



Department of
Veterans Affairs

Office of Inspector General

SPECIAL INQUIRY

**ALLEGED MISMANAGEMENT OF THE HOUSEKEEPING
QUARTERS AT UNIVERSITY DRIVE, VA MEDICAL CENTER,
PITTSBURGH, PENNSYLVANIA**

**Date: January 10, 1997
Report No. 7PR-A19-027**

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Office of Inspector General
Washington DC 20420



DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420

TO: Under Secretary for Health (10)
Director, Veterans Integrated Service Network No. 4 (10N4)

SUBJ: Alleged Mismanagement of the Housekeeping Quarters at University Drive,
VA Medical Center, Pittsburgh, Pennsylvania — Report Number 7PR-A19-027

1. The Department of Veterans Affairs (VA) received an inquiry from Senator Arlen Specter about a constituent's complaint regarding the University Drive VA Medical Center in Pittsburgh. According to the complainant, the Medical Center Director authorized wasteful spending on his government quarters. The Office of Inspector General (OIG) Special Inquiries staff conducted an inquiry to determine the validity of the allegations.

2. We found that the Medical Center spent approximately \$201,000 for repairs and renovations on the Director's Residence. VA policy requires the cost of maintaining and operating housekeeping quarters be recoverable through their rental income. The expenditures on the Director's Residence exceeded the Medical Center's estimate of rental income available for renovations and repairs by about \$79,000.

3. Several factors contributed to the overspending in Pittsburgh. The former Medical Center Director and the Eastern Region approved a nonrecurring maintenance project for quarters without ensuring that quarters income could support these expenditures. The Real Property Management Office (RPMO) in Central Office told Medical Center officials they could authorize significantly higher expenditures on quarters than allowed by VA policy. RPMO also did not provide Medical Center officials with an accurate model to determine quarters spending limits, and VA did not implement uniform design standards required by the Office of Management and Budget (OMB). We also found that local management of the interior renovation project and the Director's selection of nonstandard quarters amenities increased spending over planned levels.

4. During our review, we identified additional issues related to the process used to establish quarters rents. We found that RPMO permitted the Medical Center to make unauthorized reductions to quarters rents without ensuring that the reductions were consistent with OMB guidelines. We also found that Medical Center did not initiate timely action to obtain new appraisals on renovated quarters. As a result, employees benefited from rents which appeared lower than market levels.

5. We recommended that the Veterans Health Administration (VHA) issue policies to implement revised OMB quarters requirements and to establish a current rent adjustment procedure. We also recommended that VHA ensure that appropriate officials review and approve quarters management decisions in accordance with relevant policies and regulations. We recommended that the VISN take appropriate action to improve the performance of responsible Medical Center officials, to obtain historic preservation orientation, and to recover lost rental income.

6. You agreed with our findings and recommendations. We will continue to follow-up on these issues until all recommendations are implemented. Thank you for the courtesy and cooperation your personnel extended to my staff during this review.

/s/

JACK H. KROLL

Assistant Inspector General for

Departmental Reviews and Management Support

Enclosure

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SPECIAL INQUIRY

ALLEGED MISMANAGEMENT OF THE HOUSEKEEPING QUARTERS AT UNIVERSITY DRIVE VA MEDICAL CENTER, PITTSBURGH

Report No. 7PR-A19-027

INTRODUCTION

Purpose

The Department of Veterans Affairs (VA) Office of Inspector General (OIG) Special Inquiries staff reviewed a complaint concerning the University Drive VA Medical Center in Pittsburgh. The complainant raised issues concerning personnel practices and housekeeping quarters management at the Aspinwall Division. The OIG received the allegations from the complainant by letter and through Senator Arlen Specter.

Background

The University Drive Medical Center has two divisions, University Drive and Aspinwall. At the Aspinwall Division, the Government constructed the original Georgian Revival buildings during the period from 1924 to 1932. In 1981, the Department of the Interior designated a group of original buildings at Aspinwall, including the housekeeping quarters, as eligible for inclusion in the National Register of Historic Places. From 1988 through 1990, VA completed the process of obtaining approval to demolish some of the buildings at Aspinwall to make way for a new hospital building. The Medical Center has 18 housekeeping quarters units.

In the spring of 1994, Mr. Thomas A. Cappello learned he would be the new Director in Pittsburgh. In July 1994, the Medical Center management notified the Regional Director that they intended to renovate Building 13 with local funds for Mr. Cappello's use. Building 13 is a two story, four bedroom unit included in the Aspinwall historic district.

In August 1994 an employee's family vacated Building 13 in part due to its condition. Changes in temperature had cracked the plaster covering the exterior walls, and lead paint was chipping and peeling. Medical Center officials noted additional maintenance concerns at the time. Maintenance crews had patched portions of the hardwood floors with plywood. The baseboards in some rooms were missing and replaced with aluminum foil. The roof over the sun porch leaked and workers had removed its flooring, exposing the flooring adhesive. The basement had a mold problem, and there was a musty odor on the first floor. The ceramic tile in the upstairs bathrooms had leaked, causing water

damage to the ceilings below. One bathroom had problems with the shower and drain switches, and another had drain problems. The dishwasher, washing machine, and clothes dryer were reportedly worn out.

Another reason Building 13 was vacated is that it traditionally was made available to the Director for his quarters. When Mr. Cappello arrived at Pittsburgh in August 1994, he moved into quarters unit 16W at Aspinwall. He lived there until March 1995, when he moved into the renovated Building 13 (Director's Residence). Mr. Cappello vacated the Director's Residence in April 1996.

Scope

In August 1995, we received an anonymous complaint and a related inquiry from Senator Specter concerning the Director at the University Drive Medical Center in Pittsburgh, Pennsylvania. According to the complainant, the Medical Center inappropriately transferred two employees from Florida and spent too much money renovating the Director's Residence for Mr. Cappello. We reviewed official personnel documents and found the employee transfers did not violate personnel regulations. Therefore, we did not pursue those issues further. We reviewed the complainant's allegation that the expenditures on the Director's Residence were excessive. We also reviewed the process used to establish rents.

We took sworn, taped testimony from Mr. Cappello and employees in Engineering, Environmental Management, and Acquisition and Materiel Management Services. We also interviewed the previous resident and an officer of a construction company that helped renovate the Director's Residence. We reviewed the renovation contract, the available maintenance and expenditure records, and the rent and appraisal records on the Director's Residence. We reviewed the historic preservation and property management files on the Director's Residence found in Central Office (CO). We also reviewed policies and regulations concerning government housing quarters, historic preservation, and VA construction management.

RESULTS AND RECOMMENDATIONS

Allegation 1: The Veterans Health Administration (VHA) Spent Too Much Money to Renovate the Director's Residence.
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According to the complainant, Mr. Cappello spent more than \$150,000 to renovate the Director's Residence, and the project escalated due to the decorating preferences of Mr. Cappello (b)(6)..... We found total expenditures on the Director's Residence were about \$201,000 or about \$79,000 more than the calculated spending ceiling for this property.¹ We found that the responsibility for spending extended beyond Mr. Cappello, although he and his managers were responsible for about \$46,000 in unplanned spending. We concluded that VHA quarters maintenance procedures needed to be improved locally and at headquarters.

VHA Officials Approved One Quarters Project and Told the Medical Center to Overlook VHA Policy on Other Projects

The former Medical Center Director initiated the original plans to repair and improve quarters at Aspinwall, including the Director's Residence. As part of the project to construct the new hospital, some quarters received new water mains. In November 1990, the former Director applied for a project to waterproof the basements and replace the water and sewage systems of the remaining quarters buildings, including the Director's Residence. VHA did not approve this project. The former Director resubmitted this project in March 1994, and VHA Eastern Region approved it as a Non-Recurring Maintenance (NRM) project for fiscal year 1995. According to management, \$33,132 of this project's costs were for the Director's Residence.²

VHA Supplement MP-3, Part I, paragraph 4.04, required Regions to review NRM project submissions for accuracy, completeness, and appropriateness. Paragraph 3.19 required the costs of operating quarters be offset with income derived from the units. In this case, the Region approved the NRM project without an analysis of the economic impact on the quarters units. We therefore concluded that the Region approved the NRM project without sufficient analysis of the appropriateness of the project.

In May 1993, the former Medical Center Director requested approval to renovate and upgrade the interior of the Director's Residence. VHA did not approve this request. In July 1994, after the former Director retired, the Acting Director at Pittsburgh obtained instructions on what procedures to follow when renovating quarters. A Real Property

¹ For readability, dollar figures are frequently rounded in this report.

² Our draft report contained a higher cost estimate which we changed based on the more specific information management provided in response to our draft report.

Management Office (RPMO) official in Washington told the Acting Director in Pittsburgh to use the income and expense model in the expired VHA Directive 10-93-014, rather than the current VHA Supplement MP-3, paragraph 3.20, “Restrictions on the Use of Operating Funds.” Relying on the expired Directive’s income and expense model, Mr. Cappello approved \$122,000 in local funds to renovate the Director’s Residence.

VHA Supplement to MP-3, paragraph 3.20, requires CO approval before facility directors may approve annual expenditures exceeding \$8,600 per quarters for non-routine maintenance and improvements. VHA Directive 10-93-014, Attachment D, stated that CO “approval for expending funds on the quarters will only be required when an analysis of income and expenses indicates the expenditure for the individual unit cannot be recaptured in the ensuing 10-year period” using the provided model. The Medical Center management supervised the NRM project and told the Regional Director they intended to follow the VHA Directive when renovating the interior of the Director’s Residence.

We found officials spent \$33,000 in NRM funds on the Director’s Residence, and approximately \$168,000 for the interior renovation. In total, VHA has spent about \$201,000 on the Director’s Residence, about \$79,000 more than the calculated spending limit.

Mr. Cappello told us he decided to fund quarters renovations with money from his medical care appropriations budget because it would help increase the Medical Center’s future funding. He said that since the Medical Center received the rental income from the properties, improving the quarters would be a good investment for the facility. Mr. Cappello used this method to fund three quarters renovations exceeding \$50,000 each. An official with RPMO told the Medical Center to follow the VHA Directive which did not specify which appropriation medical centers may use to improve quarters.

VHA Supplement to MP-3, paragraph 3.20, requires medical centers to finance minor improvements to quarters involving \$50,000 or more with construction appropriation funds. MP-3, Part I, paragraph 11.02, defines improvements to include the complete renovation or updating of a building or facility. Management exceeded \$50,000 to renovate the interior of each of three quarters units, including the Director’s Residence, using medical care appropriation funds rather than the construction appropriation money. We concluded the Director inappropriately exceeded the limitation on local approval for quarters spending and inappropriately used medical care funds because RPMO told him to follow the expired Directive instead of the appropriate VA policy.

Medical Center Officials Mismanaged the Interior Renovation of the Director's Residence

When Mr. Cappello arrived at Aspinwall in August 1994, he moved into quarters unit 16W. He told us he moved into quarters to spend more time at the Aspinwall Division, since his office is at the other division. Mr. Cappello told VHA officials in July 1995 that he planned to move to a private residence by September 1996.

Mr. Cappello asked Engineering Service and the Interior Design Section to make plans to renovate the interior of the Director's Residence for his use. Engineering Service calculated that the Medical Center could spend up to \$122,000 on the renovation without CO approval. Mr. Cappello finalized plans to spend about \$112,000 for the interior renovation. The plans divided the work between VA employees and a construction contract. Mr. Cappello told us that he was willing to discuss any kind of renovation to the Director's Residence as long as they did not exceed the budget limit of \$122,000. He told us he was consulted on almost everything in the renovation. The final cost of the interior renovation of the Director's Residence was approximately \$168,000.

We found that actual renovation expenditures exceeded the estimated spending limit by \$46,000 based on three factors: contracting practices, management supervision, and nonstandard quarters amenities.

Contracting Practices—The Medical Center used a small and disadvantaged construction company³ to perform the renovation contract. Informal negotiations with the construction company began in December 1994 and ended in March 1995 when the Medical Center received the construction company's final offer. The Small Business Administration (SBA), as the primary contractor, accepted the offer on March 30, 1995. The Contracting Officer signed the contract on April 5, 1995, and notified the construction company to proceed on April 14.

The construction company began renovating the Director's Residence in January 1995, at least two months prior to obtaining approval on the project specifications and pricing. The Acting Engineering Chief told us that it was likely the construction company began working before signing a contract because the Director had imposed a March 15, 1995, target date to move into the renovated quarters. **(b)(6)**..... permitted the construction company to work during negotiations to help the company retain workers from another recent quarters renovation project.

³ As defined by 15 USC §637(a).

During the initial negotiations, the contractor proposed prices in excess of the VA budget. As a result, VA officials eliminated some items from the approved plan and undertook other items with station labor. Station employees also performed additional work when the company ran into unexpected difficulties with their work. Thus, VA officials kept the contract price approximately the same as originally estimated by decreasing the amount of work performed by the contractor and increasing the work performed by station labor. Most of the renovation work was completed by the time Mr. Cappello moved into the Director's Residence on March 17, 1995.

Federal Acquisition Regulations (FAR) state that contracting officers are responsible for safeguarding the interests of the United States. The FAR requires contracting officers to ensure that no contract shall be entered into before all legal and regulatory requirements have been met.⁴ Title 48 CFR §819.8 requires VA contracting officers to provide complete project plans for a small and disadvantaged business construction procurement to the SBA and receive SBA approval before notifying the SBA subcontractor to proceed.

The FAR does not authorize an arrangement in which construction contractors perform services without having a legal agreement on specifications and prices. In order to utilize the small and disadvantaged business procurement method, Federal regulations required the Department to obtain the SBA's approval before letting the construction company proceed. In this instance, the (b)(6) let the construction company start work before reaching an agreement or receiving SBA approval. As a result, Medical Center officials committed themselves to this construction company before realizing that the renovation costs were not in line with their budget estimate. Due to unexpected contract costs, officials performed additional work with station labor. Thus, contracting practices contributed to overall cost overruns on the project.

Project Approval and Management—The Director approved the project budget in late 1994, but there was no written record of a management review of project plans after that. The Director told us that he believed that instructions from RPMO authorized him to spend up to \$122,000 on the Director's Residence. The Director told us that he did not assign anyone the responsibility to coordinate the renovation activities among different hospital services, but that he assumed this function was handled by Engineering Service. During the construction period the Associate Director was temporarily assigned out-of-state, and there was no permanent Engineering Officer. The Director personally involved himself in the renovation, meeting with Engineering officials, interior designers, the construction company, and vendors.

⁴ 48 CFR §1.602.

The renovation project file did not contain a formal project proposal, a complete set of drawings, or detailed specifications for the interior renovation. The only comprehensive plans for the interior renovation we found were two undated, unsigned cost estimate spreadsheets. There were no records to indicate the original specifications, approved changes in the scope, or specific responsibility for the work performed. The project file did contain a final drawing of the work to be performed under contract and various proposals from a vendor.

The renovation was a station-level project. Most VA employees who worked on the project reported to Engineering Service. The Acting Engineering Chief told us that he was not aware that they spent so much money prior to our review. However, the Acting Engineering Chief also told us he was aware that the Government performed some work originally assigned to the contract, such as plumbing, electricity, air conditioning, and enclosing the sun porch. The Director told us that he approved shifting the air conditioning and sun porch conversion to station labor and he thought this change was within spending limits.

Besides the original plan, the Medical Center spent additional resources on the renovation, including VA interior design services and window and wall treatments. Mr. Cappello was aware of some of these additional expenditures because he **(b)(6)**..... met with employees and vendors providing them. In other instances, Mr. Cappello personally made incomplete budget adjustments by eliminating some items but not allowing for replacement costs. For instance, he eliminated work on hardwood floors but did not allow for the carpeting expense to cover the unrepaired floors. The Director told us that this overspending occurred in part because he mistakenly understood that the expenditures for equipment and furnishings did not count directly toward project spending limits.

We found that the Medical Center shifted work from the contract to station labor and spent additional funds on work not specified in the original plan. VA assumed responsibility for \$32,000 of work that the Director originally slated for the construction contract. In addition, Engineering Service did not include about \$26,000 of the interior renovation expenses in the original projects plans.

The Medical Center divided the responsibility for approving and making expenditures on quarters among services. Engineering Service was responsible for maintenance, Environmental Management Service designed the interior, and Acquisition and Materiel Management supported purchases and contracting. An accounting technician in Engineering Service tracked cost transfers prepared by engineering supervisors. The Acting Engineering Chief provided this information to the Director and told us that before our review he thought this information represented the total expenditures on the

Director's Residence. However, we found that this information was incomplete. This information did not reflect expenditures by all services, and supervisors had not initiated cost transfer entries for all renovation expenditures.

VHA Supplement to MP-3, Part I, Chapter 4, provides that all maintenance, repair, equipment replacement, and improvements in excess of routine quarters expenditures will be prepared as a Non-Recurring Maintenance (NRM) project. This policy also applies to a project containing more than \$25,000 in minor improvements. NRM projects require a formal project application above the station level and detailed cost estimates. The Engineering chief serves as project manager for all station level projects and is responsible for project drawings, specifications, and cost estimates. There were essentially no formal project plans for the interior renovation of the Director's Residence, and the Acting Engineering Chief told us he did not track changes and additions to the project.

VHA Supplement MP-3, paragraph 3.19, requires that the Director evaluate and approve non-routine work on housekeeping quarters in writing prior to the initiation of work. Paragraph 3.20 provides that the Medical Center will maintain appropriate records to control maintenance and minor improvement costs for each housekeeping unit.

The Director told us he was aware of all of the quarters work done, but that he did not approve the work in writing. We found that the Director and Acting Engineering Chief were aware of some additional work performed by VA employees that exceeded the original project plan. Despite their knowledge of additional work performed by VA employees, there was no evidence that the Director requested or the Acting Engineering Chief submitted updated plans and cost estimates for approval. In addition, the Director did not assign anyone the responsibility of tracking project costs among multiple services to ensure that the Medical Center did not exceed spending limits. The Director told us that he thought they could increase the scope of work performed by VA employees because he thought VA employees could perform the work more economically than the construction company. The Director told us that he did not become aware that the project exceeded spending limits until we began our review.

Nonstandard Quarters Amenities—The (b)(6)..... told us they planned the new interior for the building to be a “showpiece” because Mr. Cappello was a man of stature, and they wanted to give him what he wanted. An (b)(6)..... told us that he wanted the house to be an impressive place to entertain because VA medical center directors were prominent people in Pittsburgh. The interior designer told us that he met with (b)(6)..... Cappello on more than one occasion to incorporate (b)(6)..... personal preferences into his design recommendations. (b)(6)..... Cappello visited several vendors and picked out contents for (b)(6)..... new residence, such as a new kitchen design and

new bathroom fixtures. A vendor's employees designed the new kitchen, based on the Cappello-(b)(6) input. VA designers told us that they were not aware of several of the Cappello-(b)(6) selections until after installation, such as custom drapes and light fixtures.

We identified a number of upgraded amenities in the Director's Residence that contributed to unplanned renovation expenditures. Examples include:

- *Kitchen appliances*—Engineering Service replaced all of the kitchen appliances in the Director's Residence, although it already had a new cooking stove and refrigerator when they planned the renovations. The Director's Residence received a new smooth cook-top range and a new double oven with convection. This cooking equipment, which had features not found on an average kitchen stove, cost about \$1,500 more than a gas range recently purchased for another quarters unit. The Medical Center also replaced a new microwave oven in the Director's Residence with a built-in microwave oven/vent hood unit which cost \$439. Department policy does not authorize the Medical Center to provide microwave ovens in housekeeping quarters.
- *Cabinets and floors*—Engineering Service removed the existing kitchen cabinets, even though they appeared to be serviceable. The new cabinets contained cherry hardwood fronts and special features like mullion doors. The kitchen renovation included a new kitchen island with a sink and electricity, which added at least \$1,000 to the project. The construction company also replaced the linoleum in the kitchen with a new hardwood floor. Employees told us no other quarters at Aspinwall have new cherry cabinets, kitchen islands, or new hardwood kitchen floors.
- *Plumbing Fixtures*—Engineering Service demolished the bathrooms, expanded the size of two of them, and did the plumbing rough-ins. The construction company installed new plumbing fixtures, and the costs of many of these fixtures exceeded the industry average costs of basic fixtures. For example, according to published industry survey averages, the remodeling costs of a basic vanity sink faucet range from \$75-125. The cost of the new vanity faucets in the Director's Residence was \$500 each, which falls in the luxury category according to Consumers Union guidelines.⁵ The sinks and faucets for three bathrooms cost \$2,950, which is about \$2,100 more than the industry average for basic remodeling costs for these items. In addition, the construction company replaced a bathtub with a whirlpool bathtub with shower costing \$2,200. This whirlpool cost more than twice the remodeling costs of a basic bathtub with faucet and shower and fell into the luxury category according to Consumers Union guidelines. No other quarters had a whirlpool or \$500 lavatory faucets like the Director's.

⁵ Barb Machowski, et al., *The Complete Book of Bathroom Design*, (Yonkers, New York: Consumers Reports Books, September 1993), page 15.

The Director personally selected many of the higher cost amenities for the Director's Residence. The Director told us he discussed everything in the house with the interior design staff. He told us that he went to pick out items whenever someone asked him to, but that he was not always sure who was paying for what. He told us that when he picked out items, he did not have any budget guidelines to ensure that his selections were within the original estimates. He told us that he wanted to choose tasteful, middle-of-the road items that were between the least expensive and the most expensive.

Office of Management and Budget (OMB) Circular A-45, section 8, requires agencies to consult industry standards when planning employee housing. The Circular requires officials to ensure that housing is appropriate but does not impose an uneconomical burden on the Government. VA Handbook 7125 sets equipment and furnishing standards for employee quarters in VHA. We found no evidence that VA provided guidance to field stations specifying which building standards to follow to comply with the OMB Circular.

Mr. Cappello told us that he asked an officer with the construction company if some items were too expensive, but the officer told him they were okay. Since the construction company had not signed a contract at that time, it could pass on the expenses of any items that exceeded the project budget to VA. We found the construction company charged about \$30,000 more than originally approved for kitchen remodeling, bathroom remodeling, and the interior painting.

While researching building standards for the quarters renovations, we learned that many of the quarters at Aspinwall, including the Director's Residence, were listed by the Department of Interior as eligible for the National Register of Historic Places. The National Historic Preservation Act of 1966 and its implementing regulations required the Medical Center to follow certain procedures when considering action affecting the Director's Residence and other Aspinwall properties. In 1990, VA entered into an agreement with the Advisory Counsel on Historic Preservation requiring additional steps to protect the historic Aspinwall properties in exchange for permission to demolish certain buildings. During our review, Medical Center officials told us they no longer had records of the historic properties or related agreements. However, former Medical Center officials with responsibilities in this area stationed at Pittsburgh in 1995 told us that the Medical Center management knew the quarters contained historic properties. Previous renovation proposals for the Director's Residence acknowledged its historic status. Mr. Cappello and the Acting Engineering Chief told us that when they approved renovating the quarters they were unaware of historic preservation requirements. We concluded that current Medical Center officials were not consistently maintaining the quarters in compliance with historic preservation requirements.

Based on the results, Mr. Cappello approved the renovation of the Director's Residence and two other quarters units. He also planned to renovate additional quarters buildings until funding was no longer available.

We found that portions of the model caused an overstatement of income available for the Director's Residence renovations because the model's instructions were not specific enough. The model did not define terms like "rent" well enough to exclude other charges like utilities. The model did not instruct managers to include all quarters operations costs in projections, and it did not explain how to handle estimated costs of concurrent projects like the NRM project. The model also told managers to add projected income losses due to vacancy without specifying that the losses were negative numbers.

In another instance, the income and expense model potentially underestimated the amount of money available for major maintenance projects. VHA Supplement to MP-3, paragraph 3.19f, authorizes prorating expenditures for certain major maintenance projects, such as new roofing and plumbing systems, over a period up to 20 years. The expired VHA Directive 10-93-014, Attachment D, paragraph 1b, required quarters units to recapture expenditures over a 10 year period. Since the income and expense model cut the time for cost recovery for some quarters expenditures in half, it underestimated the amount of money available for quarters renovations under the VA manual. We concluded that VHA needed to revise instructions for the quarters income and expense model.

Excessive Quarters Renovation Expenditures Threaten Their Financial Sustainability

The VHA supplement to MP-3 requires quarters to be self-sustaining and restricts the authority of facility directors to approve annual expenditures for quarters. Following RPMO guidance, Mr. Cappello believed he could spend up to \$122,000 on the Director's Residence renovations. We found that VHA spent \$79,000 more than the estimated limit of what could be recouped with rental income over the next ten years. In addition, we found that the model used by the Medical Center overestimated the amount of rental income available for renovating quarters. As a result, it is doubtful whether employee rents will fully reimburse the Department for the medical care funds expended on these projects. Mr. Cappello told us he would have reduced the scope of the renovation had he realized it was beyond spending limitations.

The Aspinwall Division has 18 quarters units, most of which are vacant or occupied by employees not required to live on station. VA Manual M-1, Part I, requires three employees to live on hospital grounds when quarters are available. VHA Supplement MP-3, paragraph 3.19, requires the Director to exercise prudence in evaluating capital value, rental income, and the actual need for quarters prior to making or approving expenditures for maintenance, repair, or minor improvement to housekeeping quarters. This paragraph also requires facilities to discontinue quarters units whenever their maintenance and renovation costs exceed reasonably expected rental receipts.

In this case, Mr. Cappello followed instructions from RPMO when approving three interior renovation projects. During our review, we identified issues concerning the rental income,⁶ the reliability of the income and expense model, and maintenance and repair standards that Mr. Cappello did not previously know. These issues are relevant factors in the evaluation process to determine whether to maintain or dispose of quarters buildings. These issues require further action, such as a new market survey for rents and new guidance from VHA officials. We therefore concluded management should re-evaluate plans for Aspinwall quarters units.

Conclusion

We found that VHA spent approximately \$201,000 on the exterior and interior of the Director's Residence, and this spending level exceeded authorized levels. We found that officials other than Mr. Cappello were responsible for some of this excess spending and that VHA needed to improve its headquarters support for quarters operations.

⁶ We discuss problems with the rental income in Allegation 2.

We found no evidence in our review that Mr. Cappello would have initiated renovations of Aspinwall quarters in excess of the limits provided by VHA Supplement to MP-3 if RPMO had not provided the Medical Center with incorrect guidance. Based on instructions from RPMO, Mr. Cappello believed that he had liberal authority to spend medical care dollars on the Aspinwall quarters. We concluded that RPMO's instructions led him to believe that he had greater authority and discretion in approving quarters renovations than policy authorized.

However, Mr. Cappello was personally responsible for reviewing the interior renovation project, which cost the Government \$168,000. The renovation spending increased, in part, because Mr. Cappello did not evaluate and approve expenditures in writing, and he requested more costly quarters amenities. In addition, (b)(6)..... did not maintain accurate project records, and (b)(6)..... permitted the construction company to work prior to receiving a contract. As a result, in an era of budget tightening, the Medical Center wasted scarce medical care funds by spending more on the Director's Residence than could reasonably be recouped by employee rents.

We also concluded that Medical Center needed to review the financial feasibility of its quarters program based on more accurate information and updated guidance from headquarters.

Recommendation 1

We recommend that the Under Secretary for Health:

- a. Update VHA policies concerning operation and maintenance of housekeeping quarters to comply with OMB Circular A-45, including building standards and accurate central monitoring of program administration.
- b. Provide guidance to approving officials to ensure they evaluate expenditures for quarters using an accurate income and expense model, including clarified limits on amortizing major expenditures, such as plumbing systems.
- c. Take appropriate action to ensure officials in the Veterans Integrated Service Networks and the Real Property Management Office review proposals for non-routine spending on quarters in accordance with Department policies and guidance.

Under Secretary for Health Comments

Concur. The Under Secretary agreed to develop revised VHA guidance to address concerns raised in the report, in consultation with General Counsel and other Department organizations. The primary responsibility for ensuring facility compliance with quarters policies will be the VISN and facility directors. VHA agreed to some form of central monitoring. The RPMO will work on program accountability with the Chief Network Officer, the Chief Financial Officer, and individual VISNs.

Office of Inspector General Comments

The Under Secretary’s comments are responsive to the recommendation. We will continue to follow-up with VHA until it finalizes guidance to address these issues.

Recommendation 2

We recommend that the Veterans Integrated Service Network No. 4 Director:

- a. Take appropriate action to ensure that Mr. Cappello effectively supervises the quarters program, including requiring that non-routine quarters expenditures be submitted in writing for his review and approval in accordance with VHA policy.
- b. Take appropriate action to ensure that the Acting Engineering Chief effectively manages the quarters maintenance program, including submitting appropriately detailed maintenance plans for approval and accurately tracking expenses.
- c. Take appropriate action to ensure that the **(b)(6)**..... does not permit contractors to proceed before contracts have been signed.
- d. Require the Medical Center to update the expense records for quarters to reflect work from all projects and expenses.
- e. Take appropriate action to ensure that the Medical Center maintains the quarters contained in the Aspinwall historic district in accordance with historic preservation laws and regulations.

VISN Director Comments

The VISN Director concurred with the findings and recommendations and said the review “should result in producing guidance that will allow VHA to take steps to make cost-effective decisions regarding the protection of government assets” throughout the Department.

The VISN Director agreed to initiate action to improve the facility's performance in this area, including:

- Semi-annual monitoring of the Director's supervision of the quarters program
- Appointment of a Chief Engineer for the VA Pittsburgh Healthcare System
- Implementing a new system to track quarters expenses
- Counseling the Supervisory Contracting Officer
- Updating quarters expense records
- Improving compliance with historic preservation laws and regulations

In response to the draft report, the VISN Director also related additional information to us from the Medical Center. This information contained a detailed estimate of the portion of the Repair Water Mains and Drains project that benefited the Director's Residence. The response also expressed that the station labor costs for the renovation appeared to be excessive and suggested that a consultant should be used to determine a reasonable estimate of the renovation costs. The response also said that garage expenses should be deleted for accuracy, and that the management of the housekeeping quarters units should be turned over to a management company.

Office of Inspector General Comments

We incorporated the Medical Center's estimate of the portion of the Repair Water Mains and Drains project benefiting the Director's Residence into our final report.

We disagree that the expense records for Building 13 should be adjusted based on industry estimates. We relied on the routine cost transfer records created by Engineering Service supervisors during the renovation project and reviewed by management and Fiscal Service accountants. There was no evidence that any cost transfer contained erroneous information, although some labor costs for the project reportedly increased because of unanticipated problems. VA Policy MP-4, Part V, Section 4E.01, requires that all expenses attributable to the operation and maintenance of quarters shall be identified and recorded. Since the costs transfers provided by management identify renovation expenses for this project and there is no evidence that any of these routine records is erroneous, VA policy requires that these costs be recorded for quarters income and expense determinations. There is no need to expend additional resources to obtain an independent consultant's estimate of what the Medical Center should have spent because policy requires the Medical Center to use the actual costs.

In response to our inquiries concerning the comments about removing charges for the garage repairs, Medical Center officials told us that they could not clearly determine if these expenses were actually included in the Building 13 expense records, as originally asserted in the response. We therefore made no adjustment for these expenses.

We did not review or recommend contracting for property management services for the quarters.

The VISN Director concurred with the findings and recommendation and offered acceptable implementation plans. We will continue to follow-up with this recommendation until it is fully implemented.

Copies of the Under Secretary's and the VISN Director's responses appear in the Appendix.

Allegation 2: VHA Officials Charged Quarters Residents Inappropriate Rental Rates.

We found that management made unjustified reductions to market-based rents and, for three quarters units, did not establish new rents that included the market value of major renovations.

In August 1992, RPMO approved administrative rent reductions for the Aspinwall housekeeping quarters due to a construction project to build a new hospital building. The approved rent reductions ranged from 3 to 12 percent and did not include the Director's Residence. The last rent appraisal before our review occurred in December 1992, when an independent appraiser determined the fair market, base rent for the Director's Residence was \$825 per month. The appraisal report stated that the appraiser considered the effect of the new hospital construction on the Director's Residence:

The design and layout of the complex have been significantly altered due to the current construction of a 400 bed full care facility that has necessitated the need to adjust for institutional atmosphere, disturbing noises, general attractiveness of neighborhood, including lawns, trees and landscaping.

In January 1993, the previous Medical Center Director submitted the December appraisal to RPMO for approval. The Director's letter indicated that they would continue the 1992 rent reductions, due to ongoing construction. In April 1994, the Acting Director told RPMO that they suspended construction but that rent reductions would continue unless otherwise directed by RPMO. In April 1995, Mr. Cappello told RPMO that they scheduled construction to resume in June 1995 and that they intended to keep the rent reductions. Throughout this period, there was no record that RPMO responded to the Medical Center's declared intent to continue rent reductions.

The Rent Adjustment Process Needs Improvement

We found problems with the appropriateness, timeliness, and authority for rent reductions for the Aspinwall quarters since the December 1992 appraisal.

Appropriateness—VHA Directive 10-93-014 required appraisers to make adjustments for neighborhood conditions in establishing the base rent and authorized administrative reductions only for conditions not considered in the appraisal.⁷ The December 1992 appraisals of the Aspinwall quarters indicated the appraiser considered the effects of the new hospital construction when evaluating the rents. Management continued to apply the

⁷ The subject of VHA Directive 10-93-014 was rental rate adjustments. The Directive expired in February 1994 and was not reissued. In August 1994, an official with RPMO told the Director at Pittsburgh that the Directive continued to be the operating guidance for management of housekeeping quarters.

August 1992 administrative reductions for construction after receiving the new appraisal. VHA guidance only authorized administrative reductions for conditions not reflected in the appraised base rent and the new appraisal considered the construction cited in the August 1992 administrative reductions. We concluded that extending the 1992 reductions after the new appraisal was inappropriate because the appraiser already considered the effects of construction in determining the December 1992 rental rates.

To justify the reductions, management told RPMO that the new work involved “demolition [to old hospital buildings], disruption to site utilities, noise, dust, vehicular traffic, and essentially all of the elements for which the rents were originally adjusted.” OMB Circular A-45, paragraph 7c, provides specific conditions and limits for rent reductions. The OMB regulations do not support administrative reductions for demolition to nearby buildings, temporary disruption of utilities, or changes in traffic. The OMB regulations limit administrative rent reductions for noise and odors to three percent. In this case, management granted rent reductions from 8 to 12 percent for 13 employees. Since the only conditions cited by management for which OMB authorized adjustments were noise and dust, management did not have justification to reduce rents in excess of three percent.

Timeliness—The OMB Circular requires that when agencies learn of changes in conditions requiring administrative adjustments, they should normally implement new adjustments within 30 days. According to file documents, the contractor completed the construction of the new hospital by April 1994, and officials anticipated beginning the next construction project in June 1995. During this time, the Medical Center continued to reduce rents as if the construction were still in progress. Since OMB regulations require agencies to implement new adjustments within 30 days, we concluded that management did not take timely action to eliminate administrative adjustments for completed construction. As result, management inappropriately reduced rents for over a year for conditions that no longer existed.

Authority—The VHA Directive delegated directors of healthcare facilities the authority to make annual cost-of-living adjustments to quarters rents. The Directive reserves the authority to approve administrative adjustments other than for inflation to CO. According to Medical Center records, RPMO last approved administrative rent reductions at Aspinwall in August 1992. Since then, the Medical Center informed RPMO that they intended to extend the 1992 rent reductions unless otherwise directed. The Medical Center kept RPMO informed of plans to continue using the 1992 reductions after the new appraisal for new conditions such as traffic and during periods between construction projects. We found no record that RPMO either approved or disapproved the Medical Center’s decisions. We therefore concluded that RPMO did not fulfill its responsibility to review rent adjustments in accordance with OMB guidelines and left the process of approving rent adjustments to local officials.

The Medical Center Needs to Obtain Timely Appraisals on Renovated Quarters

In March 1995, Mr. Cappello moved into the renovated Director's Residence. The inflation-indexed monthly base rent on the Director's Residence was \$861. The rent amount computed by Engineering Service was \$792, which was eight percent less than the indexed appraised value. Management also reduced the rent on the Director's Residence below the indexed appraised value in March 1996. The Director moved out of the Director's Residence in the beginning of April 1996.

VHA Directive 10-93-014, Attachment C, paragraph 4c, states that housekeeping quarters should be re-appraised every five years or when alterations or improvements affect their value. In Fiscal Year 1995, the Medical Center renovated the interiors of three quarters units, including Mr. Cappello's residence. Medical Center officials told us they expected the renovations to increase quarters rents. Mr. Cappello occupied the renovated quarters from March 1995 until April 1996. At the beginning of our review, Mr. Cappello and two other employees continued to pay rents based on the adjusted 1992 appraisal, rather than the market value of the renovated quarters. Since the Medical Center was required to obtain new appraisals for the 1995 renovations and had not done so at the time of our review, we concluded that the new appraisals are not timely.⁸

Below Market Rents Inappropriately Benefited Employees

During our review, we found that the Medical Center made improper rent reductions and did not obtain new appraisals, as required. OMB Circular A-45 requires that rental rates for quarters reflect the prevailing market rates, unless the agency makes an adjustment for specific factors not reflected in the appraisal. According to OMB regulations, officials may not set quarters rents so as to provide a housing subsidy. From 1993 through the time of our review, the Medical Center made inappropriate reductions to the market valued rents, including for Mr. Cappello. We therefore concluded that these employees received an inappropriate benefit from inaccurately determined rental rates.

Untimely appraisals also wrongly benefited employees. According to the contractor, his company completed the quarters renovations by May 8, 1995. VHA Directive 10-93-014 requires officials to obtain new appraisals when alterations and reconditioning improve their value. We therefore concluded that the Medical Center should have initiated new appraisals in May 1995.

⁸ While our report was in draft, the Medical Center obtained a new quarters appraisal which concluded that the market-based rent value of the renovated quarters was significantly higher than the current rents. Medical Center officials appealed this appraisal to RPMO, and the current market value of quarters rents had not been determined when this report was finalized.

In June and July 1995, the Medical Center converted a sun porch in the Director's Residence to a den. In July 1995, the Director conferred with the Acting Engineering Chief in response to public allegations concerning wasteful spending on the Director's Residence.⁹ The Acting Engineering Chief told the Director in writing that they planned to obtain a new appraisal on the Director's Residence as soon as Engineering completed current work. There are no records of additional project expenditures after July 1995.

Mr. Cappello told us that he learned an appraisal was required at this time and he expected his rent to increase based on the renovations. We were not able to reliably determine who was responsible for the decision to further delay obtaining the appraisal. However, it is clear that Mr. Cappello should have known the appraisal did not occur because he continued to pay rent based on the 1992 appraisal. As the Medical Center Director, Mr. Cappello was responsible for ensuring that he and his subordinates function within the rules. By failing to ensure that the Medical Center secured a timely reappraisal, Mr. Cappello did not fulfill an important quarters responsibility. He also benefited from his inaction by continuing to pay rents based on the unrenovated quarters.

Conclusion

We found that before Mr. Cappello's arrival, the Medical Center began inappropriately reducing quarters rents for different construction project conditions. As part of this practice, management inappropriately granted reductions for conditions inconsistent with OMB guidance. We found that the Medical Center kept RPMO informed of these practices, and the office did not respond. After Mr. Cappello arrived, the Medical Center continued this practice and also delayed obtaining a required market appraisal for renovated quarters, including Mr. Cappello's. This resulted in unauthorized, below-market rental charges, in violation of the OMB Circular.

During our review, we also found that VHA did not have current official policies to ensure that officials set rents in accordance with Federal rules and regulations.

⁹ The VA Hotline also received this complaint and referred it to Special Inquiries.

Recommendation 3

We recommend that the Under Secretary for Health:

- a. Issue quarters policies establishing a rent adjustment process in compliance with OMB Circular A-45 and Federal ethics regulations.
- b. Ensure that RPMO officials review proposed rent adjustments in accordance with VHA policies and Federal ethics regulations.

Under Secretary for Health Comments

Concur in principle. RPMO is implementing the Department of Interior's Quarters Management Information System (QMIS) for VHA and is working with the VISNs to develop interim field guidelines. The QMIS system will provide improve compliance with OMB requirements for rents and rent adjustments but requires less administrative workload.

Office of Inspector General Comments

The Under Secretary concurred in principal and offered acceptable implementation plans. We will follow-up on this recommendation until VHA issues appropriate field guidance.

Recommendation 4

We recommend that the Veterans Integrated Service Network No. 4 Director:

- a. Take appropriate action to ensure that the Mr. Cappello and the Acting Engineering Chief improve their quarters rent management performance.
- b. Direct the Medical Center to make rent reductions only after they are explicitly approved in accordance with VHA guidance and to obtain a new appraisal of the quarters at Aspinwall from a qualified independent appraiser.
- c. Take appropriate action to recover lost rental income from Mr. Cappello and other residents caused by inappropriate reductions for construction.
- d. Using the new appraisal, initiate action to recover lost rental income from Mr. Cappello and other residents caused by untimely reappraisal of the renovated quarters.

VISN Director Comments

The VISN Director agreed to take action to improve the quarters rent management and agreed that future rent reductions would require explicit, written instructions. The VISN Director agreed to implement new rents within 30 days of receiving a current market appraisal. He also agreed to recover from Mr. Cappello rents lost due to untimely appraisals. Since the employee-tenants of the rental units most likely did not know of the improper rent reductions or the delay in getting new appraisals, the VISN nonconcurred in the other recommended collection actions.

Office of Inspector General

After receiving the initial VISN response on these recommendations, we contacted the VISN Office and suggested that appropriate collections be made. Then, VHA could assist the employees in filing any waiver claims prompted by the collection actions. The VISN Office reconsidered their original response and agreed to all collections as recommended. We will continue to follow-up with the VISN Director on recommendations 4c and 4d until they are fully implemented. We consider the remaining issues resolved.

Copies of the Under Secretary's and the VISN Director's responses appear in the Appendix.

Comments by the Under Secretary for Health and
Director, Veterans Integrated Service Network No. 4

Department of
Veterans Affairs

Memorandum

Date: DEC 3 1997

From: Under Secretary for Health (10/105E)

Subject: *OIG Draft Report: Special Inquiry About Alleged Mismanagement of the Housekeeping Quarters at University Drive, VAMC Pittsburgh, Penna.*

To: Assistant Inspector General for Departmental Reviews and Management Support (53)

1. The findings of this Special Inquiry have been reviewed by relevant Headquarters program officials, who concur in those recommendations that specifically address intervention at this level. The attached action plan provides a comprehensive response to Recommendations 1 and 3.

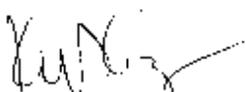
2. The Real Property Management Office (RPMO) is in the process of completely revising and updating the VHA directive on operating and maintaining facility housekeeping quarters. The directive, which is anticipated to be completed for distribution to all field facilities by June 1997, will be significantly broader in scope and detail than the existing document. Many of the issues identified in your report will be addressed in the new guidance. Included among our initiatives to streamline quarters maintenance processes throughout the system are potential plans to implement the Quarters Management Information System (QMIS) that is utilized by the Department of Interior. This computer model is compatible with OMB directives and has been pilot tested in three of our facilities with very positive results in terms of resource savings. The model, which uses a regional survey methodology to determine rental adjustments, is still being evaluated prior to formal approval. If implemented, it should greatly enhance our ability to validly and objectively determine rental rates in a more efficient manner.

3. Your report implies need for more accountability control at the Headquarters level. As you know, our reorganizational efforts are still quite young, and one of the challenges that we are working through is achieving the right balance between systemwide discipline, conformity and consistency while at the same time encouraging local and regional flexibility, innovation and entrepreneurship. We recognize need for some degree of central oversight in cases like this, and are

Page 2 OIG Special Inquiry: Mismanagement of Housekeeping Quarters

working with the individual VISNs and treatment facilities to identify the most effective and practical ways to accomplish such oversight.

4. Thank you for the opportunity to respond to this report. If additional assistance is required, please contact Paul C. Gibert, Jr., Director, Management Review Service (105E), Office of Policy, Planning and Performance (105), at 273-8355.



Kenneth W. Kizer, M.D., M.P.H.

Attachment

Department of
Veterans Affairs

Memorandum

Date: November 7, 1996
From: Network Director, VISN 4 (10N4)
Subj: Draft OIG Report, Project 5HL-57/3
To: Director, Hotline and Special Inquiries Division, Office of Inspector General (53C)

1. I reviewed the subject report and discussed the content with management at the VA Medical Center in Pittsburgh. This draft report appears to be a very comprehensive review of housekeeping quarters. The audit should result in producing guidance that will allow VITA to take steps to make cost-effective decisions regarding the protection of government assets; namely, the many housekeeping units throughout VISN 4 and the entire Department of Veterans Affairs.

2. With regard to ISSUE #1 recommendations:

a. We concur that appropriate action should be taken to ensure Mr. Cappello supervises quarters maintenance in accordance with existing policies and in accordance with forthcoming VITA updated policies. This supervision includes requiring that non-routine quarters expenditures be submitted in writing for his review and approval, in accordance with VHA policy. Mr. Cappello's activity in this area will be monitored by the VISN 4 office semi-annually.

b. We concur that appropriate action should be taken to ensure the Chief, Engineering Service manages the quarters maintenance program in accordance with VITA policy and in particular submits appropriately detailed maintenance plans for approval and accurately tracks expenses.

- A Chief of Engineering Service has been appointed for the newly consolidated VA Pittsburgh Healthcare System. Quarters maintenance will be an element in his performance plan, and will be monitored by the medical center director semi-annually.

- A new system for approving all work done in quarters and the tracking of all expenses has been implemented. This new system of checks and balances will ensure that work cannot occur without appropriate approvals, and will more accurately account for the time and expenses of station labor.

(b)(6) c. We concur that the [REDACTED] in the future will not permit contractors to proceed before contracts have been signed.

(b)(6) [REDACTED] and is aware that contractors will not be permitted to proceed until contracts have been signed.

d. We concur that expense records for quarters should reflect work from all projects and expenses. All quarters expense records will be updated by January 31, 1997.

c. We concur that medical center management should maintain the quarters contained in the Aspinwall historical district in accordance with historic preservation laws and regulations.

- Medical center records will be updated to ensure that all buildings in the historic district are clearly and prominently identified and quarters will be maintained in accordance with historic preservation laws and regulations.

3. With regard to ISSU#2 recommendations:

a. We concur that action should be taken to ensure that the quarters rent management program performance is improved. The rent management program performance will be addressed in both the Director's and Chief, Engineering Service's performance plans, and will be monitored by the VESN 4 office semi-annually.

b. We concur. Future rent reductions will only be executed with written, explicit approval. After independent reappraisals have been secured for all quarters on the Aspinwall Campus, these new rents will be implemented following a 30 day notice to tenants.

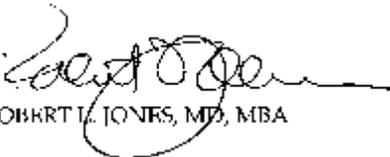
c. We do not concur that lost rental accrued in rent reductions for consideration of construction should be recovered from Mr. Cappello and other residents. Medical center management reasonably informed the Real Property Management Office that it intended to implement these reductions and would consider the intention approved unless they heard otherwise. Having received no response (either orally or in writing) to these requests, it was reasonable to assume the proposed actions were approved. These reductions were in effect since 1992 and each year the Real Property Management Office was notified. Many of the individuals who lived in these units during this time period have since transferred, resigned, or retired, making collection efforts difficult and costly.

We do concur that lost rent caused by untimely reappraisals of renovated quarters should be recovered from Mr. Cappello. The lost rents from the other occupants of renovated quarters should be forgiven because these tenants had no responsibilities with regard to quarters rents or maintenance and paid rents in good faith, according to what they were told was the effective rent for their quarters. Rent collections from Mr. Cappello can be effected through payroll deductions once the new rental rates are approved and implemented.

4. We have attached an analysis conducted by medical center management of the draft report and work papers provided by your office. We particularly agree that adjustments to the final costs allocated for the centrally approved project of Repair Water Mains and Drains be adjusted to \$33,132.33. We also concur that the costs transferred for station labor are excessive and should be adjusted to what are reasonable labor costs for work completed. It would appear that 2305 hours are excessive by any standard. We believe the medical

center's suggestion of obtaining an independent cost estimation would surely result in a more meaningful cost transfer. I concur with medical center management that garage expenses should be deleted for accuracy purposes. We also agree with the recommendation to turn VA Housekeeping Units over to a land management company to manage, in accordance with the principle of ensuring they are maintained properly and are self-sustaining.

5. We appreciate the opportunity to review the draft report. This report has the potential to produce sound guidance and rules for the VHA quarters maintenance program and will certainly improve the VA Pittsburgh Healthcare System's performance regarding quarters maintenance.



ROBERT L. JONES, MD, MBA