

VA Office of Inspector General

OFFICE OF AUDITS AND EVALUATIONS



# Veterans Health Administration

*Review of  
Excessive Procurement  
Costs at the Rural  
Outreach Clinic,  
Laughlin, Nevada*

February 8, 2018  
16-02695-51

# ACRONYMS

ABA	Architectural Barriers Act
ADA	Americans with Disabilities Act
CBOC	Community Based Outpatient Clinic
FAR	Federal Acquisition Regulation
FRV	Fair Rental Value
OIG	Office of Inspector General
VA	Department of Veterans Affairs
VHA	Veterans Health Administration

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# Executive Summary

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## Why the OIG Did This Review

The Laughlin Rural Outreach Clinic serves approximately 1,372 veterans. The clinic was established to provide primary care to veterans in the Laughlin, Nevada, area. In April 2016, the Office of Inspector General (OIG) began a review of allegations concerning the Laughlin Rural Outreach Clinic based on a request from former United States Senator Harry Reid. The allegations were:

- The costs to rent and remodel the clinic were excessive.
- The clinic does not provide radiology services.
- The clinic does not provide adequate veteran accessibility.

## What the OIG Found

The OIG substantiated the allegation that VA paid excessive lease costs for the Laughlin Rural Outreach Clinic. In September 2010, VA awarded a 10-year contract to lease the Laughlin Rural Outreach Clinic at a rate higher than fair rental value (FRV). Then in December 2014, VA issued a lease amendment revising the lease terms and lease rates to recoup shell improvement costs that were originally the lessor's responsibility. However, the revised lease rates were still higher than FRV. In addition, VA paid for shell improvement costs for the Laughlin Rural Outreach Clinic that were the lessor's responsibility.

This occurred because the contracting officer who awarded the original 2010 lease did not ensure price reasonableness as required by the Federal Acquisition Regulation. The Laughlin Rural Outreach Clinic lease file did not include information that explained or justified awarding the lease at a rate higher than the FRV. Also, the current contracting officer could not provide documentation or an explanation to justify awarding the lease at a rate higher than the FRV.

In addition, this occurred because there was a lack of oversight for the original September 2010 lease. The OIG did not identify evidence that a formal Integrated Oversight Process review was conducted for the original September 2010 lease prior to award. Furthermore, the current contracting officer could not provide documentation regarding oversight reviews and could not confirm whether oversight reviews were completed.

As a result, VA could pay as much as \$290,009, or 41 percent, more than FRV over the entire 10-year lease. VA also paid an additional \$266,745 in shell improvement costs that were the lessor's responsibility.

The OIG did not substantiate the allegations related to remodeling costs, radiology services, or clinic accessibility.

## What the OIG Recommended

The OIG recommended the Executive in Charge, Veterans Health Administration, ensure required oversight reviews are conducted and documented prior to the award of leases, contracting officers perform acquisitions in accordance with VA and Federal Acquisition Regulation requirements, and awarded lease rates are in the best interest of the government.

The OIG also recommended the Executive in Charge, Veterans Health Administration, ensure the lease for the Laughlin Rural Outreach Clinic is reevaluated to determine the financial advantages and disadvantages of renegotiating the terms of the contract to obtain a FRV commensurate with the Laughlin, Nevada, area.

## Management Comments

The Executive in Charge, Veterans Health Administration, concurred in principle with Recommendation 1 and concurred with Recommendation 2. The Executive in Charge's planned corrective actions are acceptable. The OIG consider Recommendation 1 closed based on actions reported by the Executive in Charge and the OIG will monitor the Veterans Health Administration's progress and follow-up on the implementation of Recommendation 2 until proposed actions are completed.



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## INTRODUCTION

### ***Allegations***

In May 2015, VA OIG received a request from former United States Senator Harry Reid to address allegations his office received concerning the Laughlin Rural Outreach Clinic. VA OIG initially referred the allegations to the Veterans Health Administration (VHA) for review and comment. After reviewing VHA's responses to the allegations, VA OIG decided in April 2016 to begin a review of the allegations concerning the Laughlin Rural Outreach Clinic. The allegations were:

- VA paid excessive monthly lease costs.
- VA paid excessive building remodeling costs.
- The clinic did not offer radiology services. Veterans who need radiology services are required to go to another medical center, and the second-floor clinic cannot structurally accommodate radiology equipment.
- The clinic has limited elevator access, inadequate handicap access, and inadequate handicap parking.

### ***Laughlin Rural Outreach Clinic***

On August 13, 2008, Veterans Integrated Service Network 22 submitted a request to establish an outreach clinic in Laughlin, Nevada, to provide veterans in the area with primary care, mental health care, and ancillary care. According to the Laughlin Rural Outreach Clinic Site Manager, the Laughlin Rural Outreach Clinic, which is part of the VA Southern Healthcare System, began providing care to veterans on February 5, 2015 at its current location. According to the same VA official, as of June 2017, the clinic provides 1,372 veterans with the following services: primary care, well-women's exams, and laboratory and telehealth services.<sup>1</sup> On September 23, 2016, the Laughlin Rural Outreach Clinic was renamed the "Master Chief Petty Officer Jesse Dean VA Clinic."

### ***Contract Lease Requirements***

In August 2010, VA posted a pre-solicitation notice to lease approximately 4,500 square feet of space in Laughlin, Nevada. The lease term was for 10 years. Following the fifth year of the lease, the government reserved the right to terminate the lease on the condition that the government provided the lessor a 120-day written notice. The pre-solicitation notice stated VA would pay no more than the appraised fair rental value (FRV) for the space. According to a Greco Realty Services appraisal conducted in September 2010, FRV for the rental space in Laughlin was \$15.60 per square foot per year.<sup>2</sup>

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<sup>1</sup> According to the Laughlin Rural Outreach Clinic Site Manager, telehealth services include audiology, chaplain, psychiatry, psychotherapy, and retinal.

<sup>2</sup> The OIG used this FRV for all 10 years in our analysis comparing the FRV to the leased rates.

In September 2010, VA awarded the 10-year lease agreement to CK Pro, LLC, for \$2,311,670, so that VA could use the leased space for the Laughlin Rural Outreach Clinic.<sup>3</sup> Specifically, the awarded amount, which included operating and lease costs, was \$245,695 per year for the first five years of the contract.<sup>4</sup> The awarded amount for the last five years of the contract ranged from \$209,776 to \$223,707 per year. The contract established a base operating costs of \$101,442 per year.<sup>5</sup> Excluding the operating costs, VA agreed to lease rates of \$144,253 per year, or \$32.41 per square foot for the first five years of the contract and lease rates ranging from \$108,334 to \$122,265, or \$24.34 to \$27.47 per square foot, for the last five years of the contract.

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<sup>3</sup> The lease established annual rates for operating and lease costs. The 10-year operating cost established in the contract was \$101,442 per year for a total of \$1,014,420. Not including the operating costs, the 10-year lease cost established in the contract was \$1,297,250.

<sup>4</sup> Operating costs include charges such as electrical and janitorial charges for the interior premises.

<sup>5</sup> Operating cost adjustments occur annually based on changes in cost of cleaning services, supplies, materials, maintenance, trash removal, landscaping, water, sewer charges, heating, electricity, and certain administrative expense attributable to the occupancy.

## RESULTS AND RECOMMENDATIONS

### Finding 1 VA Paid Above Fair Rental Value to Lease the Laughlin Rural Outreach Clinic

The OIG substantiated the allegation that VA paid excessive lease costs for the Laughlin Rural Outreach Clinic. Federal regulation requires agencies to acquire leases on the most favorable basis to the federal government at charges consistent with prevailing market rates.<sup>6</sup> In September 2010, VA awarded a 10-year contract to lease the Laughlin Rural Outreach Clinic at a rate higher than FRV. Then in December 2014, VA issued a lease modification revising the lease terms and lease rates; however, the lease rates were still higher than FRV.

This occurred because the contracting officer who awarded the 2010 lease did not ensure price reasonableness as required by the Federal Acquisition Regulation (FAR) 15.402<sup>7</sup> or obtain the required contract oversight reviews prior to awarding the lease. As a result, even with a reduced annual lease rate to recover VA's payment of shell improvement costs that were the lessor's responsibility, VA will pay \$87,965 more than FRV over the first five years of the lease.<sup>8</sup> In addition, VA could pay as much as \$290,009, or 41 percent, more than FRV over the entire 10-year lease.

#### **VA Agreed to Lease Rates Above FRV**

In September 2010, VA awarded a 10-year lease at a lease rate totaling \$1,297,250. The 10-year FRV for the facility in Laughlin, Nevada, was \$694,356, or \$15.60 per square foot, per year. Therefore, VA agreed to pay lease rates that exceeded the FRV by \$602,894 over the 10-year lease. Specifically, VA agreed to pay \$32.41 per square foot for the first five years of the contract.<sup>9</sup> VA agreed to pay annual lease rates ranging from \$24.34 to \$27.47 per square foot for the last five years of the contract.

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<sup>6</sup> Section 102-73.55, Title 41, Code of Federal Regulations.

<sup>7</sup> FAR 15.402 states that contracting officers shall purchase supplies and services at fair and reasonable prices. FAR 2.101 defines "supplies" as all property except land or interest in land.

<sup>8</sup> According to Section 102-85.35, Title 41 of the Code of Federal Regulations, a "building shell" is "the complete enveloping structure, the base-building systems, and the finished common areas (building common and floor common) of a building that bound tenant areas."

<sup>9</sup> The lease identified an annual cost of \$245,695, which included annual base operating costs of \$101,442. The OIG determined the \$32.41 per square foot rate by subtracting the operating costs from the annual cost identified in the lease. This resulted in an annual lease rate of \$144,253. The OIG then divided the annual lease rate by 4,451 square feet ( $\$245,695 - \$101,442 = \$144,253 / 4,451 = \$32.41$ ).

*Tenant and  
Shell  
Improvements*

Prior to VA occupancy, the Laughlin Rural Outreach Clinic needed shell and tenant improvements, which consisted of a variety of general construction, alterations, utilities, mechanical, and electrical work.<sup>10</sup> According to the lease, CK Pro, LLC, was responsible for the cost and completion of shell improvements, and VA was responsible for tenant improvements. However, CK Pro, LLC, did not obtain a construction contract for the contractually required shell improvements. This delayed VA's ability to initiate tenant improvements, as required by the contract, and resulted in a delay to VA occupancy and lease commencement. Consequently, VA began the process of terminating the lease with CK Pro, LLC; however, after consulting with VA's legal counsel, VA decided not to terminate the lease. According to VA legal counsel, there was not another suitable location in the Laughlin, Nevada, area for the Laughlin Rural Outreach Clinic, and they recommended VA pay for the shell improvement costs.

In May 2012, VA decided to pay for the shell improvements to the clinic, with the agreement CK Pro, LLC, would reimburse VA for the cost of shell improvements by reducing the lease costs for the first five years of the lease. In October 2013, VA awarded Wadley Construction, Inc. a contract to perform the tenant and shell improvements to the Laughlin Rural Outreach Clinic.

*Revised Rates  
and Lease  
Period*

In December 2014, VA began occupying the Laughlin Rural Outreach Clinic. VA also modified the original 2010 lease to update the 10-year lease period and lease rates. Specifically, the modification changed the lease period to December 1, 2014, through November 30, 2024, and reduced the annual lease rate from \$32.41 to \$19.47 per square foot for the first five years of the lease.<sup>11</sup> The agreement to reduce the lease rate was to allow VA to recoup the \$266,745 VA spent on shell improvement costs.<sup>12</sup> By November 2019, CK Pro, LLC, is expected to reimburse VA a total of \$287,953, which includes interest. See Finding 2 for additional information regarding remodeling costs. Although the revised annual lease rate of \$19.47 per square foot was lower than the original \$32.41 rate, it was still \$3.87 more than the FRV of \$15.60.

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<sup>10</sup> According to Section 102-85.35, Title 41 of the Code of Federal Regulations, "tenant improvements" are defined as "a finished component of an interior block of space. Tenant improvements represent additions to or alterations of the building shell that adapt the workspace to the specific uses of the customer."

<sup>11</sup> The lease identified \$193,461.72 in annual costs, which included annual operating costs of \$106,794.48. The OIG determined the \$19.47 per square foot rate by subtracting the operating costs from the annual cost identified in the lease. This resulted in an annual lease rate of \$86,667.24. The OIG then divided the annual lease rate by 4,451 square feet ( $\$193,461.72 - \$106,794.48 = \$86,667.24 / 4,451 = \$19.47$ ).

<sup>12</sup> Memorandum for Record, P00001, *Lease Commencement Background and Adjustments Justification*.

The following table details the 2014 revised annual lease term rates compared to the FRV for the 10-year lease.

**Table. Revised Annual Lease Rates**

Lease Period	Annual Rate Per Square Footage	Total Annual Lease Rate <sup>13</sup>	FRV <sup>14</sup>	Total Annual FRV <sup>15</sup>	Total Overpayment
October 24–31, 2014	\$19.47	\$1,864	\$15.60	\$1,493	\$371
November 2014	\$19.47	\$7,222	\$15.60	\$5,786	\$1,436
<b>2-month Total<sup>16</sup></b>		<b>\$9,086</b>		<b>\$7,280</b>	<b>\$1,807</b>
2014-Year 1	\$19.47	\$86,667	\$15.60	\$69,436	\$17,232
2015-Year 2	\$19.47	\$86,667	\$15.60	\$69,436	\$17,232
2016-Year 3	\$19.47	\$86,667	\$15.60	\$69,436	\$17,232
2017-Year 4	\$19.47	\$86,667	\$15.60	\$69,436	\$17,232
2018-Year 5	\$19.47	\$86,667	\$15.60	\$69,436	\$17,232
<b>Total Years 1–5</b>		<b>\$433,336</b>		<b>\$347,178</b>	<b>\$86,158</b>
<b>Total</b> (Including October and November 2014)		<b>\$442,422</b>		<b>\$354,458</b>	<b>\$87,965</b>
2019-Year 6	\$23.14	\$102,982	\$15.60	\$69,436	\$33,546
2020-Year 7	\$23.89	\$106,320	\$15.60	\$69,436	\$36,884
2021-Year 8	\$24.66	\$109,747	\$15.60	\$69,436	\$40,311
2022-Year 9	\$25.45	\$113,263	\$15.60	\$69,436	\$43,827
2023-Year 10	\$26.27	\$116,913	\$15.60	\$69,436	\$47,477
<b>Total Years 6–10</b>		<b>\$549,223</b>		<b>\$347,178</b>	<b>\$202,045</b>
<b>Total Years 1–10</b>		<b>\$982,559</b>		<b>\$694,356</b>	<b>\$288,203</b>
<b>Grand Total</b> (Including October and November 2014)		<b>\$991,645</b>		<b>\$701,636</b>	<b>\$290,009</b>

Source: *OIG staff analysis based on awarded rates and real estate FRV rates as included in VA contract VA262-R-0443*

Note: Due to rounding, columns may not sum.

<sup>13</sup> The OIG calculated the total annual lease rate by subtracting the operating costs identified in the lease from the annual award amount stated in the lease.

<sup>14</sup> The OIG used the FRV established in the September 2010 Greco Realty Services appraisal for all 10 years in our analysis comparing the FRV to the leased rates.

<sup>15</sup> The FRV of \$15.60 multiplied by 4,451 square feet.

<sup>16</sup> Although the revised lease period was effective December 1, 2014, based upon obtaining an October 23, 2014, *Certificate of Occupancy*, VA began lease payments on October 24, 2014. VA paid \$1,863.81 for the period October 24, 2014, through October 31, 2014, and \$7,222.27 for the entire month of November 2014.

**VA Overall  
Cost Increased  
From Shell  
Improvements**

As previously indicated, the annual lease rate was amended from \$32.41 to \$19.47 per square foot in the first five years of the lease. This was done to allow VA to recoup the money it spent on shell improvement costs. However, while VA received a lower annual lease rate, VA still agreed to pay an equivalent rate that was nearly the same as the original \$32.41 per square foot rate. Instead of CK Pro, LLC, being paid the full \$32.41 per square foot rate as agreed upon in the original lease, CK Pro, LLC, agreed to be paid an annual rental rate of \$19.47 per square foot and the equivalent of \$11.99 per square foot went towards paying Wadley Construction for the shell improvement costs. Therefore, VA agreed to an annual lease rate that is the equivalent of \$31.46 per square foot over the first five years of the lease.

**Why This  
Occurred**

VA paid more than the FRV to lease the Laughlin Rural Outreach Clinic because the contracting officer who signed the original September 2010 lease did not ensure the reasonableness of the offered price, as required by FAR 15.402. Federal regulation requires agencies to acquire leases on the most favorable basis to the federal government at rates consistent with prevailing market rates.<sup>17</sup> The Laughlin Rural Outreach Clinic lease file did not include any information that explained or justified awarding the lease at a rate higher than the FRV.

In addition, there was a lack of adequate oversight for the original September 2010 lease. Specifically, VA's 2009 Integrated Oversight Process required the lease to have a peer or second-level review.<sup>18</sup> The purpose of these reviews is to hold contracting officers responsible during the procurement process, rather than after the fact. VA's Office of General Counsel reviewed the legal sufficiency of the 2010 solicitation. However, the OIG found no evidence that a formal Integrated Oversight Process review was conducted for the September 2010 contract prior to award.

The contracting officer who awarded the September 2010 lease and the contracting officer's supervisor are no longer VA employees, so they were not available to provide information regarding this lease.<sup>19</sup> According to the current contracting officer, there is no documentation to justify the reason for awarding the lease at a rate higher than the FRV. Nor could the current contracting officer explain why the lease was awarded at a rate higher than the FRV. Also, the current contracting officer could not provide

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<sup>17</sup> Section 102-73.55, Title 41, Code of Federal Regulations.

<sup>18</sup> The Integrated Oversight Process, as described in information letter (IL) 001AL-09-02, was initiated on June 19, 2009, but later replaced on December 16, 2015. Its purpose was to create an acquisition review oversight system that consisted of peer reviews, contract review teams, contract review boards, and legal reviews. The type of review conducted depended on the dollar amount and type of acquisition action. The IL was replaced with Acquisition Policy Flash 16-02, Revision 1.

<sup>19</sup> In November 2017, the OIG attempted to contact the contracting officer who awarded the September 2010 lease. The OIG called the phone number that VA had in its records for the contracting officer, but it was no longer in service.

documentation regarding oversight reviews and could not confirm whether oversight reviews were completed. Without appropriate contract reviews, VA lacks assurance that contracting officers are purchasing in accordance with acquisition requirements or that awarded contracts are in the best interest of the government and the taxpayer.

**VA Paid Lease  
Prices Above  
FRV**

As a result of agreeing to pay lease rates higher than the FRV, VA could pay as much as \$290,009, or 41 percent, more than the FRV for the Laughlin Rural Outreach Clinic during the 10-year lease. Specifically, in the first five years of the lease, VA will pay \$442,422 in lease costs, which is \$87,965 more than the FRV. In the last five years of the lease, VA expects to pay \$549,223 in lease costs, which is \$202,045 more than the FRV. In addition to paying lease rates above the FRV, VA also paid an additional \$266,745 in shell improvement costs.

**Conclusion**

VA agreed to a 10-year lease at the Laughlin Rural Outreach Clinic with lease rates higher than the FRV. As a result, VA could pay as much as \$290,009 more than the FRV during the 10-year lease.

**Recommendations**

1. The OIG recommended the Executive in Charge, Veterans Health Administration, ensure required oversight reviews are conducted and documented prior to the award of leases, contracting officers perform acquisitions in accordance with Department of Veterans Affairs and Federal Acquisition Regulation requirements, and awarded lease rates are in the best interest of the government.
2. The OIG recommended the Executive in Charge, Veterans Health Administration, ensure the lease for the Laughlin Rural Outreach Clinic is reevaluated to determine the financial advantages and disadvantages of renegotiating the terms of the contract to obtain a Fair Rental Value commensurate with the Laughlin Nevada area.

**Management  
Comments**

The Executive in Charge, Veterans Health Administration, concurred in principle with Recommendation 1 and concurred with Recommendation 2. Regarding Recommendation 1, she reported VA's Office of Acquisition, Logistics and Construction has made substantial revisions to VA leasing procurement and review processes since the Laughlin Rural Outreach Clinic lease. She reported the revisions now ensure oversight reviews and proper documentation prior to lease award. Regarding Recommendation 2, the Executive in Charge stated VHA will obtain a current fair market appraisal for the remaining seven years of the lease. The appraisal results may be used for re-negotiation of the final five-year soft term rates or to confirm the existing rates are within fair market value. VHA will then consider alternatives and perform a cost-benefit analysis to determine whether

re-negotiating or leaving the space is in the best interest of the government before taking any subsequent action.

***OIG Response***

The Executive in Charge's corrective action plans are responsive to the recommendations. The OIG consider Recommendation 1 closed based on the actions she reported. The OIG will monitor implementation of planned actions and will close Recommendation 2 when the OIG receive sufficient evidence demonstrating progress in addressing the recommendation.

## **Finding 2      Costs to Remodel the Laughlin Rural Outreach Clinic Were Fair and Reasonable**

### **Remodeling Costs**

The OIG did not substantiate the allegation VA paid more than necessary to remodel the Laughlin Rural Outreach Clinic.

In September 2010, VA awarded a lease to support VA Southern Nevada Healthcare System clinical requirements with stipulations for tenant and shell improvements. According to the lease, VA was responsible for tenant improvements and CK Pro, LLC, was responsible for shell improvements. As previously discussed, VA decided to fund the cost of the shell improvements when CK Pro, LLC, could not fulfill the original contract agreement.

After evaluating two vendor proposals, VA awarded the shell and tenant improvement contract to Wadley Construction for \$948,950 in October 2013. According to the FAR, the contracting officer is responsible for evaluating the reasonableness of the offered prices.<sup>20</sup> Furthermore, according to the FAR,<sup>21</sup> the Government can also use various price analysis techniques and procedures to ensure a fair and reasonable price, including comparing multiple proposed prices to each other and comparing proposed prices to independent government estimates.<sup>22</sup> After comparing each vendor's pricing against the other, as well as against the independent government cost estimate, VA awarded the contract to the company that offered the lowest price that was technically acceptable to VA. The offered price of the selected proposal was considered fair and reasonable.

After the contract was awarded, there were three contract modifications that increased the overall award amount from \$948,950 to \$1,022,283. The modifications included requirements to add items, such as additional design costs based on updates to accommodate space requirements. VA compared Wadley Construction's proposed prices with the independent government cost estimates, as well as reviewed supporting documentation that Wadley Construction submitted. VA determined that all of the increased costs were considered fair and reasonable. The OIG took no exception to VA's determination.

### **Conclusion**

The OIG found that the costs VA incurred to remodel the Laughlin Rural Outreach Clinic were fair and reasonable.

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<sup>20</sup> FAR 15.404-1(a)(1) states that the contracting officer is responsible for evaluating the reasonableness of offered prices.

<sup>21</sup> FAR 15.404-1(b)(2) states that the government may use various price analysis techniques and procedures to ensure a fair and reasonable price.

<sup>22</sup> An independent government estimate is an independent government prepared price estimate based on a comparison and analysis of factors such as published catalog prices, historical prices paid, market survey information, and vendor price quotes.

### **Finding 3 VA Was Not Required to Offer Radiology Services at the VA Laughlin Rural Outreach Clinic**

#### **Radiology Services**

The OIG did not substantiate the allegation concerning a lack of radiology services or the structural accommodations for radiology equipment at the Laughlin Rural Outreach Clinic.

In accordance with VHA policies, the Laughlin Rural Outreach Clinic was not required to provide radiology services. According to the Associate Medical Center Director of the VA Southern Nevada Healthcare System, it was not anticipated that the clinic would provide these services. As a result, the OIG did not evaluate whether the clinic could structurally accommodate radiology equipment.

The Laughlin Rural Outreach Clinic is considered a Primary Care Community Outpatient Clinic (CBOC). VHA Handbook 1006.1, *Planning and Activating Community-Based Outpatient Clinics* (May 19, 2004), defines procedures for planning and activating new CBOCs and the minimum services CBOCs are required to provide. The VHA Handbook does not require radiology services for CBOCs. Furthermore, the VHA Handbook 1006.02, *VHA Site Classifications and Definitions* (December 30, 2013), stated that primary care CBOCs may offer radiology services, but it is not a requirement.

According to the Associate Medical Center Director of the VA Southern Nevada Healthcare System, the decision to provide radiology services is primarily based on a combination of factors such as projected workload, availability of providers, and referral patterns. He further stated that radiology services are not typically provided in outpatient clinics serving fewer than 10,000 veterans, adding that it was not anticipated for the Laughlin Rural Outreach Clinic to offer radiology services.

Although the Laughlin Rural Outreach Clinic does not provide radiology services, these services are provided at the Southeast Primary Care Clinic 63 miles east, and the Southwest Primary Care Clinic 73 miles west, of the Laughlin Rural Outreach Clinic.

The Laughlin Rural Outreach Clinic was not required to offer radiology services. As a result, the OIG did not substantiate the allegation concerning the lack of radiology services at the clinic or evaluate whether the clinic could structurally accommodate radiology equipment.

#### **Conclusion**

The OIG found that VA was not expected or required to offer radiology services at the Laughlin Rural Outreach Clinic.

## **Finding 4      The Laughlin Rural Outreach Clinic Meets Accessibility Requirements**

### ***Accessibility to Clinic***

The OIG did not substantiate the allegation regarding inadequate veteran accessibility to the Laughlin Rural Outreach Clinic.

The Americans with Disabilities Act (ADA) and the Architectural Barriers Act (ABA) Accessibility Standards provide specific requirements regarding handicap parking, ramp, and elevator accessibility to medical facilities.<sup>23</sup> The lease required CK Pro, LLC, to comply with both ADA and ABA standards. The OIG determined the Laughlin Rural Outreach Clinic met the ADA and ABA requirements as described below.

### ***Parking Spaces***

The Laughlin, Nevada, site is composed of multiple buildings. The Laughlin Rural Outreach Clinic is located in Building D. According to a Veterans Integrated Service Network 22 official, there are a total of 75 available parking spaces that can be used by all the visitors at the Laughlin site. According to ADA and ABA section 208.2, three accessible handicap parking spaces are required if a facility has between 51 and 75 parking spaces.<sup>24</sup>

Prior to the December 2014 lease modification, CK Pro, LLC, offered two handicap accessible parking spaces at the Laughlin site, located in front of Buildings B and C. The lease modification required CK Pro, LLC, to provide at least one van accessible parking space and three handicap spaces. In January 2015, CK Pro, LLC, added four accessible handicap parking spaces behind the clinic, for a total of six handicap accessible parking spaces. The OIG determined all 6 spaces met the size requirements of 132 inches wide (van accessible) and 96 inches wide (non-van accessible).

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<sup>23</sup> ADA standards apply to places of public accommodation, commercial facilities, and state and local government facilities. ABA standards apply to facilities designed, built, altered, or leased with federal funds.

<sup>24</sup> The definitions section of the ADA and ABA define “accessible” as a site, building, facility, or portion thereof that complies with the ADA or ABA, as applicable.

Figure A shows the four spaces located directly outside the VA clinic at Building D.

**Figure A. Handicap Accessible Parking Outside VA Clinic**



*Source: Photograph taken by VA OIG staff on May 17, 2016; Handicap parking located behind the Laughlin Rural Outreach Clinic (Building D)*

#### *Wheelchair Ramp*

ADA and ABA section 405 provides specific width and length clearance requirements for wheelchair ramps. Prior to the December 2014 lease modification and January 2015 accessibility corrections, CK Pro, LLC, offered a wheelchair ramp located between Buildings B and C. However, the ramp did not meet accessibility standards. The 2014 lease modification required CK Pro, LLC, to provide an ADA accessible route. According to ADA and ABA section 402.2, accessible routes shall consist of one or more of the following components:

- Walking surfaces with a running slope not steeper than 1:20<sup>25</sup>
- Doorways
- Ramps
- Curb ramps excluding the flared sides
- Elevators
- Platform lifts

In January 2015, CK Pro, LLC, built a new ramp located directly behind the Laughlin Rural Outreach Clinic, as shown in figure A. In addition, figures B and C show the ramp with three slopes and two landings that change direction at each landing.

<sup>25</sup> Slopes are given in ratios such as 1 to 12. The lower the second number, the steeper the slope. In a 1:12 slope, for every foot of incline, 12 feet of ramp is required.

**Figure B. Wheelchair Ramp Located Behind VA Clinic**



*Source: Photograph taken by VA OIG staff on May 17, 2016.  
Photograph shows ramp with two landings*

**Figure C. Wheelchair Ramp Located Behind VA Clinic**



*Source: Photograph taken by VA OIG staff on May 17, 2016.  
Photograph shows ramp with three slopes*

The OIG measured the ramp width, landing clear width, landing clear length, direction changes, handrail grips, and ramp runs.<sup>26</sup> The OIG verified the ramp met the ADA and ABA requirements.

<sup>26</sup> The OIG reviewed the following ADA/ABA sections: 405.5 (ramp width), 405.7.2 (landing clear width), 405.7.3 (landing clear length), 405.7.4 (direction changes), 505.4 (handrail grip height), and 405.2 (ramp runs).

*Elevator  
Access*

The Laughlin Rural Outreach Clinic is located on the second level of Building D. There is one elevator located in Building B that provides access to the second floor of the building. Although the elevator is not located in the same building as the VA clinic, there is a walkway overpass that connects the two buildings. According to an October 2014 agreement between CK Pro, LLC, and the owner of the elevator, VA is authorized to use the elevator. Veterans can use the elevator to reach the second floor, and then use the walkway overpass to the clinic.

*Elevator  
Dimensions*

ADA and ABA section 407.4.1 requires the elevator to be 68 inches wide, 51 inches long, and the door to be 36 inches wide. The OIG verified entry and interior measurements met ADA and ABA requirements at 80 inches wide and 54 inches long for the interior, and the door entry to be 41.5 inches wide.

*Other  
Observations*

Although not part of the allegation, the OIG discovered and reported to VHA officials that the four handicap parking spaces located behind the clinic (Building D) did not meet ADA and ABA requirements for signage at the time of our onsite review. ADA and ABA accessibility standards section 502.6 require that signs identifying van parking spaces contain the designation “*van accessible*.” The OIG verified that VHA corrected this in September 2016.

**Conclusion**

The OIG found the Laughlin Rural Outreach Clinic is accessible to veterans and is in compliance with ADA and ABA requirements regarding handicap parking, wheelchair ramps, and elevators.

## **Appendix A    Background**

### ***VA Southern Nevada Healthcare System***

The VA Southern Nevada Healthcare System is part of VHA. VHA is home to the United States' largest integrated health care system consisting of 150 medical centers; nearly 1,400 CBOCs; community living centers; Vet Centers; and Domiciliaries. Together these health facilities and the more than 53,000 independent licensed health care practitioners who work with them provide comprehensive care to more than 8.3 million veterans each year. The VA Southern Nevada Healthcare System provides health care to more than 240,000 veterans.

### ***Laughlin Rural Outreach Clinic Identified as a CBOC***

The Laughlin Rural Outreach Clinic, which is classified as a Primary Care CBOC, is one of six community clinics within the VA Southern Nevada Healthcare System. A CBOC is a VA-operated, VA-funded, or VA-reimbursed site of care, which is located separate from a VA medical facility. A CBOC can provide primary, specialty, subspecialty, mental health, or any combination of health care delivery services that can be appropriately provided in an outpatient setting.

### ***Network Contracting Office 22***

VA's Network Contracting Office 22 awarded both the lease agreement for the Laughlin Rural Outreach Clinic and the October 2013 contract to remodel the clinic. Network Contracting Office 22 is part of Service Area Office West. Service Area Offices are subdivided into Network Contracting Offices with identifying numbers matching the corresponding Veterans Integrated Service Network. Each Network Contracting Office provides local, regional, and national procurement support. Network Contracting Office 22 is staffed by warranted contracting officers responsible for the development, execution, award, and administration of contracts, purchase orders, and other agreements.

## Appendix B Scope and Methodology

### **Scope**

The OIG conducted our review work from May 2016 through November 2017. The review focused on determining the merits of the allegations. To do this, the OIG performed the following:

- Reviewed the FAR, the VA Acquisition Regulation, and the General Services Administration Acquisition Regulation.
- Reviewed accessibility requirements.
- Reviewed contracts and leases.
- Interviewed the complainant and VA personnel.
- Performed a site visit to take measurements of the ramp, elevator, and parking spaces. The OIG also obtained additional measurements from VA personnel.

### **Fraud Assessment**

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

- Reviewing for altered or missing contract documentation.
- Reviewing for appropriate contract reviews.

The OIG determined there was a lack of oversight and a lack of sufficient contract documentation regarding the justification for the lease rates. However, the OIG did not find any instances of fraud during this review.

### **Data Reliability**

While performing this review, the OIG used the VHA Station Listings database in order to determine the classification of the Laughlin Rural Outreach Clinic. The OIG also relied on spreadsheet data provided by VHA personnel. To test the reliability of the data used, the OIG verified the VHA Station Listings data the OIG found with information located on other VA websites, reviewed the spreadsheet formulas, and compared the spreadsheet data with information located in hard copy format. The OIG determined the data the OIG obtained were sufficiently reliable for the review objective.

### **Government Standards**

The OIG conducted this review in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*.

## Appendix C Potential Monetary Benefits in Accordance With Inspector General Act Amendments

Recommendation	Explanation of Benefits	Better Use of Funds	Questioned Costs
1	Without required contract reviews, VA lacks assurance that the contracted amount VA will pay above the FRV is appropriate for the five-year period 2014 to 2018.	\$87,965	\$0
2	Unless VA renegotiates the lease after the first five years, VA will pay higher than the FRV in the last five years of the lease.	\$202,045	\$0
<b>Total</b>		<b>\$290,009</b>	<b>\$0</b>

Note: Due to rounding, columns may not sum.

## Appendix D Management Comments

### Department of Veterans Affairs Memorandum

Date: December 14, 2017

From: Executive in Charge, Office of the Under Secretary for Health (10)

Subj: OIG Draft Report, Review of Excessive Procurement Costs at Laughlin, Nevada  
(VAIQ 7856163)

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

1. Thank you for the opportunity to review the Office of Inspector General (OIG) draft report, Review of Excessive Procurement Costs at Laughlin, Nevada. I concur in principle with recommendation 1 and concur with recommendation 2. The attachment describes our action plans to address these recommendations.

2. We note that the original lease was awarded in 2010 and then amended in 2014. Since that time and in agreement with OIG's recommendations the Department of Veterans Affairs (VA) Office of Acquisition, Logistics and Construction has already made substantial changes to VA's review policies.

3. VA was reluctant to terminate the lease because there was no other suitable location for the clinic in the Laughlin, Nevada area. We have a strong commitment to serve Veterans located in rural areas and we are pleased that this clinic is able to serve Veterans closer to their homes.

4. If you have any questions, please email Karen Rasmussen, M.D., Director, Management Review Service at [VHA10E1DMRSAction@va.gov](mailto:VHA10E1DMRSAction@va.gov).

(Originally signed by:)

Carolyn M. Clancy, M.D.

Attachment

*For accessibility, the format of the original memo has been modified  
to fit in this document, to comply with Section 508 of the Americans with Disabilities Act.*

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

**OIG Draft Report: Review of Excessive Procurement Costs at Laughlin, Nevada**

**Date of Draft Report: November 15, 2017**

<b>Recommendations/ Actions</b>	<b>Status</b>	<b>Completion Date</b>
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**Recommendation 1: We recommended the Executive in Charge, Veterans Health Administration ensure required oversight reviews are conducted and documented prior to the award of leases, contracting officers perform acquisitions in accordance with Department of Veterans Affairs and Federal Acquisition Regulation requirements, and awarded lease rates are in the best interest of the Government.**

**VHA Comments:** Concur in principle. The Veterans Health Administration (VHA) concurs in principle because contracting officers must award contracts according to far more than Department of Veterans Affairs (VA) and Federal Acquisition Regulation (FAR) requirements. In addition to these requirements, Lease Contracting Officers are mandated to perform acquisitions in accordance with the General Services Administration Manual, VHA's Procurement Manual, Leasing Desk Guide, Lease Acquisition Circulars, Realty Service Letters, VHA Directives, Handbooks and Information Letters, VA Office of Real Property guidelines as well as Service Area Office and Network Contracting Office review policies, processes and procedures. Current review procedures can be found in VA Acquisition Regulation 801.602-70 thru 801.602-85.

VA's Office of Acquisition, Logistics and Construction has made substantial revisions to the VA leasing procurement and review processes since this procurement started in 2014. These revisions now ensure oversight reviews and proper documentation prior to lease award. The VHA Procurement Oversight and Compliance Office completed a review of leasing contracts in fiscal year 2016. The VHA Policy Center for Leasing Excellence also requires a review of all leases of real property below the VA Prospectus Threshold (\$1 million in estimated un-serviced annual rent) that require a Standstill Agreement prior to award.

Status	Completion Date
Complete	October 6, 2016

**Recommendation 2: We recommended the Executive in Charge, Veterans Health Administration ensure the lease for the Laughlin Rural Outreach Clinic is reevaluated to determine the financial advantages and disadvantages of renegotiating the terms of the contract to obtain a Fair Rental Value commensurate with the Laughlin Nevada area.**

**VHA Comments:** Concur. VHA Procurement and Logistics Office (P&LO) will obtain a current Fair Market Appraisal for the remaining 7 years of the lease to determine if the shell rental rates are aligned with the market. Results may be utilized for re-negotiation of the final five-year soft term rates or to confirm the existing rates are within fair market value. P&LO will consider alternatives and perform a cost-benefit analysis to determine if re-negotiating or leaving the space is in the best interest of the Government before taking any subsequent action.

P&LO's target completion date allows for funding to be secured and the possibility of renegotiating any of the terms of the contract.

Status	Target Completion Date
In Progress	October 2018

## Appendix E    **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	Judith Sterne, Director Roland Baltimore Christopher Bowers Kimberly Choplin Melissa Colyn David Kolberg Andrew Olsen
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## **Appendix F Report Distribution**

### **VA Distribution**

Office of the Secretary  
Veterans Benefits Administration  
Veterans Health Administration  
National Cemetery Administration  
Assistant Secretaries  
Office of General Counsel  
Office of Acquisition, Logistics, and Construction  
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National Veterans Service Organizations  
Government Accountability Office  
Office of Management and Budget  
U.S. Senate: Catherine Cortez Masto, Jeff Flake, Dean Heller, John McCain  
U.S. House of Representatives: Mark Amodei, Ruben J. Kihuen,  
Jacky Rosen, Dina Titus

**This report is available on our website at [www.va.gov/oig](http://www.va.gov/oig).**