estimate. The VHA Office of Finance will submit the standard operating procedures to the Deputy Under Secretary of Health for review and approval.

Status: In Progress Target Completion Date: September 2025

Recommendation 3. Implement the Veterans Health Administration Data Governance Council, to include developing policies and processes for data management across the Veterans Health Administration.

VHA Comments: Concur

The VHA Digital Health Office will work with the VHA Data Governance Council to implement the VHA Data Strategy and Roadmap, which includes developing policies and processes for data management across VHA.

Status: In Progress Target Completion Date: September 2025

Recommendation 4. Ensure the Veterans Health Administration Data Governance Council identifies authoritative data sources and nominates data stewards for approval by the Veterans Affairs Data Governance Council.

VHA Comments: Concur

The VHA Data Governance Council will identify authoritative data sources and will nominate data stewards for approval by the Veterans Affairs Data Governance Council.

Status: In Progress Target Completion Date: September 2025

For accessibility, the original format of this appendix has been modified to comply with Section 508 of the Rehabilitation Act of 1973, as amended.

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