

VA Office of Inspector General

OFFICE OF AUDITS AND EVALUATIONS



# Department of Veterans Affairs

*Audit of  
Hurricane Sandy Major  
Construction Relief Funds  
for VA New York Harbor  
Healthcare System*

February 7, 2017  
15-02932-98

# ACRONYMS

|       |   |
|-------|---|
| CFM   | VA Office of Construction & Facilities Management |
| FMS   | Financial Management System                       |
| FY    | Fiscal Year                                       |
| MRI   | Magnetic Resonance Imaging                        |
| OIG   | Office of Inspector General                       |
| OMB   | Office of Management and Budget                   |
| VA    | Department of Veterans Affairs                    |
| NYHHS | VA New York Harbor Healthcare System              |

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# Highlights: Audit of Hurricane Sandy Major Construction Relief Funds for VA New York Harbor Healthcare System

## Why We Did This Audit

We performed this audit to determine if the VA New York Harbor Healthcare System (NYHHS) received the goods, services, and deliverables VA paid for in accordance with Public Law 113-2, Disaster Relief Appropriations Act, 2013 (the Act), for Hurricane Sandy recovery. The Office of Management and Budget Memorandum M-13-07 indicates that relief funding of this magnitude often carries additional risk and requires that VA ensure these appropriated funds are used for their intended purposes.

## What We Found

We found that the goods, services, and deliverables paid for through March 2016, with funds designated for Hurricane Sandy major construction, were received by NYHHS in accordance with the Act. We based our conclusion on a site visit to the New York Harbor Healthcare System – Manhattan Campus, a review of pertinent documents, interviews, and our evaluation of a statistical sample of 30 invoices.

Public Law 113-2 appropriated \$236.6 million to address damages to all VA operations resulting from Hurricane Sandy. Of this amount, the Act designated \$207 million for major construction projects. VA in turn designated these funds to repair the Manhattan campus of NYHHS. As of August 2016, NYHHS had obligations of \$97.8 million for construction in progress with \$80.4 million expended from Hurricane Sandy major construction funds. The remaining unobligated funds totaling almost \$28.7 million are available for obligation through September 30, 2017. Full

expenditure of funds must be made by September 30, 2022.

We observed that the VA Office of Construction & Facilities Management had certain key controls in place that supported its administration of Hurricane Sandy funds.

## What We Recommended

Because NYHHS received the goods, services, and deliverables paid for by the Disaster Relief Appropriations Act, 2013 through March 2016 in accordance with Public Law 113-2, we made no recommendations.

## Agency Comments

VA Office of Construction & Facilities Management and VA New York Harbor Healthcare System management did not make any comments related to this report.

A handwritten signature in black ink that reads "Larry M. Reinkemeyer".

**LARRY M. REINKEMEYER**  
Assistant Inspector General  
for Audits and Evaluations

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## INTRODUCTION

### **Objective**

We performed this audit to determine if the VA New York Harbor Healthcare System (NYHHS) Manhattan campus received the goods, services, and deliverables VA paid for with Hurricane Sandy major construction projects funds in accordance with Public Law 113-2, Disaster Relief Appropriations Act, 2013.

### **Hurricane Sandy**

Hurricane Sandy made landfall in New York on October 29, 2012. Flooding from the storm resulted in the catastrophic failure of all the major utility systems that serviced the Manhattan campus, including electrical, heating, fire protection, elevator, water pumping, and information technology support structures. More than 150,000 square feet of outpatient and support areas were destroyed as well as the magnetic resonance imaging (MRI) unit and other clinical equipment. The figure depicts flooding on the ground floor, including Primary Care areas, due to Hurricane Sandy.

**Figure. Ground Floor Flooding and Damage**



*Source: Martina A. Parauda, Director NYHHS Presentation, "Hurricanes Irene and Sandy - VA Medical Center in Manhattan," received on May 22, 2014*

### **Disaster Relief Appropriations Act, 2013**

On January 29, 2013, the President signed into law the Disaster Relief Appropriations Act, 2013 (the Act). The Act appropriated \$236.6 million to address damages to all VA operations resulting from Hurricane Sandy. Of this amount, the Act designated \$207 million for major construction projects. VA's Office of Construction & Facilities Management (CFM) is responsible for the planning, design, and construction of all major construction projects greater than \$10 million.

## RESULTS

### **Finding**      **NYHHS Received Goods, Services, and Deliverables Purchased With Hurricane Sandy Major Construction Relief Funds**

The goods, services, and deliverables paid for through March 2016, totaling \$61.8 million, with funds designated for Hurricane Sandy major construction, were received by NYHHS. CFM followed VA policy governing major construction projects and construction in progress, with its administration of Hurricane Sandy funds.

#### **Criteria**

The Office of Management and Budget (OMB) issued Memorandum M-13-07<sup>1</sup> to provide VA with an overview of the planning and reporting requirements regarding the use of these funds. In response to this memo, CFM developed its internal control plan creating additional fund codes to enable better accountability and control of appropriated amounts.

#### **Hurricane Sandy Major Construction Funds**

On April 2, 2013, the Secretary of Veterans Affairs provided the U.S. Senate and U.S. House of Representatives Committees on Appropriations a spend plan for the \$207 million appropriated for VA Major Construction. This spend plan described VA's intent to use \$207 million to renovate and repair key areas at NYHHS' Manhattan campus that were damaged or affected by Hurricane Sandy and included the following expenditures:

- \$87.6 million—ground floor repairs
- \$39.6 million—inpatient wards renovation
- \$33.7 million—patient services renovation and relocation
- \$27.1 million—MRI unit and utilities relocation
- \$19.0 million—flood reinforcement and other related repairs

#### **Testing of Sampled Invoices**

As of March 31, 2016, a total of 317 invoices totaling \$61.8 million were paid with the major construction funds appropriated for Hurricane Sandy damages. We tested a statistical sample of 30 invoices totaling \$8.2 million out of the universe of 317 paid invoices. For all 30 invoices tested, we verified that the invoice was reviewed and approved as complete prior to forwarding to the contracting officer for certification for payment. We also determined that the expenditures were in accordance with the original spend plan for damages sustained by Hurricane Sandy, and that the related goods,

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<sup>1</sup> *Accountability for Funds Provided by the Disaster Relief Appropriations Act*, March 12, 2013

services, and deliverables were received consistent with the purpose of the Act. For example:

*Example 1*

We reviewed paid invoice number 70780006 for \$1,390,852 toward the relocation of the MRI unit due to damage on the ground floor of the VA Medical Center. This invoice, dated September 3, 2015, represented a progress payment on a contract totaling \$5,049,149 related to the relocation and installation of the MRI unit. We verified the invoice was reviewed and approved prior to forwarding to the contracting officer for certification for payment. On May 10, 2016, we observed the newly installed MRI unit, now located on the sixth floor.

*Example 2*

We reviewed paid invoice number PROGPM5 for \$1,162,234 toward the renovation of the ninth floor due to the relocation of the Primary Care Clinic from the damaged clinic on the ground floor. This invoice, dated July 24, 2014, represented a progress payment on a contract totaling \$14,666,987 related to the clinic relocation. We verified the invoice was reviewed and approved prior to forwarding to the contracting officer for certification for payment. On May 10, 2016, we toured the clinic area relocated to the ninth floor. We confirmed that the clinic relocation was complete and operational.

**Status of the  
Obligation of  
Funds**

The Act requires obligation of these funds by September 30, 2017 and full expenditure by September 30, 2022. VA’s Financial Management System (FMS) showed that, as of August 8, 2016, VA expended approximately \$80.4 million of the \$207 million while \$97.8 million of obligations remained unpaid pending the completion of construction in progress. About \$28.7 million is available for future contractual obligations by September 30, 2017 as reflected in the table below:

**Table 1. Status of Hurricane Sandy Major Construction Funds**  
(as of August 8, 2016)

| Appropriated Funds | Contractually Obligated Funds | Expended Obligations | Unpaid Obligations | Available for Future Contractual Obligation |
|--------------------|-------------------------------|----------------------|--------------------|---|
| \$207,000,000      | \$178,261,390                 | \$ 80,441,480        | \$ 97,819,910      | \$ 28,738,610                               |

*Source: FMS Reports*

The Eastern Regional Project Manager told us that CFM intends to obligate the remaining available funds for the completion of a floodwall, ground floor renovations, and relocation of electrical equipment, in accordance with the original spend plan submitted to Congress. These commitments have not yet

been contractually obligated and could change based on re-evaluation of priorities. Remaining available funds are being monitored by CFM to evaluate priority areas for use.

***What We  
Concluded***

Our audit process included a statistical sample of VA payment records, interviews with CFM and NYHHS employees, and onsite inspection. We concluded that the \$61.8 million in goods, services, and deliverables purchased through March 2016, and paid for with funds designated for Hurricane Sandy major construction, were received in accordance with the Public Law 113-2, Disaster Relief Appropriations Act, 2013. Because we did not identify any exceptions from our testing, we make no recommendations in this report.

***Management  
Comments***

VA Office of Construction & Facilities Management and VA New York Harbor Healthcare System management did not make any comments related to this report.



## Appendix A Background

### **NYHHS Facility Profile**

NYHHS provides veteran health care at three campuses located in Manhattan, Brooklyn, and St. Albans, Queens; and operates community based outpatient clinics in Harlem, Brooklyn, and Staten Island. NYHHS reported that it had approximately 50,706 unique patients and 3,800 medical care full time equivalent employees as of September 2012 (one month prior to Hurricane Sandy).

The mission of the NYHHS is to provide quality health care to veterans. Its vision is to be the preferred provider of veterans and the community by offering an efficient, integrated, quality, health care system capable of providing a full range of primary, specialty, and chronic health care services. Hurricane Sandy affected the ability of the Manhattan VA Medical Center to fulfill its mission and vision.

### **Hurricane Sandy Makes Landfall**

Hurricane Sandy made landfall in New York on October 29, 2012. Flooding from the storm resulted in the catastrophic failure of all the major utility systems that serviced the Manhattan campus, including electrical, heating, fire protection, elevator, water pumping, and information technology support structure. More than 150,000 square feet of outpatient and support areas were destroyed as well as the MRI unit and other clinical equipment. As a result, the entire facility was closed for approximately six months, which required patient relocation.

The Disaster Relief Appropriations Act, 2013<sup>2</sup> provided VA with \$207 million in aid for Hurricane Sandy major construction. CFM was tasked with oversight of the construction and facility repairs. CFM supports VA's mission by planning, designing, constructing, and acquiring major facilities, and setting design and construction standards. CFM also provides lease project management, design and construction standards, historic preservation services, and expertise to the Department of Veterans Affairs.

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<sup>2</sup> Public Law 113-2, January 2013

## **Appendix B Scope and Methodology**

### **Scope**

We conducted our audit work from April through November 2016. Our audit included VA data on expenditures and work in process totaling approximately \$61.8 million made from special appropriations through March 31, 2016.

### **Methodology**

We assessed VA's use of the \$207 million of special appropriation funds to pay for goods, services, and building repairs necessary due to damages from Hurricane Sandy, which had been completed through March 31, 2016. To achieve our objectives, we reviewed OMB Memorandum M-13-07 and the Act. OMB Memorandum M-13-07 indicates that relief funding of this magnitude often carries additional risk, and requires that VA ensure these appropriated funds are used for their intended purposes.

The Act details the proper/intended use of the \$207 million in Hurricane Sandy major construction relief funds. We requested payments posted from October 2012, the month the hurricane occurred, through March 2016 using major construction funds. We noted that there were no expenditures from October 2012 through January 2013. Therefore, we selected a sample of 30 invoices totaling \$8.2 million from 317 invoices totaling \$61.8 million of expenditures from February 2013 through March 2016. We also compared the invoices with performance or progress documentation, in conjunction with interviews and physical examinations.

Our review of VA FMS expenditure data and performance and progress documentation through March 31, 2016 assessed compliance with Federal and VA policy for receipt of goods, services, and deliverables for repairing and rebuilding the VA Manhattan campus due to damages from Hurricane Sandy.

We conducted interviews with applicable VA CFM staff, including the director, CFM Eastern Regional Office; the project manager; the budget analyst; and the contracting officer. VA Manhattan interviews of management and staff included the associate director of Finance and Information Management, contracting officer's representatives, senior resident engineers, and the acting chief engineer.

In addition, we inspected newly constructed areas at the Manhattan campus to ensure that the renovations and repair projects were necessary due to Hurricane Sandy damages. We also conducted onsite observation at the Manhattan campus of NYHHS to ensure goods and services that the VA paid for were received.

### **Fraud Assessment**

During this audit, the team assessed the risk that fraud, abuse, and violations of legal and regulatory requirements could occur. The audit team exercised due diligence in staying alert to any fraud indicators by taking actions such

as soliciting the OIG's Office of Investigations for indicators. We did not identify any instances of fraud.

**Data  
Reliability**

To test the reliability of computer-processed data, we obtained VA FMS data on expenditures of Hurricane Sandy major construction funds from October 2012 through March 2016. We performed the following for 30 selected invoices:

- Compared the expenditures amount per the obligations table in FMS with the expenditures per the payment table (we noted that there were no expenditures during the time frame from October 2012 through January 2013 in our data)
- Independently queried FMS using the same parameters with the Financial Reporting System
- Compared the amounts per our queries with FMS amounts
- Traced payment amounts to source documentation, such as invoices and performance and progress documents
- Traced obligation amounts per FMS to contractor-prepared invoices or signed original purchase orders

We did not note any funding corrections after the funds were authorized. The data were sufficient, valid, and reliable to support our audit findings and conclusions.

**Government  
Standards**

Our assessment of internal controls focused on those controls relating to our audit objectives. We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. The evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## Appendix C Statistical Sampling Methodology

**Approach** To verify that NYHHS received the goods, services, and deliverables VA paid for with Hurricane Sandy major construction relief funds, we statistically sampled invoices paid by CFM.

**Population** The universe included 317 invoices totaling approximately \$61.8 million posted for payment during the period from October 2012 through March 31, 2016.

**Sampling Design** We stratified the universe into 16 strata by payee and performed a random sample selection. Table 2 provides the number of reviewed invoices by payee:

**Table 2. Invoices Stratified by Payee**

| Payee                            | No. of Invoices Reviewed | No. of Invoices in Universe |
|----------------------------------|--------------------------|-----------------------------|
| Argo Systems, LLC                | 2                        | 24                          |
| Calcedo Construction Corp.       | 2                        | 19                          |
| Cannon Design, Inc.              | 1                        | 1                           |
| Cannon the LA Group              | 3                        | 63                          |
| Concentric Group                 | 2                        | 7                           |
| G&C Fab Co                       | 2                        | 13                          |
| HDR, Inc.                        | 3                        | 112                         |
| John Civetta & Sons, Inc.        | 2                        | 11                          |
| KRC Crawford JV LLC              | 1                        | 1                           |
| Mabbett & Associates, Inc.       | 2                        | 2                           |
| Mortech Manufacturing Inc.       | 1                        | 1                           |
| Ninety Five South, Inc.          | 2                        | 9                           |
| Seawolf Construction Corporation | 2                        | 10                          |
| Smithgroup & URS Grp, Inc.       | 2                        | 36                          |
| URS Corporation                  | 1                        | 1                           |
| Veterans Contracting Group, Inc. | 2                        | 7                           |
| <b>Total</b>                     | <b>30</b>                | <b>317</b>                  |

*Source: VA OIG statistical sample of Hurricane Sandy Invoices as of March 31, 2016*

**Weights** We computed sampling weights as a product of the inverse of the probability of selection at each stage of sampling. We used these weights to compute universe estimates from the sample findings.

## Appendix D **OIG Contact and Staff Acknowledgments**

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|---------|---|
| Contact | For more information about this report, please contact the Office of Inspector General at (202) 461-4720. |
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|-----------------|--|
| Acknowledgments | Murray Leigh, Director<br>Nathan Fong<br>Lee Giesbrecht<br>Kimberly Nikraves<br>Stephen Nose<br>Athenia Rosolowski |
|-----------------|--|

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