



Testimony

Before the Subcommittee on Oversight
and Investigations, Committee on
Veterans' Affairs, House of
Representatives

For Release on Delivery
Expected at 4:00 p.m. ET
Tuesday, February 10, 2015

LAND-USE AGREEMENTS

Improved Data Reliability and Monitoring Needed for Department of Veterans Affairs

Statement of Stephen Lord, Managing Director
Forensic Audits and Investigative Service

Chairman Coffman, Ranking Member Kuster, and Members of the Subcommittee:

I am pleased to come before the subcommittee to discuss the findings of our August 2014 report on the Department of Veterans Affairs' (VA) use of land-use agreements.¹ With over 7,400 buildings situated on more than 35,000 acres of land, VA continues to rank among the largest federal landholding organizations, and also operates one of the largest health care–related real-estate portfolios in the nation. To manage these properties, VA relies on land-use authorities that allow VA to enter into various types of agreements for the use of its property. For example, VA has authority to enter into sharing agreements with entities to use VA space on behalf of veterans or nonveterans in exchange for payment or services. Other authorities include enhanced-use leases, outleases, licenses, and permits.² VA receives revenue, in-kind considerations, or both, from entities that use VA's space. In-kind considerations can be used to offset the costs of maintaining its property through cost avoidance or savings, or to enhance the availability of the services it offers to veterans or its employees. Examples of the benefits derived from leasing its property can include providing additional care options to homeless veterans, making parking available for veterans seeking treatment, or providing child-care services for VA employees and others. VA agreements may also offer benefits to the community as a whole, such as recreational facilities and credit unions.

For all federal agencies, including VA, we have identified the management of federal real property as a high-risk area and have included it on GAO's High-Risk List since 2003.³ In February 2013, we reported that federal departments and agencies have given high-level attention to this issue and have made progress in real-property

¹GAO, *Land-Use Agreements: Department of Veterans Affairs Needs to Improve Data Reliability and Monitoring*, [GAO-14-501](#) (Washington D.C.: Aug. 18, 2014).

²For enhanced-use leases, VA may lease property under its jurisdiction or control (typically underutilized or vacant property) to a public or private entity for up to 75 years to provide for supportive housing. For outleases, VA leases real property to public or private interests outside of VA for up to 3 years. For licenses, VA gives a nonfederal party permission to enter upon and do a specific act or series of acts upon the land without possessing or acquiring any estate therein. For permits, VA gives another federal agency permission to enter upon and do a specific act or series of acts upon the land.

³GAO, *High-Risk Series: An Update*, [GAO-13-283](#) (Washington, D.C.: Feb. 14, 2013).

management. However, the underlying challenges remain, such as the absence of consistent, accurate, and useful data to support decision making.

My remarks today highlight the key findings of our August 2014 report on VA land-use agreements. Specifically, like the report, this testimony discusses the extent to which VA (1) maintains reliable data on land-use agreements and the revenue they generate, (2) monitors the billing and collection processes at selected VA medical centers, and (3) monitors land-use agreements at selected VA medical centers.

For the report, we analyzed data from VA's database on its land-use agreements for fiscal year 2012, which were the most-recent data available at the time we initiated our review. We took steps to assess the reliability of the data in the Capital Asset Inventory (CAI) by interviewing agency officials knowledgeable about the data, reviewing systems documentation, analyzing the data to assess accuracy and completeness, and taking steps to corroborate certain data from CAI to land-use agreements and other source documents at three selected sites: New York City, New York; North Chicago, Illinois; and West Los Angeles, California. We determined that while the CAI data were reliable enough to select our three sites for review, as discussed later, the data were not sufficiently reliable for the purposes of reporting the total number of agreements held by VA and the revenue those agreements generated in fiscal year 2012 for this audit. We also reviewed agency documentation and interviewed VA officials. In addition, we visited the three selected medical centers to review the monitoring of land-use agreements and the collection and billing of the associated revenues. We selected medical centers with the largest number of agreements or those with high amounts of estimated revenue. The site-visit results cannot be generalized to all VA facilities. Further details on our scope and methodology are included in the August 2014 report.⁴ Our work for that report was conducted in accordance with generally accepted government auditing standards.

In summary, we found that VA did not maintain reliable data on the total number of land-use agreements and the revenue they generate. Further, our work found weaknesses in the billing and collection processes for

⁴[GAO-14-501](#).

land-use agreements at three selected VA medical centers due primarily to ineffective monitoring. Finally, we found that VA did not effectively monitor many of its land-use agreements at its medical centers in West Los Angeles and New York. These problems included unenforced agreement terms, expired agreements, and instances where land-use agreements did not exist where they should. At these sites, VA did not perform systematic reviews and has not established mechanisms to do so, thus hindering its ability to effectively monitor its agreements and use of its properties. After reviewing our draft report, VA concurred with all six of our recommendations and indicated planned actions to address them.

VA Does Not Maintain Reliable Data on the Number of Land-Use Agreements and Their Associated Revenues

In August 2014, we reported that, on the basis of our review of land-use agreement data for fiscal year 2012, VA does not maintain reliable data on the total number of land-use agreements and VA did not accurately estimate the revenues those agreements generate. According to the land-use agreement data provided to us from VA's Capital Asset Inventory (CAI) system—the system VA utilizes to record land-use agreements—VA reported that it had over 400 land-use agreements generating over \$24.8 million in estimated revenues for fiscal year 2012. However, when one of VA's administrations—the Veterans Health Administration (VHA)—initiated steps to verify the accuracy and validity of the data it originally provided to us, it made several corrections to the data that raised questions about their accuracy, validity, and completeness.

Examples of these corrections include the following:

- at one medical center, one land-use agreement was recorded 37 times, once for each building listed in the agreement; and
- VHA also noted that 13 agreements included in the system should have been removed because those agreements were terminated prior to fiscal year 2012.

At the three VA medical centers we reviewed, we also found examples of errors in the land-use agreement data. Examples of these errors include the following:

- VHA did not include 17 land-use agreements for the medical centers in New York and North Chicago, collectively.
- VHA incorrectly estimated the revenues it expected to collect for the medical center in West Los Angeles. VHA revised its estimated revenues from all land-use agreements in fiscal year 2012 from about \$700,000 to over \$810,000. However, our review of VA's land-use agreements at this medical center indicated that the amount that

should have been reflected in the system was approximately \$1.5 million.

VA policy requires that CAI be updated quarterly until an agreement ends. VA's approach on maintaining the data in CAI relies heavily on data being entered timely and accurately by a staff person in the local medical center; however, we found that VA did not have a mechanism to ensure that the data in CAI are updated quarterly as required and that the data are accurate, valid, and complete. By implementing a mechanism that will allow it to assess whether medical centers have timely entered the appropriate land-use agreement data into CAI, and working with the medical centers to correct the data, as needed, VA would be better positioned to reliably account for land-use agreements and the associated revenues that they generate.

Additional Monitoring at Three VA Medical Centers Could Improve the Billing and Revenue-Collection Process for Land-Use Agreements

In our August 2014 report, we also found weaknesses in the billing and collection processes for land-use agreements at three selected VA medical centers due primarily to ineffective monitoring.

- **Inadequate billing:** We found inadequate billing practices at all three medical centers we visited. Specifically, we found that VA had billed partners in 20 of 34 revenue-generating land-use agreements for the correct amount; however, the partners in the remaining 14 agreements were not billed for the correct amount.⁵ On the basis of our analysis of the agreements, we found that VA underbilled by almost \$300,000 of the approximately \$5.3 million that was due under the agreements, a difference of about 5.6 percent. For most of these errors, we found that VA did not adjust the revenues it collected for inflation. We also found that the West Los Angeles medical center inappropriately coded the billing so that the proceeds of its sharing agreements, which totaled over \$500,000, were sent to its facilities account rather than the medical-care appropriations account that benefits veterans, as required.⁶ VA officials stated that the department did not perform systematic reviews of the billings and collections practices at the three medical centers, which we discuss in more

⁵We reviewed a total of 59 land-use agreements; of these, 25 did not generate revenue in fiscal year 2012.

⁶Department of Veterans Affairs, *Sharing Use of Space*, Veterans Health Administration Handbook 1820.1 (Mar. 7, 2005).

detail later. A mechanism for ensuring transactions are promptly and accurately recorded could help VA collect revenues that its sharing partners owe.

- Opportunities for improved collaboration: At New York and North Chicago, we found that VA could improve collaboration among key internal staff, which could enhance the collections of proceeds for its land-use agreements. For example, at the New York site, the VA fiscal office created spreadsheets to improve the revenue collection for more than 20 agreements. However, because the contracting office failed to inform the fiscal office of the new agreements, the fiscal office did not have all of the renewed contracts or amended agreements that could clearly show the rent due. According to a VA fiscal official at the New York office, repeated requests were made to the contracting office for these documents; however, the contracting office did not respond to these requests by the time of our visit in January 2014. By taking additional steps to foster a collaborative environment, VHA could improve its billing and collection practices.
- No segregation of duties: On the basis of a walkthrough of the billing and collections process we conducted during our field visits, and an interview with a West Los Angeles VA official, we found that West Los Angeles did not properly segregate duties. Specifically, the office responsible for monitoring agreements also bills the invoices, receives collections, and submits the collections to the agent cashier for deposit. Because of the lack of appropriate segregation of duties at West Los Angeles, the revenue-collection process has increased vulnerability to potential fraud and abuse. This assignment of roles and responsibilities for one office is not typical of the sites we examined. At the other medical centers we visited, these same activities were separated amongst a few offices, as outlined in VA's guidance on deposits.⁷

VA headquarters officials informed us that program officials located at VA headquarters do not perform any systematic review to evaluate the medical centers' processes related to billing and collections at the local level. VA officials further informed us that VHA headquarters also lacks critical data—the actual land-use agreements—that would allow it to routinely monitor billing and collection efforts for land-use agreements across the department. One VA headquarters official told us that the agency is considering the merits of dispatching small teams of staff from

⁷Department of Veterans Affairs, *Administrative Fiscal Policies and Procedures*, vol. VIII, ch. 1 (October 2013).

program offices located at VA's headquarters to assist the local offices with activities such as billing and collections. However, as of May 2014, VA had not implemented this proposed action or any other mechanism for monitoring the billing and collections activity at the three medical centers. Until VA performs systematic reviews, VA will lack assurance that the three selected medical centers are taking all required actions to bill and collect revenues generated from land-use agreements.

VA Did Not Effectively Monitor Many of Its Land-Use Agreements at New York and West Los Angeles Medical Centers

In our August 2014 report, we found that VA did not effectively monitor many of its land-use agreements at the New York and West Los Angeles medical centers. We found problems with unenforced agreement terms, expired agreements, and instances where land-use agreements did not exist. Examples include the following:

- In West Los Angeles, VA waived the revenues in an agreement with a nonprofit organization—\$250,000 in fiscal year 2012 alone—due to financial hardship. However, VA policy does not allow revenues to be waived.
- In New York, one sharing partner—a local school of medicine—with seven expired agreements remained on the property and occupied the premises without written authorization during fiscal year 2012. Our review of VA's policy on sharing agreements showed that VA did not have any specific guidance on how to manage agreements before they expired, including the renewal process.
- In New York, we observed more antennas on the roof of a VA facility than the New York medical center had recorded in CAI. After we brought this observation to their attention, New York VA officials researched the owners of these antennas and could not find written agreements or records of payments received for seven antennas. According to New York VA officials, now that they are aware of the antennas, they will either establish agreements with the tenants or disconnect the antennas.
- The City of Los Angeles has used 12 acres of VA land for recreational use since the 1980s without a signed agreement or payments to VA. An official said that VA cannot negotiate agreements in this case due to an ongoing lawsuit brought on behalf of homeless veterans about its land-use agreement authority.

We found that VA had not established mechanisms to monitor the various agreements at the West Los Angeles and New York medical centers. VA officials stated that they had not performed systematic reviews of these agreements and had not established mechanisms to enable them to do so. Without a mechanism for accessing land-use agreements to perform

needed monitoring activities, VA lacks reasonable assurance that the partners are meeting the agreed-upon terms, agreements are renewed as appropriate, and agreements are documented in writing, as required. This is particularly important if sharing partners are using VA land for purposes that may increase risk to VA's liability (e.g., an emergency situation that might occur at the park and fields in the city of Los Angeles). Finally, with lapsed agreements, VA not only forgoes revenue, but it also misses opportunities to provide additional services to veterans in need of assistance and to enhance its operations.

Implementation of Recommendations Could Enhance the Quality of Data That VA Collects, Enhance VA's Monitoring of Revenue and Agreements, and Improve VA's Accountability

Our August 2014 report made six recommendations to the Secretary of Veterans Affairs to improve the quality of the data collected on specific land-use agreements (i.e., sharing, outleases, licenses, and permits), enhance the monitoring of its revenue process and monitoring of agreements, and improve the accountability of VA in this area. Specifically, we recommended that VA

- develop a mechanism to independently verify the accuracy, validity, and completeness of VHA data for land-use agreements in CAI;
- develop mechanisms to monitor the billing and collection of revenues for land-use agreements to help ensure that transactions are promptly and accurately recorded at the three medical centers;
- develop mechanisms to foster collaboration between key offices to improve billing and collections practices at the New York and North Chicago medical centers;
- develop mechanisms to access and monitor the status of land-use agreements to help ensure that agreement terms are enforced, agreements are renewed as appropriate, and all agreements are documented in writing as required, at the New York and West Los Angeles selected medical centers;
- develop a plan for the West Los Angeles medical center that identifies the steps to be taken, timelines, and responsibilities in implementing segregation of duties over the billing and collections process; and
- develop guidance on managing expiring agreements at the three medical centers.

After reviewing our draft report, VA concurred with all six of our recommendations. VA's comments are provided in full in our August 2014 report.

In November 2014, VA provided us an update on the actions it is taking to respond to these recommendations in our August 2014 report. These

actions include (1) drafting CAI changes to improve data integrity and to notify staff of expiring or expired agreements, (2) updating guidance and standard operating procedures for managing land-use agreements and training staff on the new guidance, and (3) transitioning oversight and operations of the West Los Angeles land-use agreement program to the regional level. If implemented effectively, these actions should improve the quality of the data collected on specific land-use agreements, enhance the monitoring of VA's revenue process and agreements, and improve accountability for these agreements.

Chairman Coffman, Ranking Member Kuster, and members of the subcommittee, this concludes my prepared remarks. I look forward to answering any questions that you may have at this time.

For further information on this testimony, please contact Stephen Lord at (202) 512-6722 or lords@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals making key contributions to this testimony include Matthew Valenta, Assistant Director; Carla Craddock; Marcus Corbin; Colin Fallon; Olivia Lopez; and Shana Wallace.

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's website (<http://www.gao.gov>). Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to <http://www.gao.gov> and select "E-mail Updates."

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, <http://www.gao.gov/ordering.htm>.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

Connect with GAO

Connect with GAO on [Facebook](#), [Flickr](#), [Twitter](#), and [YouTube](#).
Subscribe to our [RSS Feeds](#) or [E-mail Updates](#). Listen to our [Podcasts](#).
Visit GAO on the web at www.gao.gov.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Website: <http://www.gao.gov/fraudnet/fraudnet.htm>

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Katherine Siggerud, Managing Director, siggerudk@gao.gov, (202) 512-4400, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, DC 20548

