

VA Office of Inspector General

OFFICE OF AUDITS AND EVALUATIONS



Veterans Health Administration

*Review of
the Minor Construction
Program*

December 17, 2012
12-03346-69

ACRONYMS AND ABBREVIATIONS

CAM	Capital Asset Manager
FMS	Financial Management System
HCS	Healthcare System
NRM	Nonrecurring Maintenance
OAEM	Office of Asset Enterprise Management
OCAMS	Office of Capital Asset Management and Support
OHCE	Office of Health Care Engineering
OIG	Office of Inspector General
PTR	Project Tracking Report
USACE	U.S. Army Corps of Engineers
VHA	Veterans Health Administration
VISN	Veterans Integrated Service Network

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Report Highlights: Review of VHA's Minor Construction Program

Why We Did This Review

The House Committee on Appropriations requested we review the Minor Construction Program in the VA's Veterans Health Administration (VHA). The request followed the identification of spending irregularities at the Miami VA Healthcare System (HCS). This review assessed the adequacy of internal controls of VHA's Minor Construction Program.

What We Found

VA medical facilities integrated design and construction work for 7 of 30 minor construction projects into 3 combined projects that exceeded the \$10 million minor construction limit. We also found 3 of 30 projects were inappropriately supplemented with medical facility funds and project monitoring was ineffective. This occurred because VHA did not oversee project execution, follow its nonrecurring maintenance policy on the use of medical facility funding, perform internal program reviews, or have sufficient information to effectively monitor projects.

As a result, VHA violated the Antideficiency Act by combining five minor construction projects into two projects that exceeded the \$10 million threshold. VHA would have committed a third Antideficiency Act violation if VHA had not suspended contract actions while in the award process. VHA also lacks assurance that minor construction projects are designed and constructed within their approved scopes, medical facility funding is used appropriately, and underperforming projects are identified in a timely manner.

What We Recommend

We recommended the Under Secretary for Health publish Minor Construction Program policy, develop procedures to ensure projects are executed within their approved scope, and determine if other combined minor construction projects violated the Antideficiency Act. Additionally, VHA should implement a mechanism to ensure medical facility funding is not used to supplement minor construction projects, ensure program reviews are performed, and strengthen project tracking reports.

Agency Comments

The Under Secretary for Health agreed with our findings and recommendations. VHA has prepared an action plan that addresses most of our recommendations. We will continue to monitor their implementation of the action plan.

A handwritten signature in black ink that reads "Linda A. Halliday".

LINDA A. HALLIDAY
Assistant Inspector General
for Audits and Evaluations

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INTRODUCTION

Objectives

This review assessed the adequacy of internal controls of the Veterans Health Administration's (VHA) Minor Construction Program. Specifically, we addressed the following objectives:

1. Assess whether VHA adequately reviews individual projects to ensure minor construction funding is used properly.
2. Determine if VHA adequately reviews individual projects to ensure medical facility funding is not used to supplement minor construction projects.
3. Evaluate whether VHA's Office of Capital Asset Management and Support (OCAMS) and Veterans Integrated Service Network (VISN) officials adequately monitor minor construction projects.

Request To Review VHA Minor Construction Program

The U.S. House of Representatives Committee on Appropriations (the Committee) requested the VA Office of Inspector General (OIG) to review VHA's Minor Construction Program and describe the organizational structure, procedures, and financial controls used to manage VHA's minor construction projects. The Committee made this request after it learned that the Miami VA Healthcare System (HCS) combined two minor construction projects exceeding the \$10 million spending limit imposed by appropriation law and used medical facility funding to supplement project-related expenses. In response to the Committee's request, Appendix A provides the scope and methodology of our review, Appendix B describes VHA's Minor Construction Program organization structure, and Appendix C presents an overview of procedures and financial controls that govern the program.

VHA Minor Construction Organizational Structure

VHA's Minor Construction Program funds projects for enhancements or additions to VA medical facilities with estimated costs under \$10 million. Construction projects that exceed \$10 million are funded through VA's Major Construction Program and require congressional approval of individual projects. VA's annual minor construction appropriation funds minor construction projects, and VHA approves individual minor construction projects and change requests. VHA spent about \$527 million on minor construction projects in FY 2011.

VA organizations and officials responsible for the effective management of minor construction of VA medical facilities are:

- VA's Office of Management
- VA's Office of Asset Enterprise Management (OAEM)
- VHA's OCAMS Minor Construction Office
- VISN Capital Asset Managers (CAM)
- VA medical facility directors, engineers, and contracting officers

***Improper Use
of Funds at
Miami VA
Healthcare
System***

In February 2012, VHA identified two approved minor construction projects within the Miami HCS that were combined as one integrated design and construction work project. The combined project cost estimate exceeded the \$10 million spending limit for a minor project, and therefore required congressional approval as a major construction project. This was a violation of the Antideficiency Act. The facility also inappropriately used medical facility funding to supplement the combined project cost.

***Individual Minor
Construction
Projects
Combined To
Exceed
\$10 Million
Threshold***

In 2006 and 2007, the Miami HCS requested two separate minor construction projects as part of a multi-phase renovation of the facility's aging nine-room operating suite. The facility planned to renovate four operating rooms in the first phase of construction. Once the first phase was completed, the facility planned to renovate the remaining operating rooms. Each phase was approved for about \$7 million.

However, during the course of designing the two projects, Miami HCS officials decided to combine the scopes of both minor construction projects into a single integrated design and have the construction managed by the U.S. Army Corps of Engineers (USACE). VHA spent about \$1 million on an integrated project design, which was determined to constitute a major project by a VA Administrative Board of Investigation. After the integrated design was completed, USACE awarded a single construction contract to renovate the nine operating suites with an estimated total cost of approximately \$15.8 million. In October 2012, VA's Office of General Counsel opined that the minor construction projects were combined to form a major construction project in violation of the Antideficiency Act.

***Medical Facility
Funding Used
To Supplement
Project Costs***

The Miami HCS leased temporary operating room trailers to allow surgical care to continue during renovation at a cost of about \$419,000 per month. The minor construction proposals for each project estimated \$300,000 for project impact costs. These appropriations were used to cover the use of temporary space required to complete the primary purpose of a construction project. Because sufficient impact funds were not available within the project, Miami HCS officials funded these costs with medical facility funding. In all, they inappropriately spent about \$13 million from the Medical Facility Appropriation from August 2008 through June 2012.

***Project
Performance
Not Monitored
by OCAMS or
VISN Officials***

The project began construction in 2010 almost 4 years after the integrated design work started and was 85 percent complete when VHA identified project-funding issues in February 2012. OCAMS and VISN officials stated they did not monitor the combined projects' timelines or expenses because they relied on VA medical facility officials to monitor the facility's projects. By June 2012, the Miami HCS Fiscal Office estimated the cost for completing the combined projects at about \$40 million. Congress approved \$41 million in major construction funding for the project in September 2012.

RESULTS

Finding 1 VHA Needs To Ensure Minor Construction Funding Is Used Properly

VHA did not adequately review individual projects to ensure proper use of minor construction funds. Specifically, VA medical facilities integrated design and construction work for 7 of 30 minor construction projects into 3 combined projects that exceeded the \$10 million minor construction spending limit. This occurred because OCAMS and VISN officials did not effectively oversee project execution after funding was distributed to individual project accounts.

As a result, VHA violated the Antideficiency Act by integrating design and construction work for five minor construction projects into two combined projects by exceeding the \$10 million minor construction threshold. VHA would have likely committed a third Antideficiency Act violation if we had not identified two other minor construction projects that integrated design and construction work into a single contract solicitation, which VHA suspended while in the award process.

What We Did

To determine if VHA adequately reviewed individual projects to ensure it used minor construction funding properly we:

- Reviewed 30 minor construction project proposals and supporting documents including project cost estimates, contracts, project designs, and accounting records
- Interviewed project engineers, OCAMS officials, VISN CAMs, and officials from VA's Office of General Counsel
- Studied minor construction contract review procedures for contracts awarded by VHA and USACE

VA Medical Facilities Integrated Design and Construction Work

VA medical facilities integrated design and construction work for 7 of 30 minor construction projects into 3 combined projects. The integrating of these projects' design and construction work resulted in two of the combined projects exceeding the \$10 million spending limit threshold for minor construction. The other combined project was in the process of being awarded prior to the OIG notifying VHA of the potential for an antideficiency violation. Table 1 shows the seven minor construction projects that were combined, the allotted funding, and the total combined funding amount.

Table 1

Minor Construction Projects Combined Exceeding \$10 Million (in millions)			
Number Combined	Project	Allotted Funding	Total Combined Funding Amount
2	Ambulatory Surgery Center	\$5.8	\$12.1*
	Eye Treatment Center	\$6.3	
3	Install Elevators	\$1.8	\$14.8*
	Specialty Clinic Addition	\$6.5	
	Mental Health Building	\$6.5	
2	Replace Emergency Room	\$7.6	\$16.9
	Replace ICU	\$9.3	

Source: VA OIG review of minor construction projects *Antideficiency Act violation.

**Not Effectively
Overseeing
Project
Execution**

OCAMS and VISN officials did not adequately monitor the execution of individual minor construction projects. VHA’s draft minor construction program handbook, written by OCAMS in 2006, provides unofficial minor construction program policy. The draft handbook has been updated multiple times in the past 6 years but never issued during the period of our review.

The draft handbook states that “the Minor Construction Program is centralized for final project approval but decentralized for project execution.” Project execution includes steps such as solicitation of design and construction contracts, selection of contractors, and management of construction work. OCAMS and VISN officials told us that because they relied on VA medical facility officials for project execution, they did not review contract solicitations for minor construction to ensure that projects were executed within minor construction spending limits or approved project scopes.

OCAMS and VISNs did not prevent significant scope changes of approved projects. This occurred because OCAMS fully funded individual project accounts prior to medical facilities developing contract solicitations for design and construction. Once funding was provided to medical facilities, OCAMS and VISNs were dependent on the facilities to self-report changes in project scope during the contract solicitation process. This resulted in OCAMS and VISNs not being aware of project scope changes in the contract solicitation process for design and construction.

**VA Medical
Facility
Execution of
Minor
Construction
Projects**

VA medical facility officials we interviewed stated that combining individual projects’ design and construction lowered the overall cost to VHA. They also noted that projects could be combined into a single solicitation for design and construction if the individual minor construction projects were considered stand-alone projects. However, the draft handbook defines a stand-alone project as a fully-functional area on completion of the project,

independent of any construction enhancements needed from any other funding source to utilize the space.

The following examples illustrate how medical facilities were able to construct large scale projects using multiple individual minor construction projects approved by OCAMS.

*Examples of
Combined
Project
Solicited by
VHA*

A VA medical facility constructed a new 2-story building (Figure 1) by combining two minor construction projects to fund the building's integrated design and construction at an estimated cost of \$12.1 million. In 2007, OCAMS approved a minor construction project to build a new eye clinic at an estimated cost of \$6.3 million. In 2008, OCAMS approved a second minor construction project to build a new ambulatory surgery center at an estimated cost of \$5.8 million. Though each minor construction project was submitted and approved separately by OCAMS, the local facility subsequently integrated the two project designs into a combined project in 2009.

VA medical facility officials believed they followed draft minor construction policy because each project could be designed and built as a separate stand-alone project. The design of the original eye clinic was completed when OCAMS allocated funds for the ambulatory surgery center. At that point, the contract for the design was modified to incorporate the design of a 2-story structure to support both minor construction projects. The medical facility did not report the scope change to OCAMS after initial designs were modified. As of September 2012, project engineers reported the combined minor construction projects were 99 percent complete, and VHA had spent almost \$11 million of the \$12.1 million allocated for the two projects. The decisions to combine these minor construction projects were never reported to the Congress after cost estimates exceeded the \$10 million minor construction threshold by \$2.1 million.

Figure 1



Source: VA OIG, Bay Pines VA Healthcare Center, October 4, 2012

**No Oversight
of Contracts
Outsourced to
USACE**

According to an OCAMS official, VA strongly encouraged VHA to outsource design and construction contract management to USACE at medical facilities where contracting resources are scarce. USACE managed 13 of the 30 projects we reviewed under a September 2007 Memorandum of Agreement with VA. Typically after these minor construction projects were approved by OCAMS and funding was obligated by the medical facility, USACE had the responsibility of managing project execution. USACE was responsible for integrating the design and construction of five of the seven minor construction projects we identified as improperly combined into two major construction projects.

According to VHA officials, neither OCAMS nor VISN CAMs reviewed construction contract solicitations prepared by USACE's contracting officer to determine whether project scopes were changed during project execution. At one VA medical facility project engineers responsible for the facility's minor construction projects did not have copies of the USACE contracts signed on the medical facility's behalf.

**Example of
USACE
Combining
Projects**

OCAMS approved three minor construction projects and allotted \$14.8 million to three individual minor construction project accounts at a VA medical facility. Prior to OCAMS' approval, two of the three projects were part of a major construction project proposal that the VISN rejected twice for funding. The VA medical facility signed agreements with the USACE to perform the contract management and project maintenance for the three separate minor construction projects.

The medical facility transferred \$14.8 million from the three minor construction project accounts to USACE. After receiving the funding, USACE combined the projects into an integrated design-build contract to construct a 4-story outpatient wing attached to the medical center. OCAMS maintained no control over project scope once funding was allotted to the three individual minor construction project accounts.

Figure 2 is a photograph of the 4-story outpatient wing.

Figure 2



Source: VHA, Providence VA Medical Center, July 19, 2012.

**Effect of
Integrating
Minor
Construction
Projects Into
Single
Solicitations**

VHA violated the Antideficiency Act by integrating the design and construction work of five of these seven minor construction projects into two combined projects exceeding the \$10 million minor construction threshold. VHA would have committed a third violation if we had not identified another combined project integrating the design and construction work of two minor construction projects prior to the USACE awarding a contract. In August of 2012, we notified OCAMS of our concerns regarding potential Antideficiency Act violations. OCAMS was not aware of the scope of the combined projects prior to our interim briefing.

Contracts had been awarded and construction was completed for two of the three combined projects. USACE was soliciting a contract for the integrated design and construction of the third combined project. According to an OCAMS official, OCAMS advised the facility not to proceed with awarding a contract for the combined project in October 2012. VHA needs to implement sufficient administrative and financial controls over current and future minor construction projects or continually risk violating the Antideficiency Act.

Finding 2 VHA Needs To Ensure Medical Facility Funding Is Not Used To Supplement Minor Construction Projects

VHA did not adequately review individual projects to ensure medical facility funding was not used to supplement minor construction projects. Specifically, 3 of the 30 minor construction projects were supplemented with medical facility funding. This occurred because VHA did not follow its nonrecurring maintenance (NRM) policy on the use of medical facility funding. As a result, VHA does not have assurance that medical facility funding is being used appropriately.

Minor Construction Projects Designed to Maximize \$10 Million Limit

Minor construction projects are often designed to maximize functionality within the \$10 million project spending limit. According to a senior VHA official, this spending limit makes it difficult to modernize and renovate aging VHA facilities. This environment presents challenges for projects that need over \$10 million to complete but are well under the normal range of cost estimates approved for major construction projects.

The senior VHA official also stated concerns that when project engineers are given a spending limit of \$10 million, they will design the maximum achievable structure within that boundary. This optimistic approach often puts VHA at risk of violating the minor construction spending threshold.

Currently, VHA has 47 active major construction projects that have estimated costs ranging from \$10.5 million to \$1 billion. Of the 47 major construction projects, 41 have estimated costs of over \$50 million. No new major construction projects have been approved in the FY 2012 or FY 2013 budgets.

Purpose of Medical Facility Funding

Medical facility funding is appropriated separately from minor construction funds. Medical Facility Appropriations are restricted to expenses necessary to maintain and operate VHA facilities and are often used to fund NRM projects. According to VA financial policy, NRM projects are designed to correct, replace, upgrade, and modernize existing infrastructure and utility systems. It also defines minor construction as construction, alteration, extension, or improvement of any VA facility with an estimated project cost of \$10 million or less.

What We Did

To determine if VHA adequately reviewed individual minor construction projects to ensure medical facility funding was not used to supplement minor construction projects, we:

- Reviewed active NRM projects at each VA medical facility in our sample
- Reviewed contracts and purchase orders associated with prime contractors of minor construction projects
- Physically inspected construction sites and reviewed project designs
- Interviewed VA project engineers managing minor construction projects

Program Handbook Inconsistent With VHA Directive

VHA's draft minor construction program handbook provides unofficial policy to VA medical facilities on which construction projects should be proposed as minor construction projects and which should be proposed as NRM projects. Project engineers at all six facilities we visited stated they relied upon the unpublished draft handbook as official program policy.

Prior to 2006, VHA's NRM Program was managed by the Office of Health Care Engineering (OHCE). OHCE established policy for the NRM program by publishing *VHA Directive 1002.1 Non-Recurring Maintenance Program* in September 2005.

VHA Directive 1002.1 limits NRM construction and renovation expenses, referred to as minor improvements, to \$500,000 or less. The directive specifically prohibits NRM funds supplementing minor construction projects. In 1996 when OHCE wanted to increase the minor improvement limit from \$150,000 to \$500,000 it sought and received congressional concurrence prior to making changes to NRM policy. OCAMS adopted OHCE's definition of NRM found in VHA Directive 1002.1 into OCAMS' September 2006 version of its draft handbook.

Minor Construction and NRM Definitions Changed Significantly by OCAMS

OCAMS updated the draft handbook in September 2008. This update limited the definition of minor construction to projects that expand a VA medical facility's existing square footage and cost up to \$10 million. In the same version of the draft handbook, the NRM definition was expanded to include projects that renovate and modernize existing facility square footage with estimated project costs of up to \$10 million. Although not required, OCAMS did not seek congressional concurrence prior to raising the NRM spending threshold from \$500,000 to \$10 million for renovation projects.

OCAMS' changes to the definition of minor construction and NRM projects required renovation projects to use NRM funding instead of minor construction funding. Thus, if a VA medical facility wanted to spend \$3 million to renovate existing operating room space into a gastrointestinal clinic, the project would have to be proposed as an NRM project under the September 2008 definition. According to VHA Directive 1002.1, the project would be considered a minor construction project because NRM renovations are limited to \$500,000 or less.

In 2010, OCAMS updated the draft handbook once again. Under this revision, the definition for minor construction was further limited to projects that expanded existing facility space by over 1,000 square feet. However, the NRM definition was modified to include construction projects that expand existing facility space up to 1,000 square feet. Table 2 shows the timeline of minor construction and NRM policy changes.

Table 2

Timeline of Minor Construction and NRM Policy Changes			
Time	Policy	Minor Construction Projects	NRM Projects
September 2005	VHA Directive 1002.1, NRM	Construction and renovation projects exceeding \$500,000 and less than \$7 million	Construction and renovation projects up to \$500,000
September 2006	Draft minor construction handbook	Construction and renovation projects exceeding \$500,000 and less than \$7 million	Construction and renovation projects up to \$500,000
December 2006	Public Law 109-461	Minor construction project limit is raised from \$7 million to \$10 million	No change
September 2008	Draft minor construction handbook	Construction projects that expand existing facility space up to \$10 million	Renovation projects within existing space up to \$10 million
September 2010	Draft minor construction handbook	Construction projects that expand existing facility space by over 1,000 square feet up to \$10 million	Construction and renovation projects up to 1,000 square feet of new space to \$10 million.

Source: VA OIG Summary of VA's Minor Construction and NRM policy changes

**Minor
Construction
Supplemented
With Medical
Facility Funds**

We found 3 of 30 minor construction projects were supplemented with medical facility appropriation funds. These three projects received \$24.4 million in minor construction and \$14.6 million from medical facility funds. When adding funding from both appropriations together, two of the three projects exceeded the \$10 million spending limit for minor construction projects. VA medical facilities did not follow NRM policy limiting the use of medical facility funding to supplement minor construction projects and limits renovation projects to \$500,000. As a result, VHA lacks assurance that medical facility funding is appropriately used.

Table 3 shows the minor construction projects selected for our review that received medical facility funds or were in the process of requesting additional medical facility funding to supplement minor construction project expenses.

Table 3

Minor Construction Projects Supplemented by Medical Facility Funds (in millions)			
Minor Construction Project	Minor Construction Funds	Medical Facility Funds	Total Project Estimate
Annex Research Center (San Francisco, CA)	\$10.0	\$11.1	\$21.1
Expand Patient Parking (Boston, MA)	\$9.6	\$0.7	\$10.3
Renovate Eye Clinic (Boston, MA)	\$4.8	\$2.8	\$7.6
Totals	\$24.4	\$14.6	\$39.0

Source: VA OIG review of minor construction projects

Minor Construction Projects Use Medical Facility Funding

One VA medical facility planned to spend \$4.8 million on a minor construction project to renovate an existing hospital eye clinic. This minor construction project was requested in 2006 prior to OCAMS limiting the definition of what type of work may be funded through the VHA Minor Construction Program. Before the initial design of the project was completed, the Chief of Optometry expressed concerns that the approved minor construction project would not provide enough space to meet VA eye clinic guidelines. However, the Chief of Engineering continued with the original project plans. The design for the minor construction project was completed in May 2009 and construction began in October 2011.

In June 2010 the facility submitted an NRM application, requesting about \$2.8 million for the expansion of the unfinished eye clinic because the original design would not accommodate the existing patient workload. According to VHA Directive 1002.1, this \$2.8 million expansion should have been funded with minor construction funding because NRM renovation costs are limited to \$500,000. However, the definition of NRM found in the 2008 draft handbook allowed medical facility funding to expand the eye clinic because the project did not create additional square footage for the medical facility. In total, the current estimate to complete the expanded eye clinic is about \$7.6 million. Figure 3 is a photograph of this minor construction project.

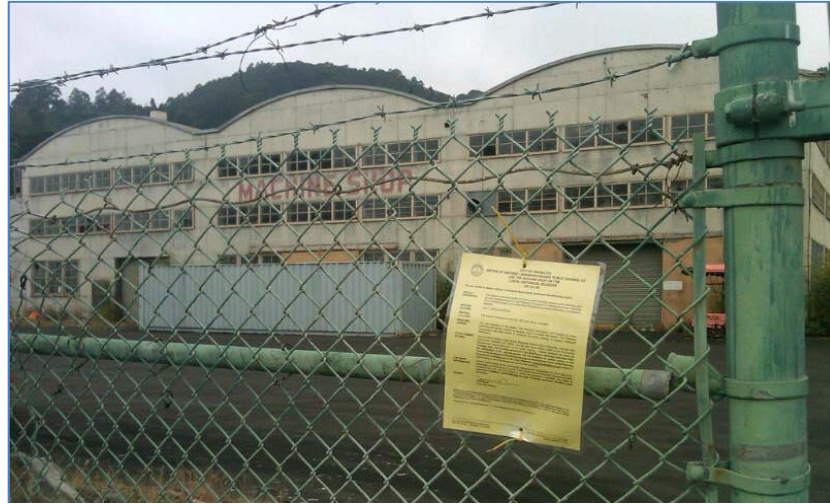
Figure 3

Source: VA OIG, Boston VA Healthcare System, July 18, 2012

At another VA medical facility, the facility used \$3 million in minor construction funds to acquire a building from USACE in 2007. The facility planned a minor construction project to retrofit the building and create a state-of-the-art research center for an estimated additional cost of about \$7 million.

Figure 4 is a photograph of the abandoned building.

Figure 4



Source: VA OIG, San Francisco VA Medical Center, July 25, 2012

After acquiring the building, the VA medical facility had to revise the project plans to preserve the historical significance of the building. Preserving the existing structure required the facility to spend about \$1.1 million of NRM funds on seismic work, environmental studies, and removal of hazardous materials. In May 2012, the facility planner requested about \$10 million of additional NRM funding to accommodate project cost overruns necessary to preserve the existing structure and provide a usable research facility.

This occurred because the definition for NRM projects found in the current draft handbook requires facilities to categorize projects that do not add more than 1,000 square feet of new space as NRM projects. Had the medical facility followed Directive 1002.1, the cost associated with this project would have been funded by minor construction appropriations. The medical facility's current cost estimate is about \$21.1 million.

Finding 3 VHA's Monitoring Controls Over Minor Construction Need To Be Strengthened

VHA did not adequately monitor minor construction projects. Specifically, program officials did not monitor program schedules and expenditures. This occurred because VHA's internal reviews of the Minor Construction Program were not performed and minor construction reporting was insufficient for VHA officials to monitor project performance effectively. As a result, VHA risks being unable to identify projects with cost overruns, significant schedule slippage, or major construction scope changes in a timely manner and take corrective actions when necessary.

Requirements for Monitoring

OCAMS is required to have a Minor Program Review Team perform quarterly reviews designed to evaluate the minor construction projects at selected VA medical facilities to improve accountability and make recommendations for minor construction program improvement. The team is composed of staff from OCAMS Minor Construction Program, VISN Support Services Center staff, Financial Quality Assurance Management, and VISN CAMs.

VHA maintains a Project Tracking Report (PTR) that each project engineer is required to manually update each month to show the project phase, current obligation levels, and percent of work completed. However, VHA does not require OCAMS and VISN CAMs to review the PTR or monitor project performance to ensure schedule and budget goals are met.

What We Did

To determine whether OCAMS and VISN officials adequately monitored minor construction projects, we reviewed 30 minor construction projects from 6 VA medical facilities and did the following:

- Reviewed PTR reporting requirements
- Compared the PTR with VA's Financial Management System (FMS) funding allotments and obligation levels for each project reviewed
- Interviewed OCAMS officials, VISN officials, and assigned project engineers

Projects Not Routinely Monitored

OCAMS and VISN officials did not routinely monitor minor construction project schedules and financial performance. Rather, OCAMS assigned responsibility to VA medical facility project engineers to monitor the projects and notify OCAMS if significant changes occurred or additional project funding was required.

Internal Program Reviews Not Performed

The draft minor construction program handbook requires OCAMS to create Minor Program Review Teams to perform quarterly reviews of project schedules and financial performance at selected sites. We found no evidence that the Minor Program Review Teams were formed and that internal

program reviews were performed. Without internal program reviews, OCAMS is dependent on VA medical facilities to effectively monitor their facilities' minor construction projects and self-report performance issues.

*Reporting
Insufficient for
Effective
Program
Management*

The PTR does not include basic information necessary for OCAMS and VISN officials to effectively manage project performance. The PTR lacks specific project milestones, which makes it difficult to measure whether a project is progressing according to schedule. The PTR only reports design and construction award dates and estimated completion dates but no interim progress points between a project's expected start and completion.

Also missing from the PTR is the project's current expenditures, a critical reporting element to ensure the project stays within budget. The PTR reports the fund amount obligated to complete a project, but actual costs of the project are not reported. Also, it does not contain a scope data element, which would reveal if the original project scope had been changed.

Finally, there is no reconciliation process between PTRs and FMS project financial information. The PTR information is self-reported by project engineers and without another source of verification cannot be reasonably relied upon. When we compared the total obligation amounts reported in the PTR to actual obligation amounts recorded in FMS, we found 7 of the 30 PTRs showed total obligations with at least 10 percent variance from the amounts recorded in FMS.

As a result of insufficient project reviews and reporting, VHA is at risk of not identifying projects with cost overruns, significant schedule slippage, or major construction scope, and taking timely corrective actions. The following is an example where project monitoring was weak and PTR data insufficient.

*Poor Monitoring
and Insufficient
Project
Reporting*

One VA medical facility used a minor construction project to renovate existing space into a gastrointestinal clinic with examination and procedure rooms. We found the contractor had walked off the job over an unresolved change order dispute and work had been delayed for 5 months. The VISN CAM was unaware of the delay. The CAM acknowledged he did not actively monitor progress of minor construction projects.

Figure 5 is a photograph of the unfinished project.

Figure 5



Source: VA OIG, VA Boston Healthcare System, July 19, 2012

Our review of the PTR showed the information provided by the project engineer did not have project milestones to identify the project was behind schedule. As a result, no immediate action was being taken to resolve the issue, and other hospital renovations were being delayed because the gastrointestinal clinic could not relocate into the renovated space in a timely manner.

CONCLUSION AND RECOMMENDATIONS

Conclusion

It is imperative that VHA establish effective oversight and monitoring controls to avoid future Antideficiency Act violations and misuse of Congressional appropriations. VHA violated the Antideficiency Act by integrating design and construction work for five minor construction projects into two combined projects by exceeding the \$10 million minor construction threshold.

VHA would have committed a third Antideficiency Act violation if we had not identified two other minor construction projects that integrated design and construction work into a single contract solicitation. In addition, VHA used medical facility funding to supplement three minor construction projects. These serious deficiencies demonstrate the lack of effective oversight and monitoring of minor construction projects. Table 4 summarizes our results.

Table 4

VA Medical Facility Minor Construction Projects Reviewed, Integrated, and Supplemented			
Facility	Number of Projects		
	Reviewed	Integrated	Supplemented
Providence VA Medical Center	6	5	0
VA Boston Healthcare System	7	0	2
Bay Pines VA Healthcare System	6	2	0
Miami VA Healthcare System	3	0	0
VA Northern California Health Care System	4	0	0
San Francisco VA Medical Center	4	0	1
Total	30	7	3

Source: VA OIG review of minor construction projects.

- Recommendations**
1. We recommended the Under Secretary for Health publish policy for the Minor Construction Program.
 2. We recommended the Under Secretary for Health develop procedures to ensure minor construction projects are executed within their approved scope.
 3. We recommended the Under Secretary for Health review the seven minor construction projects that were integrated into three combined projects which exceeded the \$10 million construction appropriation limit to

determine if major construction projects were created, and take appropriate administrative action.

4. We recommended the Under Secretary for Health implement a mechanism to ensure medical facility funding is not used to supplement minor construction projects.
5. We recommended the Under Secretary for Health ensure internal program reviews of the Minor Construction Program are performed.
6. We recommended the Under Secretary for Health strengthen minor construction Project Tracking Reports to ensure information is accurate and sufficient to monitor program performance.

**Management
Comments
and OIG
Response**

The Under Secretary for Health concurred with our findings and recommendations, and provided action plans to address our recommendations. In November 2012, VHA finalized and published policy for the Minor Construction Program. VHA reported they have implemented new procedures requiring the design document be compared to approved project scopes prior to funding transactions being performed.

VHA has begun reviewing the seven minor construction projects that were integrated into three combined projects to determine whether major construction projects were created. They expect to finish their review, and will report the results to OIG by the end of December 2012. In January 2013 VHA will begin to review high-risk minor construction projects that are close to the \$10 million appropriation to determine if medical facility funding is being used to supplement the projects.

VHA reported that project reviews were performed in July 2012 to ensure minor construction stayed within approved scopes, used appropriate sources of funding, and did not integrate designs with other projects. In addition VHA plans to perform quarterly reviews of Project Tracking Reports and expects VISN Capital Asset Managers to review these reports. VHA has reported that actions plans for Recommendations 2, 3, 4, and 6 are ongoing.

**OIG
Evaluation**

We considered those corrective actions which are completed or in process to be acceptable. We consider Recommendation 1 closed since VHA has already published Minor Construction Program policy. The OIG will continue to work with VHA on developing specific actions to address Recommendations 2, 4, 5, and 6, for which VHA identified corrective actions plans are currently ongoing. We acknowledge that initial actions taken by VHA are good first steps but further internal control changes are necessary to ensure continued program improvement. The Under Secretary for Health's comments and VHA's Action Plan can be found in Appendix D.

Appendix A Scope and Methodology

Scope We conducted our review of Minor Construction Program controls from June through November 2012.

Methodology We reviewed governing laws and regulations, related policies and procedures, project payments, and minor construction project contracts. We also discussed program requirements, organizational responsibilities, and operational procedures with VA and VHA program management officials. We tested controls at three VISNs and six VA medical facilities. We also obtained a review of our identified Antideficiency Act violations from the Counselor to the Inspector General.

Sample Selection To select 30 projects for review, we used a risk-based approach to identify those that were at the highest risk for combining multiple projects and supplementing minor construction projects with medical facility funds. We judgmentally selected only projects over \$1 million and assigned a higher degree of risk to projects over \$5 million. We also assigned high risk factors to older projects with large unspent balances. Projects were grouped by VA medical facility, and then by VISN, to determine the highest risk VISNs and VA medical facilities. We judgmentally selected three VISNs and two medical facilities under each VISN that met our criteria for high-risk projects. The VISNs and medical facilities we reviewed are shown in Table 5.

Table 5

Locations of Reviewed VA Medical Facilities		
VISN	VA Medical Facility	Location
VISN 1	VA New England Healthcare System	Bedford, MA
	Providence VA Medical Center	Providence, RI
	VA Boston Healthcare System	Boston, MA
VISN 8	VA Sunshine Healthcare Network	St. Petersburg, FL
	Bay Pines VA Healthcare System	Bay Pines, FL
	Miami VA Healthcare System	Miami, FL
VISN 21	Sierra Pacific Network	Mare Island, CA
	VA Northern California Health Care System	Mather, CA
	San Francisco VA Medical Center	San Francisco, CA

Source: VA OIG risk-based selection of minor construction projects

We evaluated controls for ensuring that minor construction programs were reviewed prior to approval, medical facility funds were not combined with minor construction funds, and project timelines and costs were tracked.

**Data
Reliability**

We used computer-processed data from FMS to determine project costs. To test the reliability of this data, we compared the data with purchase orders and invoices. We concluded the data were sufficiently reliable to answer the review objectives.

**Government
Standards**

We conducted this review under the *Quality Standards for Inspection and Evaluation*, issued by the Council of the Inspectors General on Integrity and Efficiency in January 2012.

Appendix B Minor Construction Organizational Structure

VA organizations and their responsibilities for the management of minor construction projects at VA medical facilities are shown below.

VA's Office of Management. This office is composed of five major organizational elements that are responsible for directing the Department's budgetary, financial, capital asset management, business oversight, and performance management functions.

Office of VA's Asset Enterprise Management. OAEM is aligned under the Office of Management. OAEM has primary responsibility for policies and decisions related to the acquisition, management, and disposal of VA capital assets. OAEM prepares VA's minor construction budget request to Congress and allocates the approved funds to VHA, the Veterans Benefits Administration, and the National Cemetery Administration. OAEM works in partnership with each Administration to facilitate the management of each of their capital asset management policies, principles, standards, and guidelines.

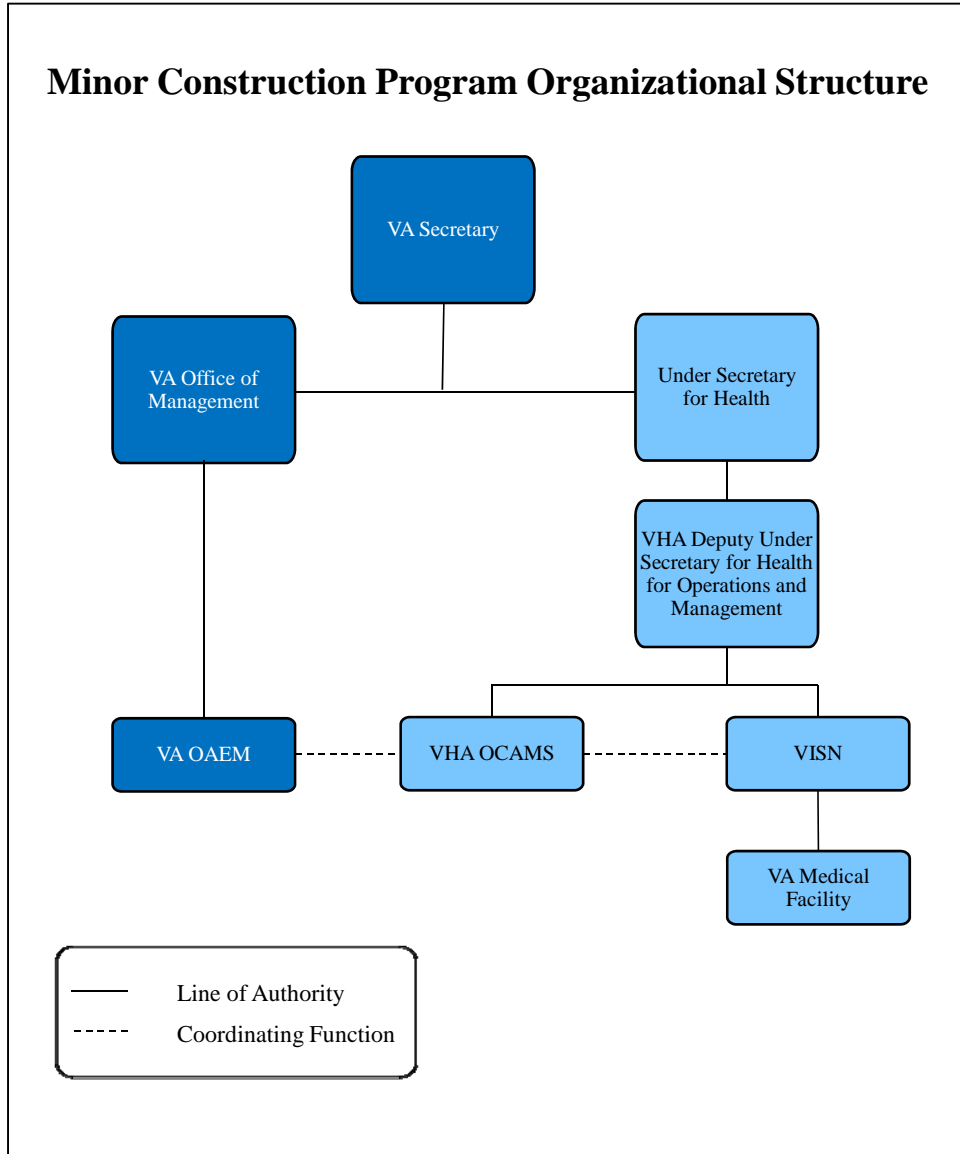
OCAMS. OCAMS provides policy, guidance, oversight, and budget management for VHA's minor construction, leasing, and NRM programs. They are also responsible for prioritizing and allotting minor construction funding to individual VHA projects. OCAMS is aligned under the Deputy Under Secretary for Health for Operations and Management.

VISN. VISN Capital Asset Managers (CAMs) review VA medical facility minor construction project proposals and forward their recommended proposals to OCAMS for approval. CAMs also certify that approved minor construction projects will not receive funding from alternate sources and ensure that projects stay within the scope of work.

Medical Facility. VA medical facility directors ensure that requests for all proposed minor construction projects are appropriate and approved projects remain within their scope and approved budgets. VA medical facility engineers and contracting officers ensure that projects are completed on schedule, within budget, and meet all construction quality standards.

Figure 6 shows the organizational structure of VHA's Minor Construction Program.

Figure 6



Source: VA OIG summary of Minor Construction Program organizational structure.

Appendix C Minor Construction Procedures and Financial Controls

VHA had not published minor construction program policy during the period of our review. However, in 2006, VHA developed a draft VHA minor construction program handbook, and VISN CAMs and VA medical facility officials generally followed the draft handbook in the absence of an official policy on minor construction projects.

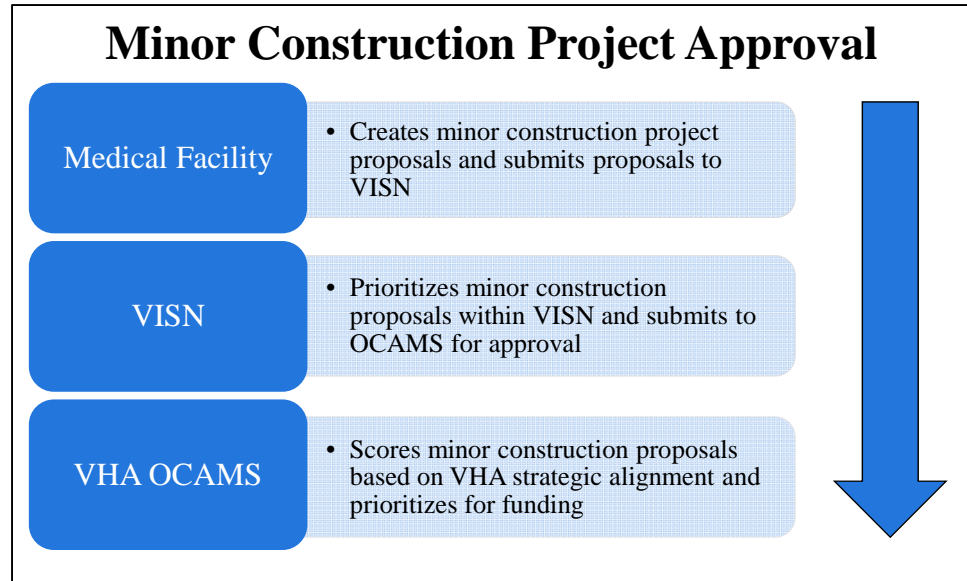
According to the draft handbook, minor construction funding must be used for stand-alone projects on Federally owned land that expands the existing facility by more than 1,000 gross square feet and alters, extends, or improves the facility. The draft handbook includes procedures and financial control requirements that govern the approval, funding, and execution of minor construction projects.

VA medical facilities submit an annual proposal to their VISN for each minor construction project the facility wishes to construct. The VISNs review the proposals and submit the highest priority proposals to OCAMS for approval. OCAMS scores each proposal and creates a prioritized list of all proposed projects from criteria established annually by the Strategic Capital Investment Plan Board and Panel members.

The objective of the Strategic Capital Investment Plan is to produce an annual consolidated list of capital projects that significantly reduce identified performance gaps in access, workload/utilization, safety, space, and facility condition over a 10-year period. The Strategic Capital Investment Plan uses a data-driven approach to link the strategic performance planning efforts of the three Administrations for both capital and non-capital solutions for identified gaps in service.

Based on the amount of funds OAEM allocates to VHA's Minor Construction Program, OCAMS approves projects starting with the highest ranked project and proceeds to approve projects in the order of their final score until all funds are allocated. The following diagram (Figure 7) summarizes the minor construction project approval process.

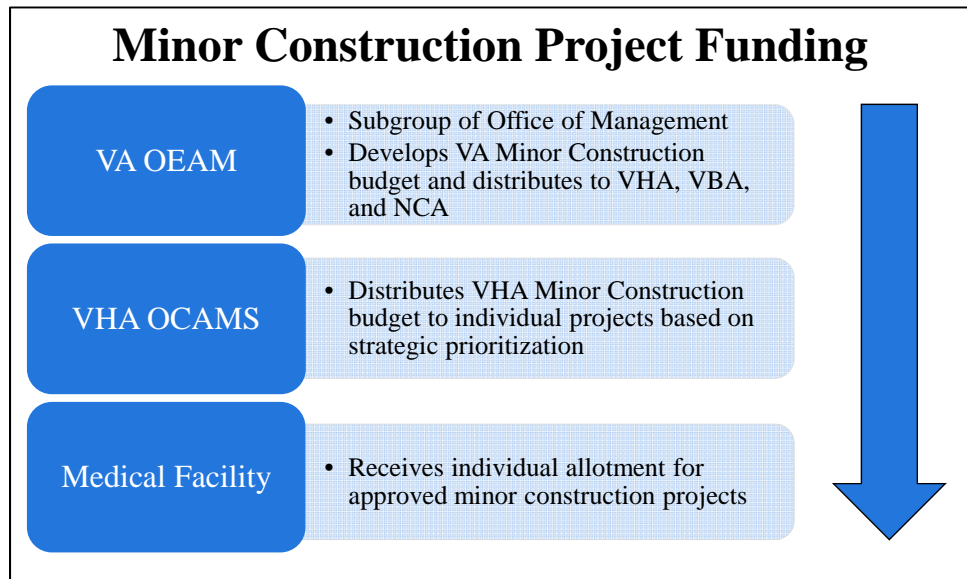
Figure 7



Source: VA OIG summary illustration of the Minor Construction project approval process

VA OAEM allocates VHA's portion of the VA minor construction budget to OCAMS. OCAMS distributes the allocation by allotting VHA minor construction funding to individual minor construction project accounts within FMS. Funds are obligated from the individual project accounts when the VA medical facility executes design, construction, and other project related contracts. Figure 8 summarizes the minor construction project funding process.

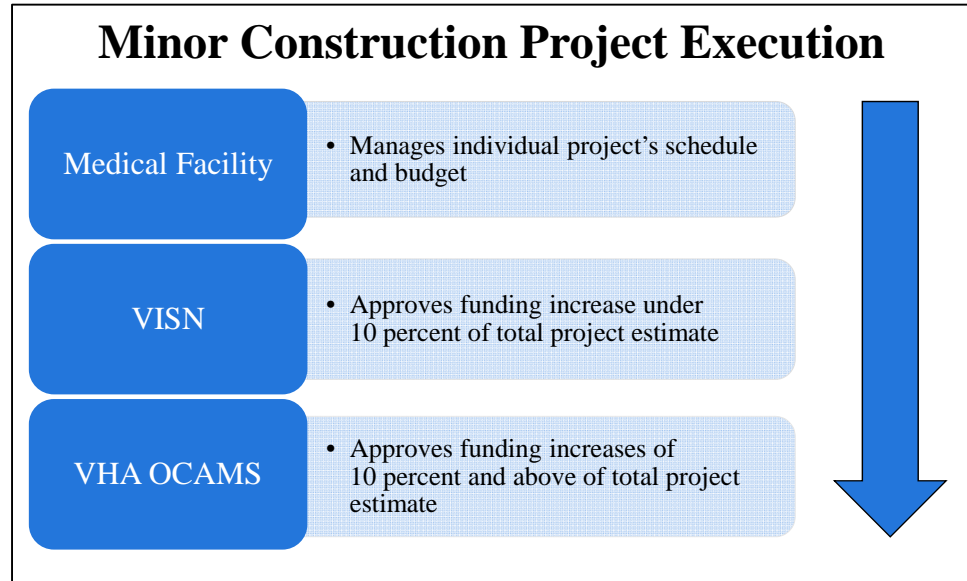
Figure 8



Source: VA OIG summary illustration of the Minor Construction project funding process

OCAMS and VISN officials monitor individual projects to ensure that approved project funds are available and obligated within the fiscal year allotted and that VA medical facility requests for scope changes and funding increases are necessary and valid. Medical facilities are responsible for managing and reporting project performance and ensuring individual projects remain on schedule and under budget. Figure 9 summarizes the project execution process.

Figure 9



Source: VA OIG summary illustration of the Minor Construction project execution.

Appendix D Under Secretary for Health Comments

Department of Veterans Affairs

Memorandum

Date: December 5, 2012

From: Under Secretary for Health (10)

Subj: OIG Draft Report, Review of Minor Construction Program (VAIQ 7300794)

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

1. I have reviewed the draft report and concur with all six of the report's recommendations. Attached is the action plan that addresses the recommendations.
2. Thank you for the opportunity to review the draft report. If you have any questions, please contact Linda H. Lutes, Director, Management Review Service (10R) at (202) 461-7014.



Robert A. Petzel, M.D.

Attachment

**VETERANS HEALTH ADMINISTRATION (VHA)
Action Plan**

OIG Draft Report, Review of Minor Construction Program (VAIQ 7300794)

Date of Draft Report: November 14, 2012

<u>Recommendations/ Actions</u>	<u>Status</u>	<u>Completion Date</u>
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Recommendation 1. We recommend the Under Secretary for Health publish policy for the Minor Construction Program.

VHA Comments

Concur

The Minor Construction Handbook was finalized and published in November 2012.

Completed

Recommendation 2. We recommend the Under Secretary for Health develop procedures to ensure minor construction projects are executed within their approved scope.

VHA Comments

Concur

Beginning October 1, 2012, all projects with funding requests for minor construction design or construction funding transactions will be reviewed with the latest design or construction document, and compared to the approved scope of work that is based on the approved application or change in scope memo.

Ongoing

Recommendation 3. We recommend the Under Secretary for Health review the seven minor constructions projects that were integrated into three combined projects which exceeded the \$10 million construction appropriation limit to determine if major construction projects were created and take appropriate administrative action.

VHA Comments

Concur

Beginning July 25, 2012, VHA's Office of Capital Asset Management and Support (OCAMS) began reviewing the seven identified minor construction projects to determine if major construction projects were created and take appropriate administrative action. Below are OCAMS reviews and findings:

- Bay Pines: In final stage of construction. Issue brief is awaiting Office of General Counsel's (OGC) final opinion to determine next steps.
- Providence (Mental Health and Specialty Clinic): Completed construction. Issue brief is awaiting OGC final opinion to determine next steps.
- Providence (Intensive Care Unit and Emergency Department): In design phase. OCAMS directed the Providence VAMC staff to separate the design of these two projects. Construction funding for the second phase will be provided after the first phase has reached 95% completion. Due to this separation prior to construction, this project is not considered a major construction project.
- Boston (Eye Clinic and Parking projects): Both of these projects are still in construction and have not yet exceeded the \$10M threshold. OCAMS has taken corrective actions to ensure the \$10M threshold is not exceeded prior to project completion. Issue briefs have been provided to OGC, and OCAMS is awaiting OGC's opinion on whether the phased approach for the Eye Clinic is considered augmenting, and whether the parking leases are considered unforeseen site conditions for the parking project due to the unplanned mandate to require them.
- San Francisco (Sausilito): The Non-Recurring Maintenance (NRM) and Minor projects are taking corrective actions to combine the funding for the NRMs and Minor into the original Minor project; this final Minor project will still remain less than \$10M.
- Mather (Sacramento): Project found not to be augmenting or exceeding the \$10M threshold.

VHA will report the final results of OGC and other reviews to OIG.

In process

December 31, 2012

Recommendation 4. We recommend the Under Secretary for Health implement a mechanism to ensure medical facility funding is not used to supplement minor construction projects.

VHA Comments

Concur

Beginning January 1, 2013, OCAMS will begin reviewing on a quarterly basis high risk Minor Construction projects greater than \$9.5M in comparison to other similar NRM project titles as well as those contracted to the Army Corps of Engineers. If augmentation is identified, appropriate actions will occur with the Veterans Integrated Service Network (VISN) and medical center staff, OGC and VA Office of Management to remediate the situation.

Ongoing

Recommendation 5. We recommend the Under Secretary for Health ensure internal program reviews of the Minor Construction Program are performed.

VHA Comments

Concur

Beginning July 1, 2012, OCAMS began project reviews for minor construction projects to determine if projects changed scope without prior approval, increased cost without approval, used other sources of funding to complete project, or integrated the design with another project. If dependence is found with projects, appropriate actions will occur to remediate the situation.

Ongoing

Recommendation 6. We recommend the Under Secretary for Health strengthen minor construction Project Tracking Reports to ensure information is accurate and sufficient to monitor program performance.

VHA Comments

Concur

Beginning December 2012, Project Tracking Reports will be provided quarterly to the Network Directors to identify gaps for all NRMs and minor construction data. These reports will also be reviewed with VISN Capital Asset Managers on a monthly basis to ensure a proactive stance in managing outlier issues and missing data.

Ongoing

Veterans Health Administration
December 2012

Appendix E Office of Inspector General Contact and Staff Acknowledgments

OIG Contact	For more information about this report, please contact the Office of Inspector General at (202) 461-4720.
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Acknowledgments	Matthew Rutter, Director Maria Afamasaga Ruth Blevins Kevin Day Sophia Demco Chris Enders Todd Groothuis Marisa Harvey Barry Johnson Will Maroon Issa Ndiaye Tom Phillips Melinda Toom Steve Toom Orlando Velásquez Sherry Ware Theresa Zoun
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VA Distribution

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