DEPARTMENT OF VETERANS AFFAIRS
OFFICE OF INSPECTOR GENERAL

Office of Audits and Evaluations

VETERANS HEALTH ADMINISTRATION

Construction Project Management at the Ralph H. Johnson VA Medical Center

Charleston, South Carolina

REVIEW | REPORT #18-01944-214 | SEPTEMBER 25, 2019

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Executive Summary

The VA Office of Inspector General (OIG) reviewed four allegations originating from an October 2017 hotline complaint about potential mismanagement of several construction projects at the Ralph H. Johnson VA Medical Center (VAMC) in Charleston, South Carolina:

1. Some nonrecurring maintenance (NRM) projects' construction took years to begin following contract awards, resulting in hundreds of thousands of dollars in escalation costs.[1]
2. The VAMC plan to create two separate architectural drawings from one rendering for an NRM construction project that was split into two projects would waste funds.
3. Construction items were inappropriately removed from the construction solicitation on a minor construction project to reduce the construction contract price, potentially violating the Antideficiency Act (ADA).[2]
4. One project was inappropriately classified as a utility NRM project rather than a minor construction project.[3]

What the Review Found

The OIG substantiated the first and second allegations but did not substantiate the third or fourth allegations.

Allegation 1

The complainant alleged, and the OIG substantiated, that construction for some NRM projects took years to begin after contract awards and resulted in increased project costs. The team reviewed four VAMC NRM construction projects—the specialty clinic renovation, the gastrointestinal clinic refurbishment, the emergency department expansion, and an upgrade for the induction units for the 5B South Ward. Construction for these projects started an average of 743 days after the construction contracts had been awarded. These delays resulted in increased costs of at least $441,000.

[1] NRM includes renovation, repair, maintenance, and modernization of existing infrastructure within the existing facility square footage; up to 1,000 gross square feet for expansion of existing facility square footage (non-utility); or surface parking.

[2] Projects that are found to not be fully functional, stand-alone projects, whose combined total cost is greater than $10 million (or the statutory minor construction limit) will be considered a violation of the ADA.

[3] NRM utility projects include utility/infrastructure projects such as boiler plants, and chiller plants. Utility building space is not included as part of the 1,000-building gross square footage of new building space included with the differentiation between an NRM project and minor construction project.

All four projects experienced delays due to the limited availability of medical center relocation space. The VAMC assistant chief of Engineering Service noted there is limited relocation space in the medical center. Therefore, the start of construction for each project was planned around the expected availability of that relocation space, regardless of when the funds were obligated.

According to the VAMC chief of the Office of Strategic Planning and Analysis (OSPA), the specialty clinic contract was awarded without an identified "swing space" plan. Construction was delayed until space was available, approximately 29 months after the contract was awarded.

The OIG determined construction on the gastrointestinal clinic did not start until approximately 22 months after contract award. The delay occurred because the relocation space for this project was not available.

The emergency department and 5B South Ward projects also experienced construction delays. These delays were a result of VAMC managers reallocating the medical center space that Engineering Service staff had identified as relocation space for the emergency department and 5B South Ward projects. The delay occurred after the contract awards but prior to the start of construction. The space was reallocated to neurology clinics for urgent patient care and access needs. The reallocated space was the medical facility's only available relocation space; therefore, taking away the planned space delayed the start of construction for these two projects until alternative medical center space was available.

The OIG determined that there is no standard time frame under the Federal Acquisition Regulation and Veterans Health Administration (VHA) guidebooks for when construction is required to start after construction contracts are awarded. During this review, VHA officials stated that 150 days was the maximum reasonable period for construction to begin after contract award. However, this general expectation is not formalized in any VHA policy and was not communicated to the Charleston VAMC staff, according to VHA officials. The Veterans Integrated Service Network (VISN) capital asset manager (CAM) also said if a known delay is communicated to the VISN before contract award, the funds could be allocated to another project. However, each project needed to be evaluated on an individual basis.

Therefore, the OIG concluded Engineering Service staff either should not accept NRM project funds unless construction is planned to start within 150 days of contract awards or should notify the VISN CAM prior to contract awards. Failure to take these measures precludes the VISN CAM from being able to make prudent decisions in a timely manner about whether to reallocate funds to other medical centers that could start construction more promptly.

What the OIG Recommended

The OIG recommended the director of the Ralph H. Johnson VA Medical Center, Charleston, South Carolina, ensure a process is established requiring that the VISN 7 capital asset manager be informed, prior to construction contact awards, if construction is not planned to start within

150 days after contract awards so prudent decisions can be made regarding project funds in a timely manner.

Management Comments

The Ralph H. Johnson VAMC director concurred with the recommendation and provided comments explaining how medical center leaders made decisions related to these projects based on quality and access to care for veterans. These decisions led to construction delays, but he reported that placing quality of care at risk due to the community's inability to absorb the workload associated with the medical center's patient growth was not an option. The director agreed the processes in place at the time of these projects could be improved and stated action has been taken to improve the processes. The director issued a standard operating procedure on September 3, 2019, that requires the Engineering Service to communicate in writing to the VISN 7 CAM office if the facility has knowledge, based on current information, that a notice to proceed cannot be issued within 150 calendar days after contract award.

OIG Response

The VAMC's actions adequately addressed the OIG's recommendation. Based on the standard operating procedure issued in September 2019, the OIG considers the recommendation closed.

Allegation 2

The complainant alleged, and the OIG substantiated, that VAMC Engineering Service staff had planned to spend additional funds to create separate drawings from a single rendering completed for an NRM project in response to an Office of Capital Asset Management, Engineering, and Support (OCAMES) review. The team reviewed documents indicating the VAMC planned to spend approximately $74,000 to split the design drawings for an NRM project. The project was initially planned as a single project to be completed in multiple phases but was subsequently separated into two projects. OCAMES recommended splitting the original drawing to create plans for each project. However, the VISN 7 CAM provided direction to close the recommendation so the original drawing was never split and was not used for both projects. Therefore, the OIG did not make any recommendations regarding this allegation.

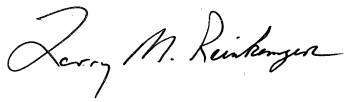
Allegation 3

The complainant alleged, but the OIG did not substantiate, that construction items were inappropriately removed from the construction solicitation on the intensive care unit project to reduce the construction contract price, potentially violating the ADA. VHA policy allows the removal of construction items from project solicitations to ensure adequate contingency funds and to remain within the threshold for minor construction projects. VHA Handbook 1002.02 states, "the Project Engineer is responsible for … identifying alternatives for a minimum of 20

percent of construction costs that can be taken as potential bid deducts in the event construction bids received are higher than anticipated." The OIG concluded that deductions made to keep the project under the $10 million threshold were allowed, and therefore did not make any recommendations regarding this allegation.

Allegation 4

The complainant alleged, but the OIG did not substantiate, that a construction project was inappropriately classified as a utility NRM project when it should have been classified as a minor construction project. The OIG determined all the planned activities for the NRM utility building fell within the scope requirements for an NRM project as outlined in VHA Handbook 1002.02, or the *Capital Asset Management Guidebook*. Therefore, the OIG did not make any recommendations.



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Abbreviations

ADA	Antideficiency Act
CAM	capital asset manager
NRM	nonrecurring maintenance
OCAMES	Office of Capital Asset Management, Engineering, and Support
OIG	Office of Inspector General
OSPA	Office of Strategic Planning and Analysis
VAMC	VA Medical Center
VHA	Veterans Health Administration
VISN	Veterans Integrated Service Network

Introduction

Objective

The VA Office of Inspector General (OIG) reviewed four allegations included in an October 2017 hotline complaint about the potential mismanagement of several construction projects at the Ralph H. Johnson VA Medical Center (VAMC) in Charleston, South Carolina:

1. Some nonrecurring maintenance (NRM) projects took years after contract awards before construction began, resulting in hundreds of thousands of dollars in escalation costs. NRM projects include renovation, repair, maintenance, and modernization of the existing infrastructure within the existing facility square footage; up to 1,000 gross square feet for expansion of existing facility square footage (nonutility); or surface parking.
2. The VAMC's plan to create two separate architectural drawings from one rendering done for an NRM construction project that was split into two projects would waste funds.
3. Construction items were inappropriately removed from the construction solicitation on a minor construction project to reduce the construction contract price, potentially violating the Antideficiency Act (ADA).
4. One project was classified as a utility NRM project, rather than a minor construction project.

Background

The Ralph H. Johnson VAMC is a 152-bed facility serving more than 67,000 veterans in 21 counties. The VAMC provides patient care and services to veterans along the South Carolina and Georgia coasts. According to the assistant manager of quality management, the VAMC has a five-member executive management team. The team consists of the medical center director, associate director, assistant director, chief of staff, and director of patient care services (nursing). According to the chief of the Office of Strategic Planning and Analysis (OSPA), the chief of OSPA and chief of the Engineering Service meet with leaders to conceptually discuss construction projects, space requirements, and activation of space for use for construction projects; however, these discussions are not documented. According to the former associate director, the director and associate director approve the final space allocation decisions.

Office of Capital Asset Management, Engineering, and Support

The Office of Capital Asset Management, Engineering, and Support (OCAMES) provides Veterans Health Administration's (VHA) policy, guidance, and budget formulation for minor construction and NRM projects. OCAMES also serves as the liaison between the Veterans

Integrated Service Networks (VISN), medical centers, and VHA senior leadership on all capital asset functions for buildings.

Veteran Integrated Service Network Responsibilities

According to VHA Directive, *Non-recurring Maintenance Program*, the VISN director is responsible for managing the VISN NRM program in a manner that achieves the obligation of funds within planned fiscal years and results in funding and program integrity. The VISN 7 capital asset manager (CAM) is responsible for coordination and validation of the VISN NRM program, including reviewing projects for compliance with NRM program requirements and implementing, monitoring, and evaluating the NRM program.

Project Tracking Reports

When a project is approved and funded, the project is placed in a "VISN Funding Approved" status. Subsequently, a project tracking report is automatically generated and must be updated in the capital asset database by the fifth workday of each month until the project is complete. The project status and all obligations for the project must be included in the monthly project tracking report update. The monthly project tracking reports are the primary data source from which NRM reports are developed; therefore, accurate and complete monthly reporting is essential.

VHA Guidebooks

While not official policy, the VHA *Healthcare Engineering* and *Capital Asset Management Guidebook* provide best practices for construction projects.[4] According to the guidebook, "VHA guidebooks are 'best practice' resources designed to assist health care facilities implement and enhance programs and more effectively comply with current VA /VHA policy and external regulatory standards. VHA guidebooks published by the CEOSH [Center for Engineering & Occupational Safety and Health] are not official policy." In accordance with VA Directive 6330, *Directives Management System*, official policy documents include directives, which carry the authority to mandate department- or administration-wide policies, and handbooks, which carry the authority to mandate procedures or operational requirements implementing policies contained in directives.

[4] VHA, *Healthcare Engineering and Capital Asset Management Guidebook*, September 2013 (updated September 2014); VHA, *Capital Asset Management Guidebook*, April 2016 (updated September 2016).

Results and Recommendations

Finding 1: Construction Delays Increased Project Costs

The OIG substantiated that some NRM projects took years, an average of two years, to begin construction and resulted in increased project costs. The team reviewed four NRM construction projects—the specialty clinic, gastrointestinal clinic, emergency department, and 5B South Ward—that started construction on average 743 days after the construction contracts had been awarded. These delays resulted in project cost increases of at least $441,000 for the four NRM construction projects.

For the four projects reviewed, contracts were awarded but construction was postponed until medical center relocation space was available. According to VAMC staff, space unavailability was due to increased access demands. The specialty clinic experienced construction delays because there was no identified relocation space when the contract was awarded, according to VAMC staff. The chief of OSPA stated that the specialty clinic contract was awarded without an identified "swing space" plan because the chief of staff had decided to consolidate and relocate neurology clinics in the location identified for the specialty clinic project. Therefore, construction for this project had to be postponed until relocation space was available. The project started approximately 29 months after the contract was awarded.

The OIG determined construction for the gastrointestinal clinic started approximately 22 months after contract award, when another project was completed, and relocation space was made available.

The emergency department and 5B South Ward projects also experienced construction delays. According to the chief of OSPA, after contract awards but prior to the start of construction the chief of staff reallocated the medical center space that Engineering Service staff had identified as relocation space for these projects. The reallocated space was the medical facility's only available relocation space; therefore, taking away the planned space delayed the start of construction for these two projects until alternative relocation space was available.

No Standard Time Frame for Start of Construction

The OIG determined that there is no standard time frame under the Federal Acquisition Regulation and VHA policy for when construction is required to start after construction contract awards. However, the VISN 7 CAM said if a known delay is communicated to the VISN before contract award, funds could be allocated to another project. The CAM noted each project would be reviewed on a case-by-case basis.

VAMC interviews disclosed that communication regarding construction projects occurred between medical center staff and the VISN CAM; however, planned construction delays were never discussed. During this review, VHA officials stated that 150 days was the maximum

reasonable period for construction to begin after contract award. However, this general expectation is not formalized in any VHA policy and was not communicated to Charleston VAMC staff, according to VHA officials.

According to the assistant chief of Engineering Service, the planned period from contract award to the start of construction is based on when funding is expected to be obligated and when medical center relocation space becomes available. He also noted there is limited relocation space in the medical center and because of this, construction is planned to begin after contract awards when space is expected to be available. VAMC staff stated the planned period from contract award to the start of construction is based on when funds are received and when temporary medical center relocation space becomes available. Staff also said some of these delays were due to unforeseen issues out of the facility's control and due to a lack of swing space resulting from a substantial facility space deficit. In addition, VAMC staff noted commencing construction as originally planned, despite the unforeseen developments that had occurred after the contract was awarded, would have caused substantial additional fee-basis patient care costs in excess of construction delay costs and would have potentially negatively impacted patient care.

In order for the VISN CAM to make prudent decisions in a timely manner regarding allocation of project funds, the OIG concluded VAMC staff should not accept funding for a project unless the funds can be obligated, and construction is expected to begin within 150 days after contract awards.

What the OIG Did

The review team conducted a site visit at the Ralph H. Johnson VAMC, Charleston, South Carolina, and reviewed data for four NRM construction projects. Three of the NRM construction projects—specialty clinic, gastrointestinal clinic, and emergency department—were identified from the complainant's allegation. The fourth project, or 5B South Ward, which was also referred to as the correct induction units project, was identified from a VAMC internal review. At the time the OIG initiated its review, construction on the specialty clinic project had not started. Two projects, the gastrointestinal clinic and emergency department, were active and the 5B South Ward project was completed. The team reviewed project data from the VHA Support Service Center Capital Assets Application, the Electronic Contract Management System, and project tracking reports. The review team obtained increased project cost information from approved VA contract amendments and project data in the Electronic Contract Management System.

The costs shown in Table 1 are for increased labor and material costs from contract award to start of construction.

Table 1. Project Information

Project title	Construction contract award date	Notice to proceed date (commencement of construction)	Number of days elapsed	Approximate months elapsed	Increased costs
Renovate remaining specialty clinic areas	7/22/2016	1/7/2019	899	29	$ 143,176
Refurbish gastrointestinal clinic	6/27/2014	5/5/2016	678	22	$ 18,963
Expand and renovate emergency department	6/13/2014	6/9/2016	727	24	$ 125,111
Correct induction units (5B South Ward)	12/3/2013	10/1/2015	667	22	$ 154,113
Total			**2,971**		**$ 441,363**
Average days			**743**		

Source: OIG analysis of project data obtained from VHA IT systems. Project information was obtained from VHA Support Service Center, the Capital Asset web application, and the Electronic Contract Management System.

The review team interviewed the OCAMES director, a VISN 7 official, NCO contracting staff, the former VAMC associate director, the VAMC former chief of Engineering Service, and the VAMC chief of OSPA, in addition to other key staff members.

Project Information

The NRM definition refers to projects that renovate, repair, maintain, and modernize existing infrastructure within the facility square footage. The program focuses on correcting problems identified, ensuring that the facility meets applicable codes and modernization needs within the existing constraints of the infrastructure to comply with current standards of care. The NRM program includes construction projects costing less than $10 million, which include design, construction, and contract modifications for renovation of existing square footage.

The VHA *Healthcare Engineering and Capital Asset Management Guidebook* indicated facilities are responsible for developing, designing, awarding, and managing NRM projects. The NRM program is funded with the medical facilities component of the medical care appropriation and is allocated to the VISN as part of its general-purpose Veterans Equitable Resource Allocation. If a facility cannot obligate all funds allotted to the NRM project before the end of the approved

fiscal year, the facility should notify the VISN well in advance, so funds can be sent to another facility that can use them.

The following are the four NRM projects reviewed by the OIG.

Renovate Specialty Clinic (NRM Project 534-14-101)

This project was initiated to convert outpatient clinic areas to specialty clinics. The construction contract was awarded in July 2016, and construction started in January 2019, or 899 days (about 29 months) after contract award. According to approved contract amendments, escalation costs incurred due to VA delays during this time were $143,000.

According to the OSPA chief, he discussed his hesitation to move forward with the specialty clinic project during a meeting prior to contract award with the former chief engineer and former associate director, since there was no identified swing space plan. Regardless, in July 2016, the contracting officer awarded the specialty clinic contract.

In May 2018, information provided by the VAMC stated lease space was expected to be ready for occupancy in approximately August or September 2018. The new lease was to allow programs at the medical center to be relocated so the specialty clinic project could proceed. In January 2019, construction began. VAMC staff said a contributing factor to the delay of construction included the unforeseen circumstances related to procurement of the telemental health lease, which would have provided swing space options.

Refurbish Gastrointestinal Clinic (NRM Project 534-13-101)

The purpose of this project was to convert or refurbish the gastrointestinal clinic area into space for inpatient beds. The construction contract for this project was awarded in June 2014. However, the start of construction for this project depended on gastrointestinal services vacating its existing space and relocating. The start of construction for this project was delayed almost 22 months until space was available for gastrointestinal services to relocate. The delay resulted in escalation costs of $19,000.

Expand Emergency Department (NRM Project 534-13-102)

The former contracting officer awarded the contract in June 2014 for this expansion of emergency department space. The VAMC had identified swing space for the temporary relocation of staff and operations. However, before construction started in July 2014, the chief of staff reallocated the identified temporary space to the neurology clinics for urgent patient care and access needs, according to the OSPA chief. Also, according to the OSPA chief, the former VAMC associate director tasked him in approximately January 2016 to come up with a swing space plan for the emergency department. Alternate relocation space was identified in January 2016 and construction started in June 2016, approximately 727 days after contract award. Efforts to find space for this project prior to the start of construction were unsuccessful.

As a result, construction for this project started approximately 24 months after contract award. VA-approved contract amendments showed escalation costs of about $125,000 for labor and materials during this period.

Upgrade 5B South Ward, Correct Induction Units (NRM Project 534-12-110)

This project was a planned upgrade for the induction unit system for the 5B South Ward of the medical center. When the contract was awarded by the former contracting officer, the Engineering Service's plan was to relocate 5B South Ward operations to the specialty clinic area on the first floor during renovations. However, before the start of construction, the VAMC chief of staff decided to use the specialty clinic area for the neurology clinic's urgent patient care and access needs. As a result, construction on this project started approximately 22 months after contract award when alternate space was expected to be available. VA-approved contract amendments indicated escalation costs of about $154,000 were incurred for increased contract costs due to the delays.

The contract for this project was awarded in December 2013 by the former contracting officer. Engineering service staff had planned construction to start in May 2014. According to the OSPA chief, the space identified for the project was reallocated in July 2014 for the neurology clinic before the start of construction. As of late summer, 2014, swing space was not identified for this project, and a suspension of work letter was issued in September 2014 with the contractor's concurrence.

In a January 2015 email, an OSPA program specialist wrote there was no space available for the 5B South Ward project and although her office was trying to find available space, it might take several months. In August 2015, leaders approved the conversion of the primary care auditorium into space for the project. Construction started in October 2015, or approximately 667 days after contract award, and was completed in April 2017.

Conclusion

The OIG substantiated the allegation that some NRM projects took years to begin construction—an average of two years—and resulted in increased project costs. Although the OIG determined that there is no standard time frame under the Federal Acquisition Regulation and VHA policy when construction is required to start after construction contract awards, VHA officials stated that 150 days was the maximum reasonable period for construction to begin after contract award.

Recommendation 1

The OIG recommended the director of the Ralph H. Johnson VA Medical Center, Charleston, South Carolina, ensure a process is established requiring that the Veterans Integrated Service Network 7 capital asset manager be informed, prior to construction contact awards, if

construction is not planned to start within 150 days after contract awards, so that prudent decisions can be made in a timely manner regarding project funds.

Management Comments

The Ralph H. Johnson VAMC director concurred with the recommendation and provided comments explaining medical center leaders made decisions related to these projects based on quality and access to care for veterans. The decisions led to construction delays, but he reported that placing quality of care at risk due to the community's inability to absorb the workload associated with the medical center's patient growth was not an option. The director agreed the processes in place at the time of these projects could be improved and stated action has been taken to improve their processes. The director issued a standard operating procedure on September 3, 2019, that requires the Engineering Service to communicate in writing to the VISN 7 CAM office if the facility has knowledge, based on current information, that a notice to proceed cannot be issued within 150 calendar days after contract award.

OIG Response

The VAMC's actions adequately addressed the OIG's recommendation. Based on the standard operating procedure issued in September 2019, the OIG considers the recommendation closed.

Finding 2: Funds Were Not Spent to Split Design Drawings

The OIG substantiated that VAMC engineering staff, in accordance with required action from OCAMES, planned on spending funds to separate drawings for an approximately $4 million NRM project, Operating Room #6. The project was to add a sixth operating room, renovate the operating room support space, and expand the postanesthesia care unit. However, the OIG determined the plan was never implemented. Therefore, the OIG did not make any recommendations.

According to a written response from the VAMC, the project design was awarded in December 2011 and initially planned as a single project to be completed in four phases. VAMC's written response also stated that in July 2012 the planned project was separated into two projects. According to the assistant chief of the Engineering Service, the original drawing was to be used for both projects.

In December 2016, OCAMES conducted a review of the capital and healthcare engineering programs at the VAMC and recommended separate architectural drawings for each of the two projects. In October 2017, VAMC staff became aware of a pending OIG review of projects at the VAMC. According to VAMC staff, in October 2017, after leaders became aware of the OCAMES guidance, leaders made the determination that procuring new project design drawings at a cost of approximately $74,000 when acceptable project drawings had already been purchased was not needed. Based upon these concerns, VAMC staff asked OCAMES staff to review their recommendation to separate the drawing and incur what the facility viewed as an unnecessary cost. The VISN 7 CAM subsequently emailed the VAMC in October 2017 to close the recommendation and concurred with not separating the design drawings.

What the OIG Did

The team reviewed the contract and the OCAMES report to determine the activities that occurred related to this project. In addition, OIG staff interviewed the VAMC assistant chief of the Engineering Service, engineering projects supervisor, and the OCAMES capital support consultant for VISN 7 regarding the recommendation to split the design drawings.

VAMC Split One Project into Two Projects

This NRM project, Operating Room #6, was scheduled to be completed in four phases, with one set of architectural drawings for the entire project. Phases 1 and 2 were for the renovation of operating room support space and the expansion of the postanesthesia care unit. Phases 3 and 4 were for adding a sixth operating room. According to information provided by VAMC staff, VISN 7 imposed a $1.5 million to $2 million limit for all VISN 7 NRM projects in July 2012 because of budget limitations. As a result, the VISN and VAMC decided to separate the project into two separate stand-alone projects. Although the project was split into two separate projects, the original design drawings were never divided into separate drawings for each project.

In December 2016, OCAMES conducted a review of the Capital and Healthcare Engineering Programs at the VAMC and OCAMES recommended separate architectural drawings for each of the two projects.

In October 2017, after medical center leaders sent an email to VISN officials regarding this issue, VISN 7 officials reviewed the OCAMES finding. The review resulted in the VISN 7 CAM instructing the VAMC to close the finding to separate the design drawings.

Conclusion

The OIG substantiated that VAMC engineering staff planned to spend funds, about $74,000, to separate drawings in response to an OCAMES review. However, after becoming aware of the OIG's pending review, VAMC leaders contacted VISN 7 officials, who subsequently reviewed the finding to separate the design drawings. Their review resulted in the finding being closed and the plans not being separated. The OIG did not make any recommendations.

Finding 3: Alleged Antideficiency Act Violation Was Not Substantiated

The OIG did not substantiate that items were inappropriately removed from a construction solicitation for a minor construction project, referred to as the intensive care unit project—a potential violation of the ADA.[5] The complainant also alleged the removed items would be paid for with medical center funds as project activation items. Activation items include furniture and equipment, are separate from construction and, therefore, are not included in project costs. The OIG substantiated medical center funds were going to be used to fund project activation items. However, the OIG concluded removing items from a construction solicitation and using medical services funds for activation items is allowable according to VHA Handbook 1002.02, *Minor Construction Program*.

What the OIG Did

The OIG reviewed project information such as the contract and the contracting officer's bid analysis to determine whether items were inappropriately removed from the construction solicitation and included as activation items, potentially an ADA violation. In addition, the review team interviewed the VAMC former chief of the Engineering Service and the OCAMES VHA activations program manager. OIG staff also reviewed relevant policy and guidance.

Renovation and Expansion of the Intensive Care Unit

The minor construction project to renovate and expand the intensive care unit had a funding total of $9.9 million. Initial bids received from contractors nearly exceeded the minor construction project maximum dollar threshold of $10 million and did not leave adequate contingency funding to award the contract as a minor construction project.[6] Construction projects that exceed $10 million are funded through VA's Major Construction Program and require congressional approval.

To ensure adequate contingency funds and remain within the minor construction dollar threshold, contracting recommended switching from an invitation for bids to a request for proposal. The request for proposal allowed VA to negotiate a list of items including bid deductions with the contractors to provide a greater allowance in the contingency fund account.

The OIG concluded removing items from a construction solicitation and using medical services funds for activation items is allowable according to VHA Handbook 1002.02. The handbook states, "The project engineer is responsible for… identifying alternatives for a minimum of 20 percent of construction costs that can be taken as potential bid deducts in the event construction

[5] Projects that are found not to be fully functional, stand-alone projects, whose combined total cost is greater than $10 million (or the statutory minor construction limit), will be considered a violation of the ADA.

[6] Contingency funding is the cost estimate of unexpected site conditions or other unforeseen costs that might arise during construction and usually amounts to less than 7.5 percent of the total estimated cost of the project.

bids received are higher than anticipated." In addition, the handbook states, "Activation funding from other funding sources, such as medical services funding for medical equipment, to furnish and equip the area for functional use is allowed."

Bid Deduct Items

The complainant listed a nurse call system, handrail grab bars, and data telephone capabilities as examples of items that were initially included as construction items but were later included as activation items. OIG staff interviewed the former chief of the Engineering Service, who stated he preferred many of the items to be completed as bid deductions to ensure they would be state of the art by the time the project neared completion.

According to the OCAMES activations program manager, the handrail grab bars and data telephone capabilities are commonly part of activation. In addition, the OIG did not find anything in VHA Handbook 1002.02 that would prohibit these items from being listed as bid deduction items.

Conclusion

The OIG did not substantiate that the VAMC inappropriately removed a nurse call system, handrail grab bars, and data telephone capabilities from the construction solicitation, a potential ADA violation. The OIG substantiated medical center funds were going to be used to pay for the removed items. However, the OIG concluded removing items from a construction solicitation and using medical services funds for activation items is allowable according to the VHA Handbook. Therefore, the OIG did not make any recommendations.

Finding 4: Alleged Inappropriate Classification of Project Was Not Substantiated

The OIG did not substantiate the complainant's allegation that a construction project to correct Legionella issues was classified as a utility NRM project when it should have been classified as a minor construction project. The OIG determined that all the issues the complainant identified as reasons why the project was not a utility NRM project are allowed or are within scope for a utility NRM project.

NRM projects include stand-alone demolition, surface parking, roads, landscaping, and new pure utility buildings and structures. According to VHA Handbook 1002.02, pure utility NRM projects—such as boiler and chiller plants and their associated space and housings, electrical switch gear housings, and emergency generator housings—have no upper dollar limit. Pure utility NRM projects also include demolition of buildings. In addition, information in the *Capital Asset Management Guidebook* indicated that utility infrastructure is defined as utility building space; it is not considered new building space. Therefore, this space is not included as part of the 1,000 gross square feet of new building space included with the differentiation between an NRM and minor construction project. As of FY 2014, projects exceeding 1,000 square feet in new building square footage that are not pure infrastructure projects must be considered under the Major Construction Program, Minor Construction Program, or Clinical Specific Initiatives Program. The *Capital Asset Management Guidebook* also states that all construction projects must have a clear project scope of work in the Strategic Capital Investment Planning business case application. The scope of work should include square footage and building numbers for those being demolished.

The complainant provided several reasons why this was not a utility NRM project. For example, information in the complaint noted, "Per the NRM guidebook, only purely 'utility' buildings can create new space, or that new space must attach to existing space and be less than 1000 square feet." According to complainant, an existing building was demolished, and the new building will not attach to any existing space. The project drawings show the area on the ground floor will be storage spaces. The new building space is not utility space because the new space does not contain building equipment, although the second floor will contain chillers and is planned to be approximately 1100 gross square feet. The Strategic Capital Investment Planning business case mentions nothing of demolishing/constructing a new building.

The OIG concluded activities for this project are within the scope of a utility NRM project. However, if this project had not been a utility NRM project, it should have been classified as a minor project based on the planned scope. According to the *Capital Asset Management Guidebook*, all costs for minor projects must be funded from the minor construction appropriation and all costs for NRM projects must be funded with the medical facility appropriation. Thus, if the complainant's allegation had been substantiated, the VAMC would have incorrectly funded a minor construction project with a medical facility appropriation.

What the OIG Did

To determine whether a construction project was inappropriately classified as a utility NRM project when it should have been classified as a minor construction project, the team reviewed the building design document, the flood plain map, and the project application document. In addition, the review team interviewed the VISN 7 CAM and project engineer, the OCAMES capital support consultant, and the VAMC former chief of Engineering Service and assistant chief of Engineering Service. The team also reviewed relevant policy and guidance.

Review and Interviews Regarding Design Plans

The design plan shows the building includes three levels: a bottom floor, a tank level, and a chiller level. The project application indicates the new utility building will be approximately 2,000 gross square feet.

According to the VISN 7 CAM and project engineer, the OCAMES capital support consultant, the VAMC former chief of Engineering Service, and the assistant chief of Engineering Service, the project was correctly classified as a utility NRM project. The VAMC former chief of Engineering Service noted that no questions ever arose as to whether the project was misclassified as a utility NRM project during the approval process. It was designed to house utility equipment to comply with VHA's Legionella Directive and was within scope for a utility NRM project. He added that the VISN 7 CAM, personnel involved in the Strategic Capital Investment Planning process, and the OCAMES capital support consultant for VISN 7 reviewed and approved the documents classifying the project as a utility NRM project.

The VAMC former chief of Engineering Service stated the first floor would mainly be used for storage but included office space that maintenance personnel could occasionally use to monitor equipment. In addition, he explained the building is exempt from the 1,000 gross square feet limit normally imposed for an NRM project since it is a utility NRM building.

According to the VAMC former chief of Engineering Service, the maintenance sheds on the planned building site that were demolished were simply storage sheds made of metal panels, did not have building numbers, and were never included as capital assets. Therefore, their demolition did not need to be captured in the capital asset inventory.

He also noted the utility equipment was placed on levels above the first floor because the building site is in a flood plain and best practices dictate putting all utility or building equipment on levels above the first floor. The OCAMES capital support consultant and the VAMC assistant chief of Engineering Service also stated it is VA's practice not to place infrastructure systems that could be affected by flooding below the flood level.

The review team found information in VA's *Physical Security Design Manual*, January 2015, that indicated all "utility-owned service and metering equipment shall be located above the 100-year floodplain." Information in the manual also noted that "all electrical distribution

components, such as medium- and low-voltage switchgear and transformers, shall be located above the 100-year floodplain."

The OIG determined the project was within scope for an NRM utility project. The issues the complainant reported, such as demolition of a detached building and the construction of a new detached building exceeding 1,000 gross square feet, are all within the scope of a utility NRM project.

Conclusion

The OIG did not substantiate this allegation. The OIG determined all the planned activities for the NRM utility building fall within the scope requirements outlined in VHA Handbook 1002.02 or the *Capital Asset Management Guidebook*. Therefore, the OIG did not make any recommendations.

Appendix A: Scope and Methodology

Scope

The OIG conducted its review from February 2018 through August 2019. The review team's analysis included one minor construction and six NRM projects.

Methodology

The team reviewed applicable laws, construction documentation, policies, and procedures for the seven projects at the VAMC. The review team visited the VAMC and observed project construction areas. It also interviewed VAMC facility management, current and former VAMC engineering officials, the VISN 7 CAM, officials from OCAMES, and current and former officials from the network contracting office associated with the construction projects. The review team obtained project construction and contract documentation from facility and network contracting office officials and the Electronic Contract Management System.

Fraud Assessment

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

- Conducting interviews with VA officials responsible for various aspects of the VAMC projects,
- Reviewing contracts and construction project tracking reports, and
- Performing physical observations of project construction areas.

The OIG did not identify any instances of fraud during this review.

Data Reliability

Computer processed data were not used to determine any findings or conclusions for this review. Project information was obtained either from copies of contracting documents recorded in the Electronic Contract Management System or from VAMC staff. The OIG believes the documents obtained are sufficiently reliable to support its objectives, conclusions, and recommendations.

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*. These standards require that the OIG plan and perform the review to obtain sufficient, competent, and relevant evidence to provide a reasonable basis for its findings, conclusions, and recommendations based

on the review objective. The OIG believes the evidence obtained provides a reasonable basis for the findings and conclusions based on the review objectives.

Appendix B: Management Comments

Department of Veterans Affairs Memorandum

Date: September 3, 2019

From: Director, Ralph H. Johnson VA Medical Center (534/00)

Subj: Review of Construction Project Management at the Ralph H. Johnson VA Medical Center, Charleston, South Carolina, (project number 2018-01944-R9-0067)

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

1. Thank you for the opportunity to review the Draft Report, Review of Construction Project Management at the Ralph H. Johnson VA Medical Center.

2. Finding 1: Some non-recurring maintenance projects construction took years to begin following contract awards, resulting in hundreds of thousands of dollars in escalation costs.

Recommendation 1: The OIG recommended the Ralph H. Johnson VA Medical Center Director, Charleston, SC, ensure a process is established requiring that the Veterans Integrated Service Network 7 Capital Asset Manager be informed, prior to construction contract awards, if construction is not planned to start within 150 days after contract awards, so timely, prudent decisions can be made regarding project funds.

Concur with comments. Based upon these realities, the VAMC Leadership made multiple decisions based upon quality and access to care for our Veterans, which were communicated to VISN staff. Between FY13-FY17 our facility experienced unprecedented growth of 27%, increasing from 59,252 uniques to 75,619. The estimated cost of cancelling multiple clinics and shifting care to the community in order to begin these projects on the planned construction date would have far exceeded the cost incurred by construction delays. Placing our Veterans' quality of care at risk due to the community's inability to absorb the workload, likely causing delays in care, was not an option and would have left our staff and providers underutilized. While we contend the facility procedures at the time of this review for making clinical care and space decisions were in alignment with VA standards, we agree the processes in place in 2014 could be improved upon and have been improved upon.

Currently, as noted in the report, there is no standard timeframe between contract award and notice-to-proceed for the start of construction. Upon submitting the forms to TDA funds to the station for construction award, engineering service will communicate in writing to the VISN 7 CAM office if the facility has knowledge, based on current information, if we will not be able to issue notice-to-proceed within 150 calendar days after contract award. The Standard Operating Procedure (SOP) for Engineering Service in attached. This process began August 29, 2019 and the SOP was signed and effective as of September 3, 2019.

3. We believe we have fully addressed the recommendation and request closure.

4. If you should have any questions, please contact the Chief of Quality Management at (843) 789-7303.

Signed by

Scott R. Isaacks, FACHE

Attachment

OIG Contact and Staff Acknowledgments

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For accessibility, the original format of this appendix has been modified to comply with Section 508 of the Rehabilitation Act of 1973, as amended.

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