US DEPARTMENT OF VETERANS AFFAIRS
OFFICE OF INSPECTOR GENERAL

Office of Audits and Evaluations

DEPARTMENT OF VETERANS AFFAIRS

Weak Governance Threatens the Viability of a Major Construction Project at the Palo Alto VA Medical Center in California

Review | **23-03189-148** | **September 10, 2025**

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Executive Summary

In its fiscal year (FY) 2009 budget request to Congress, VA identified the need to replace six seismically deficient buildings at the Palo Alto VA Medical Center in California with an ambulatory care center, a polytrauma rehabilitation facility, and a parking structure. Three of the buildings to be replaced were classified as exceptionally high risk of collapsing in an earthquake. Two other critical objectives for this major construction project were to (1) accommodate ambulatory care programs at the tertiary care center in Palo Alto and (2) construct polytrauma rehabilitation facilities to treat complex injuries related to combat.

Over the next 15 years, the project evolved several times, and the cost significantly increased as changes delayed the project.[1] VA now estimates the project will be completed no sooner than 2036—21 years after its original schedule and about $1.2 billion over its originally approved $450.3 million cost.

VA has long struggled with governance of major construction projects, particularly in finishing them on time and within the original amounts appropriated by Congress. The VA Office of Inspector General (OIG) conducted this review to evaluate the significant events that led to cost increases, schedule slippages, and scope changes for the Palo Alto VA Medical Center major construction project.[2]

What the Review Found

VA has still not achieved two of its three critical project objectives and is more than 21 years behind its original schedule. As of February 2025, about $472.5 million had been appropriated by Congress for the Palo Alto project, and about $458.8 million had been spent. To proceed with the current design for the ambulatory care center, VA will need Congress to approve an increase of about $907.8 million beyond the $716.6 million approved for the project in FY 2012—for a total cost of about $1.6 billion.

The OIG determined the project's weak governance structure prevented VA managers from making timely and effective decisions necessary to reach the project's budget and schedule goals, and managers also failed to give sufficient consideration to the impact their decisions would have in escalating costs or causing lengthy delays.[3]

This occurred because VA did not have adequate formal procedures for governing major construction projects from 2009 to 2017, which led to inconsistencies in management decisions and significant delays for the Palo Alto project. In 2017, VA adopted the Acquisition Program

[1] See appendix A for more information on the project's phases.

[2] For more details on the scope and methodology of this review, see appendix B.

[3] Appendix C provides more information about the offices responsible for major construction.

Management Framework (the acquisition framework) to improve the "authority, responsibility, and accountability for acquisition programs across the Department."[4] The acquisition framework was intended to provide a "governed, repeatable, consistent, efficient, and transparent life cycle process" for managing and overseeing acquisition programs (which would include major construction projects)—enabling VA to execute its mission "as effectively and efficiently as possible within fiscal and operational constraints."

The acquisition framework required priority acquisition programs, including major construction projects like Palo Alto, to comply with the requirements of the acquisition framework within one year of the acquisition framework policy being issued—that is, by June 2018. The acquisition framework also divided the roles of those responsible for a major construction project into executive-level and program-level. "Executive-level roles" were responsible for oversight, informational awareness, and escalating of critical risks to the program decision authority, which, for the Palo Alto major construction project and under the acquisition framework, should have been the executive director of the Office of Construction and Facilities Management. "Program-level roles" were to ensure operational oversight. But VA could not provide sufficient evidence that the Palo Alto project was ever added to the acquisition framework or that critical risks were escalated to the program decision authority.

Because the Palo Alto project was never effectively governed, the costs and scope of the project grew out of control. Now, VA must consider whether it is worth continuing the project at additional cost or canceling efforts to complete it. Further, because VA did not provide adequate justification for the initial FY 2009 budget submission or the significant scope increase proposed in the FY 2012 budget, the OIG questions VA's justification of about $716.6 million. The OIG also determined that, should VA be unable to justify the business need to continue funding the project, taxpayers could realize a savings of about $907.8 million.[5]

What the OIG Recommended

The OIG made the following recommendations to the VA Secretary. The Secretary should ensure the Palo Alto major construction project is brought into the Acquisition Program Management Framework and ensure all activities required during the *verify* phase of that framework are completed. The Secretary should also ensure a determination is made about whether to terminate or continue the project based on current community needs and update VA's FY 2025 Agency Capital Plan to reflect the project's current estimate cost and ability to achieve its critical objectives.

[4] See appendix D for more information about this framework.

[5] For more information about the monetary benefits, see appendix E.

VA Management Comments and OIG Response

The principal executive director, Office of Acquisition, Logistics, and Construction, who also serves as chief acquisition officer, responded on behalf of the VA Secretary. VA concurred with the recommendations and submitted responsive action plans for each. The principal executive director asked the OIG to close recommendation 4 and provided evidence supporting this request. The OIG reviewed the FY 2026 Five Year Development Plan, determined the updated information reflects the true cost of the project, and considers recommendation 4 closed. The principal executive director also submitted nine technical comments, six of which were incorporated into the report. The full text of VA's comments appears in appendix F.

The OIG will monitor the performance of the planned actions and will close the recommendations when VA provides sufficient evidence demonstrating progress addressing the issues identified.

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Contents

Abbreviations

CFM	Office of Construction and Facilities Management
CPRMP	Capital Program Requirements Management Process
FY	fiscal year
OAEM	Office of Asset Enterprise Management
OIG	Office of Inspector General
OMB	Office of Management and Budget
VHA	Veterans Health Administration
VISN	Veterans Integrated Service Network

Introduction

VA has struggled with governance of major construction projects to ensure that they are completed on time and within budgets approved by Congress. In response to past audits, which exposed management weaknesses that caused delays and cost increases for several projects, VA developed an enterprise-wide acquisition governance structure for major construction beginning in June 2017.[6]

In its fiscal year (FY) 2009 budget submission to Congress, VA identified the need to replace six seismically deficient buildings at the Palo Alto VA Medical Center with an ambulatory care center, a polytrauma rehabilitation facility, and a parking structure.[7] Three of the buildings to be replaced were classified as exceptionally high risk of collapsing in the event of an earthquake. This major construction project had two other critical objectives: accommodate ambulatory care programs at the tertiary care center in Palo Alto and construct polytrauma rehabilitation facilities to treat complex injuries related to combat.[8]

After VA created its enterprise-wide governance structure for major construction projects, it did not onboard the Palo Alto project into the new governance process. Since its inception, the project has changed several times, and the cost significantly increased as the changes put it behind schedule. The project is now expected to be completed at least 21 years after its original schedule and is about $1.2 billion over its original approved budget of $450.3 million. A detailed description of the Palo Alto project phases is presented in appendix A.

The VA Office of Inspector General (OIG) conducted this review to evaluate the significant events that led to cost increases, schedule slippages, and scope changes for the Palo Alto VA Medical Center major construction project. See appendix B for the review's scope and methodology.

[6] Government Accountability Office (GAO), *VA Construction: Additional Actions Needed to Decrease Delays and Lower Costs of Major Medical-Facility Projects*, GAO-13-302, April 2013; VA Office of Inspector General (OIG), *Review of the Replacement of the Denver Medical Center, Eastern Colorado Health Care System*, Report No. 15-03706-330, September 21, 2016; GAO, *VA Construction: Improved Processes Needed to Monitor Contract Modifications, Develop Schedules, and Estimate Costs*, GAO-17-70, March 2017.

[7] VA Budget Request, "FY 2009 Congressional Submission," Volume 4, February 4, 2008.

[8] Ambulatory care is medical care provided on an outpatient basis. Ambulatory care includes diagnosis, observation, consultation, treatment, intervention, and rehabilitations services.

Overview of Major Construction

Federal law defines major construction as any capital project to build or improve a facility or service with an expected cost over $30 million.[9] For projects over $100 million, design and construction services must be managed by a federal entity outside VA.[10] To meet this requirement, VA established an interagency agreement with the US Army Corps of Engineers to manage projects over $100 million.[11]

Responsible Offices

Many VA offices are involved in major construction, as shown in figure 1. Most significantly, the Veterans Health Administration (VHA) identifies future needs in coordination with the Office of Asset Enterprise Management (OAEM).[12] OAEM identifies and prioritizes capital asset projects and requests funding through VA's annual budget request.[13] Projects that Congress approves funding for are assigned to the executive director of the Office of Construction and Facilities Management (CFM) for design and construction. During the planning phase, the executive director of CFM assigns a project manager to work with VHA to develop project requirements.[14] Appendix C provides more detail on the offices involved in major construction.

[9] When the project was initially approved in FY 2009, construction projects over $10 million were considered major construction as defined by 38 U.S.C. § 8104(a)(3)(A). This threshold was raised to $20 million in FY 2019 and to $30 million in FY 2024.

[10] 38 U.S.C. § 8103(e).

[11] Interagency Agreement No. VA101F15MF0005-0128 between VA and the US Army Corps of Engineers approved execution of this project on June 1, 2020.

[12] VA Directive 4085, *Capital Asset Management*, December 2, 2020.

[13] This process is called the Strategic Capital Investment Planning process.

[14] CFM manages major construction projects through three regional offices: Regional Office East in Washington, DC; Regional Office Central in Gurnee, Illinois; and Regional Office West in Vallejo, California. The Western Regional Office is responsible for the Palo Alto major construction project.

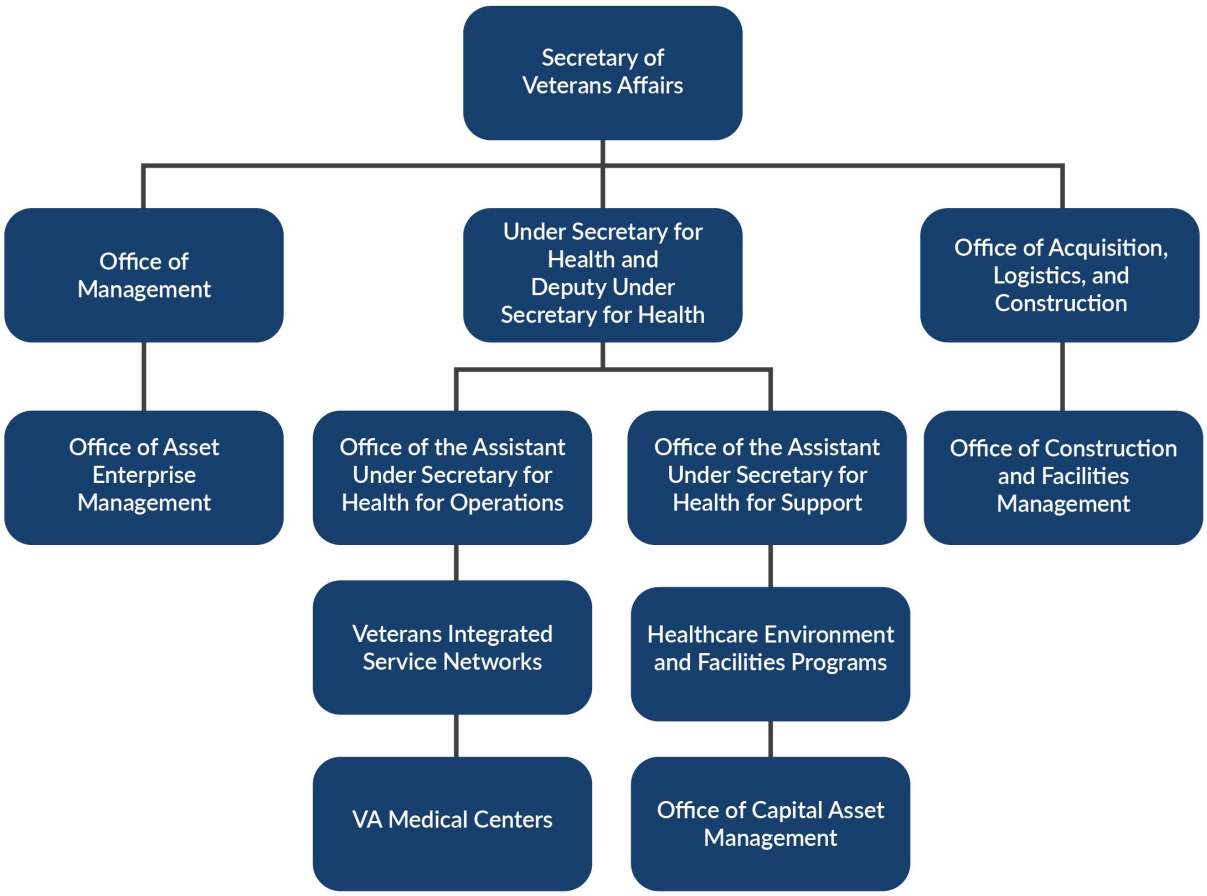

Figure 1. *Offices responsible for major construction.*

Source: Summarized from VA Functional Organization Manual (ver. 8)*, 2023.*

Governance Structure

Figure 2 shows the roles involved in VA's governance structure for major construction projects, as described in VA's Acquisition Program Management Framework, which was adopted in June 2017.[15]

[15] VA Directive 7402, *VA Acquisition Program Management Framework (APMF) Policy*, June 2, 2017. In March 2024, VA rescinded the Acquisition Program Management Framework and replaced it with the Acquisition Lifecycle Framework: Establishment of the Veterans Affairs Acquisition Lifecycle Framework, VA Notice 24-08, March 8, 2024. The Acquisition Lifecycle Framework roughly mirrors the Acquisition Program Management Framework with five phases, and milestone decision events occur at the end of each phase. The Acquisition Lifecycle Framework phases are the conceptual phase, the definition phase, the development phase, the delivery phase, and the closeout phase.

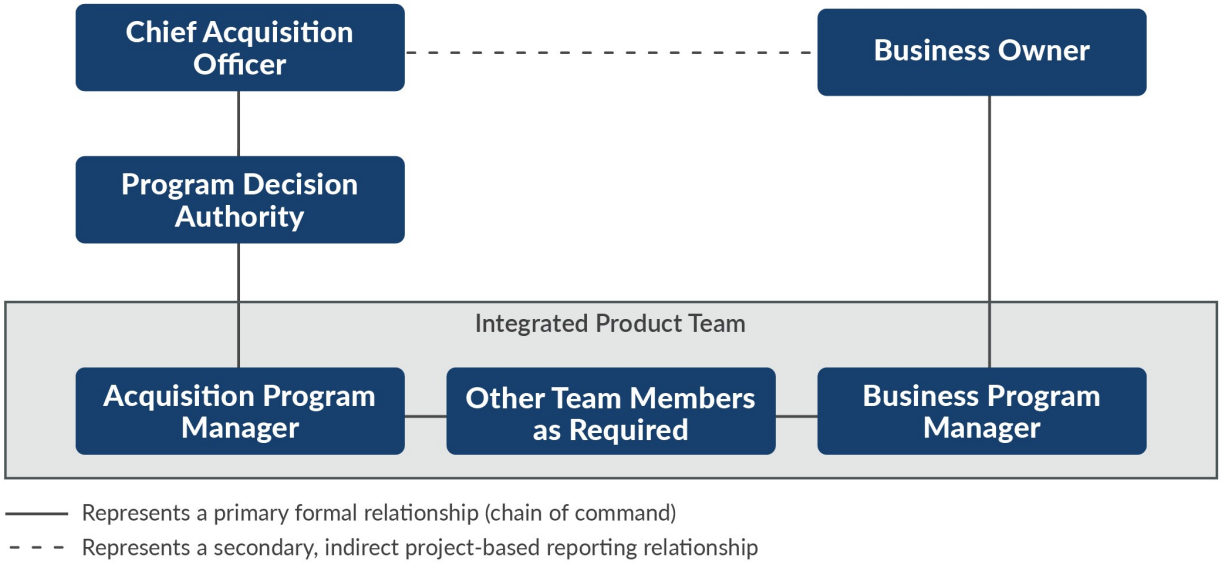

Figure 2. *Governance structure for major construction.*

Source: Summarized from VA Directive 7402 and VA Handbook 7402.

The roles and responsibilities for each of these positions are as follows:

- **VA's chief acquisition officer** is also the principle executive director for the Office of Acquisition, Logistics, and Construction. The chief acquisition officer develops acquisition policy, monitors performance, provides oversight, and develops the acquisition workforce.[16]
- The **program decision authority** monitors risk, approves or rejects proposed baselines, and oversees program management reviews. For major construction projects estimated to cost between $10 million and $100 million per year, CFM's executive director fills this role—such as in the case of the Palo Alto major construction project.[17]
- The **business owner** is a strategic management role assumed by a representative from the VHA office sponsoring the project and dictating its requirements. The business owner leads strategic planning activities such as identifying strategic capability gaps and developing mission requirements.[18]
- An **integrated project team** is required for each project; the team includes a program manager and staff representing VHA, budget, accounting, procurement,

[16] VA Handbook 7402, *VA Acquisition Program Management Framework (APMF) Procedures*, June 2, 2017.
[17] VA Handbook 7402.
[18] VA Handbook 7402.

value management, and other functions as appropriate to manage the project.[19] For instance, the acquisition program manager and business program manager are both part of this team.

- The **acquisition program manager** for major construction projects is the project manager. A representative from CFM has this operational management role. The acquisition program manager is responsible for designing, developing, and delivering the project.[20]
- The **business program manager** is an operational management role assumed by a representative from the VA office that is sponsoring the project and dictating its requirements.[21]

The acquisition framework defines "executive-level roles" responsible for oversight, informational awareness, and the escalation of critical risks to the program decision authority. "Program-level roles" ensure operational oversight of projects. Executive-level and program-level roles are illustrated in figure 3.

Figure 3. *Acquisition Program Management Framework's executive-level and program-level roles. Source: VA Handbook 7402.*

Major Construction Process

The acquisition framework lays out a preacquisition framework phase followed by these five major construction phases: *verify*, *initiate*, *obtain*, *deploy*, and *operate and maintain*. The

[19]The Office of Management and Budget's (OMB) "Capital Programming Guide," dated June 2006, is a supplement to Part 7 of OMB Circular A-11, "Preparation, Submission, and Execution of the Budget," July 2007.

[20] VA Handbook 7402.

[21] VA Handbook 7402.

acquisition framework also requires monthly status reports, formal program management reviews, reviews of required documentation, milestone reviews (known as decision events), and risk management.[22] Figure 4 illustrates how the acquisition framework aligns with CFM's major construction process defined in VA Handbook 7402.[23]

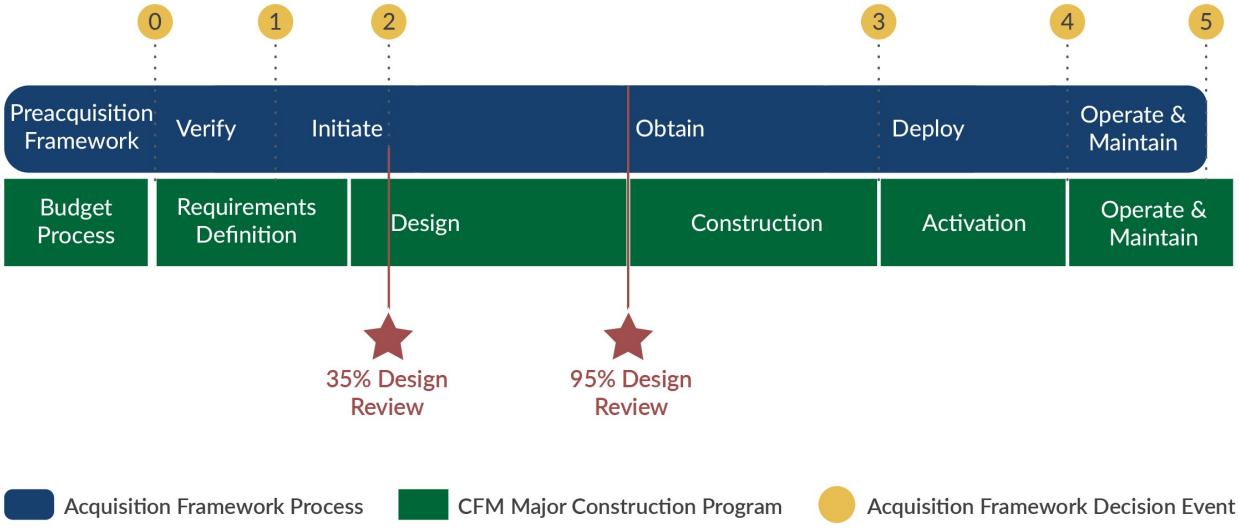

Figure 4. *Acquisition framework for major construction projects.*
Source: Recreated from VA Handbook 7402.

In general, the acquisition framework provides VA with a structure for project governance, where the program decision authority reviews the progress of each phase before approving a project to move to the next phase.

During the preacquisition framework phase, OAEM leads the Strategic Capital Investment Planning process to identify major construction projects and request funding. The business owner is responsible for developing a strategic statement of need and a project business case. As the project moves into the *verify* phase, CFM assigns a project manager who works with VHA to define the requirements of the project.[24] Once the requirements are developed, a "project book" defines the scope of the project, assesses risks, determines the site conditions, shares

[22] Under the acquisition framework, artifacts capture the critical thinking and planning required throughout the acquisition's life cycle.

[23] Figure 4 describes major construction projects that use a "design-bid-build" strategy. Under a design-bid-build strategy, VA hires a contractor to design the project and uses those designs as the basis for bids to hire another contractor for construction.

[24] A requirement is a desired capability (for example, a product or service) necessary for accomplishing the organization's mission, goals, or objectives. VA Handbook 7402.

environmental assessments, and provides an initial cost and schedule for the project.[25] Upon completion of the project book, the project is ready to move to the *initiate* phase.

During the *initiate* phase, the project manager works with VHA and a contracted architectural and engineering firm to develop more detailed design plans, culminating in schematic drawings for the facility director to consider. This is the "35 percent design" solution. After this review, the project enters the *obtain* phase. During the *obtain* phase the architectural and engineering firm will continue to develop schematic drawings until they are substantially complete, or at "95 percent design." Then, the project enters the *deploy* phase, a construction contractor is given the designs, and construction begins. Appendix D offers more detailed descriptions of each phase in the Acquisition Program Management Framework.

Establishing Project Baselines for Major Acquisitions

The Office of Management and Budget (OMB) requires federal agencies to submit OMB Exhibit 300, "Capital Asset Plan and Business Case Summary," for all major acquisitions of land, structures, equipment, intellectual property, and information technology.[26] OMB Exhibit 300 is designed to collect information OMB must report under the Federal Acquisition Streamlining Act of 1994, which requires federal agencies to establish cost, schedule, and performance goals for major acquisitions and ensure 90 percent or more are achieved.[27]

OMB requires the agency head—at VA, the Secretary—to approve the cost, schedule, and performance goals outlined in an OMB Exhibit 300 for each major project.[28] The OMB Exhibit 300 must then be submitted by the Secretary to OMB. If a project is not achieving 90 percent of its goals, the agency head must determine whether the project remains a continuing need and what corrective actions should be taken, up to and including terminating the project.

VA could not provide the OIG with evidence it had submitted an OMB Exhibit 300 for the Palo Alto project. Therefore, the review team relied on a March 7, 2007, draft version of the OMB Exhibit 300 to determine the project's original cost estimate and planned schedule.[29]

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[25] Project books include predesign information that provides a reliable definition of project requirements and forms the foundation of all subsequent project design schematics. The project book is not intended to provide design solutions. Its purpose is to consolidate information developed for a facility into a single document to define the scope of a project. Project books support the capital investment business case as defined in VA policy. VA Handbook 0011, *Strategic Capital Investment Planning Process*, August 20, 2021.

[26] OMB Circular A-11, "Preparation, Submission, and Execution of the Budget," July 2007. OMB Circular A-11, "Preparation, Submission, and Execution of the Budget," July 2010.

[27] Federal Acquisition Streamlining Act of 1994, Pub. L. No. 103-355.

[28] OMB Circular A-11, "Preparation, Submission, and Execution of the Budget," July 2007. OMB Circular A-11, "Preparation, Submission, and Execution of the Budget," July 2010.

[29] When VA could not provide its official OMB Exhibit 300 submissions for the Palo Alto project, the OIG team requested them from OMB. OMB declined in February 2024 to assist the OIG.

VA's draft OMB Exhibit 300 called for

- a project scope to construct two buildings totaling 379,100 square feet and one parking structure, demolish three buildings with exceptionally high earthquake risk, and demolish three temporary clinical modular buildings;
- a project cost of $450.3 million; and
- estimated completion in 2015.

Project Change Management

In February 2014, the principal executive director of the Office of Acquisition, Logistics, and Construction implemented the Capital Program Requirements Management Process (CPRMP). The CPRMP operates in the acquisition framework and dictates the process for changing a project. The CPRMP established the levels of authority that must approve certain changes, as shown in table 1.

Table 1. Levels of Authority for Proposed Changes Under the CPRMP

Approval	Changes of less than 5,000 square feet or $5 million	Changes greater than or equal to 5,000 square feet or $5 million	Changes to critical programs*	Changes of more than 10 percent
VA administration or staff approval required	**Yes**	**Yes**	**Yes**	**Yes**
CFM approval required	**Yes**	**Yes**	**Yes**	**Yes**
Strategic Capital Investment Planning Board approval required	No	**Yes**	**Yes**	**Yes**
Investment Review Council and Secretary approval required	No	No	No	**Yes**

Source: VA-wide Capital Program Requirements Management Process Memo, February 19, 2014.

** Critical programs include mental health, spinal cord injury, research, privacy, homelessness, enhanced-use leases, safety and security, and the Patient Aligned Care Team.*

As soon as changes are known, administration and staff offices are supposed to work with CFM to submit a template to begin the CPRMP process. VHA is then supposed to provide demographic and workload information in support of all proposed project changes.[30]

[30] Principal executive director, Office of Acquisition, Logistics, and Construction, "VA-Wide Capital Program Requirements Management Process (CPRMP)," memorandum to the executive in charge, Office of Management, and chief financial officer, February 19, 2014.

History of the Palo Alto Major Construction Project

In January 2007, Veterans Integrated Service Network (VISN) 21 identified as its highest priority the need for a new ambulatory care center at Palo Alto.[31] In its FY 2009 budget request, VA described three critical objectives for a major construction project at the Palo Alto VA Medical Center:

1. Mitigate potentially catastrophic seismic deficiencies that could make the facility vulnerable during an earthquake.
2. Accommodate ambulatory care programs at the tertiary care center in Palo Alto.[32]
3. Build rehabilitation facilities to treat combat veterans with complex multi-trauma injuries.

In August 2008, CFM contracted with an architectural and engineering firm to begin designing the project. By September 2009, construction had begun on the first building. Then in February 2011, VA submitted its FY 2012 budget request, which included a change in the project's scope requiring an additional $266.3 million. Congress approved that budget in October 2011, and CFM incorporated the additional scope into an 11-phase project, as described in appendix A.

By September 2019, the first 10 phases of the Palo Alto project were complete. But the final phase of the project—for the construction of a new 325,000-square-foot ambulatory care center, which will consolidate most outpatient ambulatory care clinics into one treatment facility—has faced repeated delays and cost increases. As of February 2025, nine buildings had not been demolished, and construction had not been started on the ambulatory care center.

[31] VHA divides the United States into 18 regional networks, known as VISNs, which manage day-to-day functions of medical centers and provide administrative and clinical oversight. VISN 21 includes northern California, western and southern Nevada, Hawaii, the Philippines, Guam, and American Samoa.

[32] Tertiary care is highly specialized medical care usually over an extended period that involves advanced and complex procedures and treatments performed by medical specialists in state-of-the-art facilities. Merriam-Webster, "tertiary care," accessed March 31, 2025, https://www.merriam-webster.com/dictionary/tertiary%20care.

Results and Recommendations

Finding: The Lack of a Project Governance Structure Led to Cost Overruns and the Palo Alto Project Not Meeting Critical Objectives

Without an effective governance structure, VA could not sufficiently manage the requirements of the Palo Alto VA Medical Center project. Costs have escalated from $450.3 million to an estimated $1.6 billion, and project completion has been delayed at least 21 years.[33] Congress approved the Palo Alto polytrauma and ambulatory care center project in VA's FY 2009 budget submission to address three critical objectives at the medical facility, but only the polytrauma rehabilitation facility had been completed. Nine of 12 buildings planned for demolition were still standing, and the design and construction of the ambulatory care center remained paused. Further, as of a March 2024 CFM cost estimate, the project would need its budget authorization increased by nearly $907.8 million to complete all phases. As of February 2025, VA had not requested additional spending authority for the project. At the current pace, the OIG estimates each year of delay will add nearly $74 million to the project cost.

The OIG determined that VA did not follow OMB's or its own guidance to implement a strong governance structure over the Palo Alto major construction project. Weak governance allowed project requirements to be changed before impacts to the budget and schedule were fully analyzed; in some cases, requirements were changed without proper approval. The OIG found business cases were not properly justified, design work was stopped before requirement changes were approved, and VA officials could not provide evidence that this project was brought into the VA-wide acquisition framework, which was established in 2017 and was specifically intended to govern major construction projects. This lack of governance contributed to decisions that expanded the project's scope and delayed design work—ultimately resulting in costs escalating well beyond the $450.3 million budget Congress originally approved.

This finding that VA did not establish an effective governance structure to manage the Palo Alto major construction project is based on the following determinations:

- VA did not submit an original or updated business case.
- VA did not follow the CPRMP when changing the project schedule and scope.
- VA did not use its Acquisition Program Management Framework governance structure.
- VA did not use an integrated project team.

[33] The original project schedule from the FY 2009 budget request estimated the project would be finished in 2015. As of March 2024, CFM estimated the project could be completed no sooner than 2036, or at least 21 years after the original planned completion of 2015.

- VA will need nearly $907.8 million more from Congress to complete the Palo Alto project as planned.

What the OIG Did

The OIG team reviewed laws, regulations, and VA policies related to major construction and reviewed contract and project files related to the Palo Alto VA Medical Center polytrauma and ambulatory care center major construction project. The team interviewed senior executives from the Office of Acquisition, Logistics, and Construction; CFM; and OAEM. The team also interviewed project officials, engineering and planning staff from the VA Palo Alto Health Care System, the director of the VA Palo Alto Health Care System, and the US Army Corps of Engineers project manager assigned to the Palo Alto project.

VA Did Not Submit an Original or Updated Business Case

VA could not provide critical documentation for the Palo Alto project that is meant to establish the need for the project, set baseline goals for measuring performance, and ensure proper approval from the Secretary. OMB guidance requires federal agencies to provide notice through an OMB Exhibit 300, "Capital Asset Plan and Business Case Summary," when establishing the baseline of any capital project or making significant changes to that baseline.[34] Specifically, if a project varies more than 10 percent from its baseline goals, agencies must provide OMB with a complete, updated OMB Exhibit 300 analysis to explain the differences, the corrective actions the agency will take, and the most likely estimates of cost and schedule at completion. The OMB guidance further requires approval from the agency head (the Secretary) that defines the cost, schedule, and performance goals for any major project.[35] OMB recommends agencies continuously maintain updated information about projects reported through an Exhibit 300.[36]

In general, the OMB Exhibit 300 is an accountability measure designed to coordinate agency information for OMB's reports to Congress—as required by the Federal Acquisition Streamlining Act of 1994—to ensure there are business cases for taxpayers' capital investments and that those justifications are tied to agencies' mission statements, long-term goals and

[34] OMB Circular A-11, "Preparation, Submission, and Execution of the Budget," July 2007. As of August 2011, OMB no longer required agencies to submit the traditional OMB Exhibit 300 Capital Asset Plans and Business Cases. Instead, agencies transitioned to an electronic submission format. However, business cases to justify the acquisition were still required to be submitted to OMB in the form of a performance plan to the maximum extent possible. Additionally, agencies were still required to report significant changes to the project's baseline.

[35] OMB Circular A-11, "Preparation, Submission, and Execution of the Budget," July 2007. OMB Circular A-11, "Preparation, Submission, and Execution of the Budget," July 2010.

[36] OMB Circular A-11, "Preparation, Submission, and Execution of the Budget," July 2007. OMB Circular A-11, "Preparation, Submission, and Execution of the Budget," July 2010.

objectives, and annual performance plans developed in accordance with the Government Performance and Results Act of 1993.[37]

VA was required to submit this OMB exhibit to justify its FY 2009 funding request for $450.3 million for the Palo Alto VA Medical Center project and to establish a baseline for the project's cost, schedule, and performance goals. However, VA could not provide the OIG with evidence that it had submitted an OMB Exhibit 300 to justify the original project described in VA's FY 2009 budget request or the changes described in its FY 2012 budget request. Without this required documentation, there is insufficient evidence that the Secretary approved the project's cost, schedule, and performance goals.

For instance, an OMB Exhibit 300 might have justified VA's FY 2012 budget request to increase the project authorization from $450.3 million to $716.6 million—a $266.3 million increase. The request increased the physical scope of the project from the original proposed 379,100 square feet to over 600,000 square feet. Changes to the project's scope over this period are illustrated across the next two pages; figure 5 shows changes in construction work, and figure 6 shows changes in demolition work.

[37] Federal Acquisition Streamlining Act of 1994, Pub. L. No. 103-355; Government Performance and Results Act of 1993, Pub. L. No. 103-62.

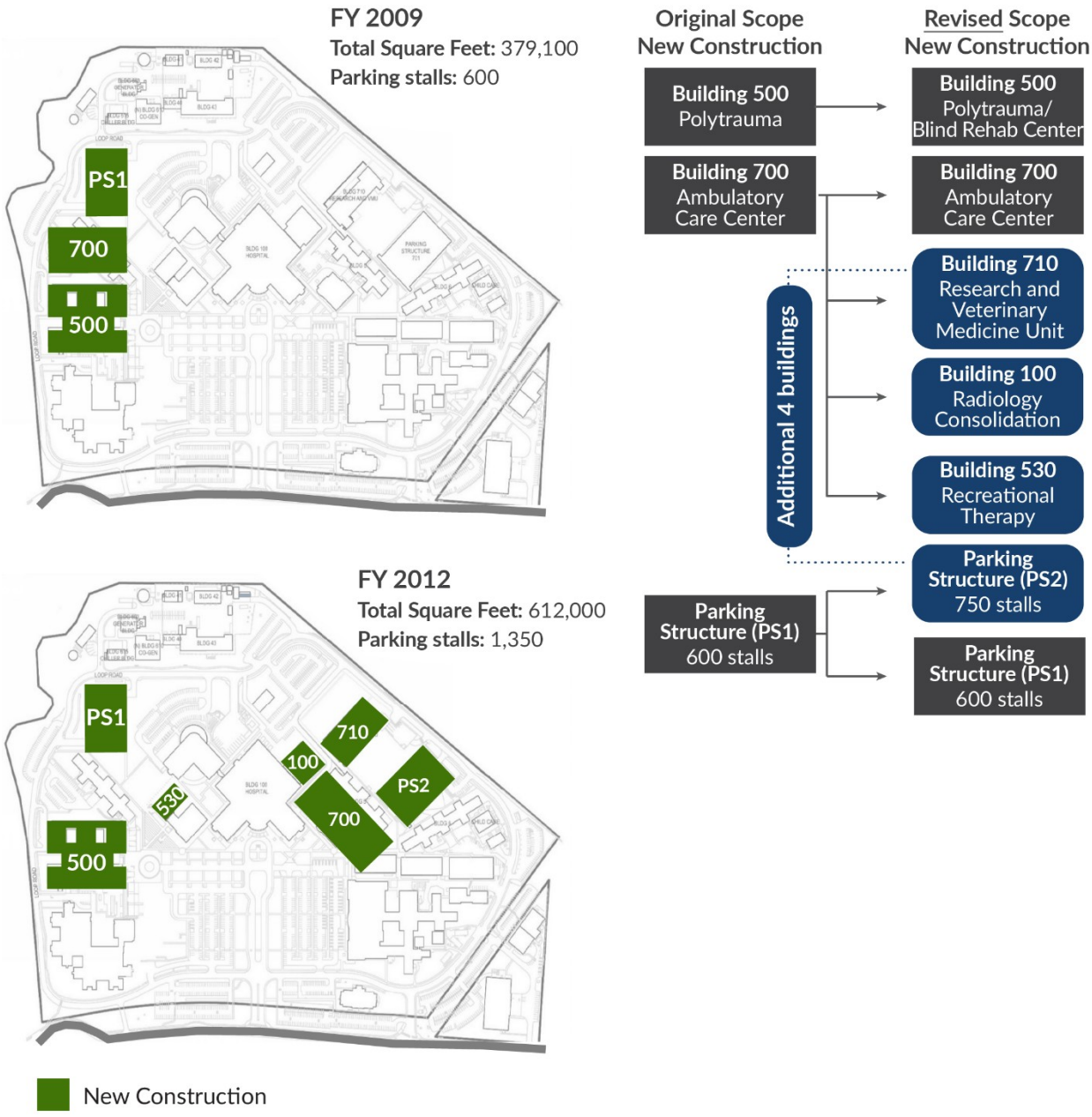

Figure 5. *New construction scope changes to the Palo Alto major construction project.*
Source: FY 2009 budget request, volume 4; FY 2012 budget request, volume 4.

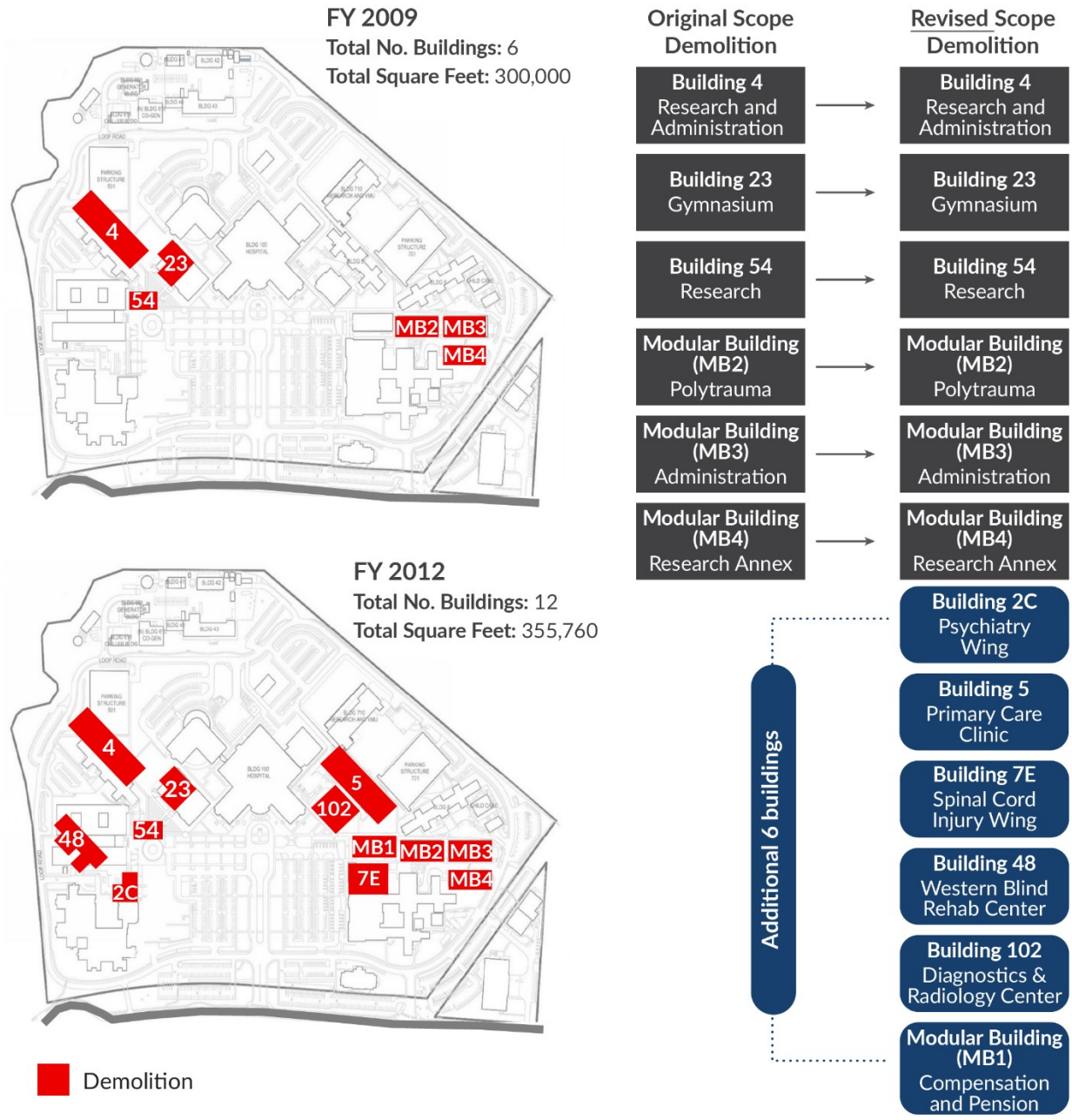

Figure 6. *Demolition scope changes to the Palo Alto major construction project.*
Source: FY 2009 budget request, volume 4; FY 2012 budget request, volume 4.

The OIG determined that VA officials did not provide OMB with sufficient documentation to justify the project's original and expanded scope, and they also did not notify OMB of significant changes to the project's cost and schedule. The OIG team requested a copy of VA's FY 2009 and FY 2012 OMB Exhibit 300 applications from both OMB and OAEM, but neither party provided evidence that the business case documentation had been submitted by VA in support of its budget requests. The OIG team could obtain only draft versions of these OMB Exhibit 300 applications. On multiple occasions, the OIG team also asked CFM and OAEM for copies of documentation submitted to OMB to justify the original $450.3 million budget request and the additional $266.3 million requested in FY 2012 to expand the project's scope. However, neither office could provide the OIG with those records.

Because VA could not provide the OIG with a project business case (documenting VA's justification for the project and expanding its scope) approved by the Secretary supporting either its FY 2009 or FY 2012 budget submissions, as required by OMB guidance, the OIG questions VA's justification for the $716.6 million approved for the Palo Alto polytrauma and ambulatory care center major construction project. Questioned costs associated with this review are documented in appendix E.

VA Did Not Follow the CPRMP When Changing the Project Schedule and Scope

In February 2014, the principal executive director of the Office of Acquisition, Logistics, and Construction issued the VA-wide CPRMP policy.[38] This policy was meant to serve as a control to ensure that the scope of each major construction project remained consistent with its approved business case.[39] The OIG found that VA did not follow this process when making changes to the Palo Alto project.

Under the CPRMP policy, changes to project requirements need approval from VA officials in coordination with CFM. CPRMP requests need to be supported by demographic and workload data from VHA—to justify the need for the change—along with CFM estimates on how the changes would affect the project's scope, cost, and schedule. The policy gives CFM the authority to approve change requests up to $5 million. Change requests over $5 million need approval from the Strategic Capital Investment Planning Board, and requests that exceed 10 percent of the total project cost required approval from both the Secretary and the Construction Review

[38] Principal executive director, Office of Acquisition, Logistics, and Construction, "VA-Wide Capital Program Requirements Management Process (CPRMP)," memorandum.

[39] The CPRMP was designed to address changes to major construction projects that are approved through the Strategic Capital Investment Planning process.

Council (referred to as the Investment Review Council).[40] Although the Palo Alto project experienced significant project changes that predated the CPRMP policy, VA was still expected to manage the project to meet cost, schedule, and performance baseline goals.

The CPRMP policy was established to ensure proper approvals were obtained from VA leaders. The OIG found VA managers did not obtain the proper approvals for project changes that drastically increased the project's scope and cost, while delaying design and construction even after VA had created a policy to govern these decisions.

The CPRMP Request for $50.4 Million Was Not Considered by Officials Above CFM's Western Regional Office

When project changes were identified, VA did not follow its CPRMP policy requiring executive leadership review of deviations from the published prospectus. In December 2015, the Palo Alto project manager submitted a CPRMP request exceeding $50 million to modify project requirements more than two years after CFM had stopped design work on the ambulatory care center so that additional utilities could be added to the campus to support the operation of the ambulatory care center, which was being redesigned to implement the Patient Aligned Care Team model.[41] The submission of the CPRMP request aimed to incorporate costs associated with the project delay and updated utilities. But the OIG team found no evidence that CFM executive leaders reviewed the request. As a result, changes to the project's baseline remained undocumented and lacked proper authorization, allowing costs to escalate due to continued delays.

In 2009, a VA task force recommended VHA formally adopt a team-based model of care, what VHA would call the Patient Aligned Care Team model.[42] VA established several Patient Aligned Care Team Demonstration Laboratories at separate VISNs to evaluate the national implementation of the model from 2010 through 2014 to identify best practices.[43] In June 2013, CFM, at the request of the VA Palo Alto Health Care System's director, ordered the architectural and engineering firm for the Palo Alto project to pause any further design work on the

[40] The Strategic Capital Investment Planning Board consists of eight senior executives including one individual from each of the following organizations: Office of Management; Office of Enterprise Integration; VHA; Veterans Benefits Administration; National Cemetery Administration; Office of Information and Technology; Office of Human Resources and Administration/Operations, Security, and Preparedness; and Office of Acquisition, Logistics and Construction. In October 2021, the initial Investment Review Council charter was established to replace the Construction Review Council.

[41] The project manager submitted the CPRMP request to the director of CFM's Western Regional Office for $50,350,000 in December 2015 to address these needs. Capital Program Requirements Management Process Compliance Review Template, CPRMP Rolling Change Submission # 1, Escalation, Impacts & Utility Upgrades for Project No. 640-424, December 30, 2015.

[42] VA Universal Services Task Force Report, "Veterans Health Care: Leading the Way to Excellence," February 2009.

[43] VHA Handbook 1101.10(2), *Patient Aligned Care Team Handbook*, February 5, 2014.

ambulatory care center so that a study could be done to adopt the new Patient Aligned Care Team model, with an extension of the suspension issued in October 2013. Up to this point, the Palo Alto project's architectural and engineering contractor had completed the design development requirements for the ambulatory care center—a milestone that allowed CFM to begin developing the construction documents.[44] CFM's cost estimate to build the pre-Patient Aligned Care Team model ambulatory care center was about $288.4 million.[45] The pause in the project would be prolonged because the study on adopting the Patient Aligned Care Team model could not be started until the pilot program was complete—formalized space design standards based on the pilot program became available in 2015 for planners, designers, and clinicians involved with project planning and design to use across VA.[46]

The Patient Aligned Care Team design study requested by local Palo Alto officials recommended that the ambulatory care center adapt to model requirements by removing administrative space that did not contribute to patient care, moving structural bracing to the building's exterior to allow better workflow between team space and exam rooms, adding a bridge to connect back-of-house staff with service areas, and redesigning elevators and mechanical spaces to accommodate changes to patient waiting areas. The study estimated that the construction price for the ambulatory care center would decrease by about $4.5 million after implementing the recommended design changes.[47]

The CPRMP request submitted to CFM's Western Regional Office in December 2015 sought more than $50 million to cover

- about $51.2 million in escalating project costs related to delays,
- $7.5 million for parking and shuttle services, and

[44] Design is divided into three general stages: schematic design, design development, and construction documents. The completion of the schematic design and design development phases indicates that the design is well beyond 35 percent, and no further functional decisions are required from the users. Once the facility director has approved the design plans, the architectural and engineering firm will begin preparing the construction documents, which are the completed drawings and specifications for bidding and constructing the project. These detailed plans are based on the approved layouts and other design decisions agreed upon during the design development stage.

[45] CFM Form 6227, Construction Project Cost Estimate, July 2, 2011. The total estimated project cost was $716.6 million. Of this total estimated cost, $297.8 million was identified as the budgeted amount to complete the ambulatory care center. This amount includes demolition costs of about $9.4 million. Therefore, the cost to build the ambulatory care center is about $288.4 million ($9.4 million subtracted from $297.8 million). But, this form was not signed. CFM could not produce an approved construction project cost estimate for this time frame.

[46] VA Office of Construction and Facilities Management, PACT Space Module Design Guide, June 2015. The Patient Aligned Care Team model design guide was created to be a veteran-centric space-planning and design paradigm for primary care services. The objectives of the Patient Aligned Care Team model were to center care around the veteran, promote team-based care collaboration, and improve access through standardized clinic designs.

[47] VA Palo Alto Health Care System, "Patient-Aligned Care Team Study," May 31, 2016. The estimated decrease of $4.5 million to construct the ambulatory care center was prepared by a subcontractor to the architectural and engineering firm who authored the design study. The OIG team did not evaluate the reliability of this estimate.

- $7.5 million for utility work to provide additional electrical capacity.[48]

Although these proposals totaled approximately $66.2 million, VA expected about $15.8 million in projected savings from earlier project phases that were completed below their cost estimates—which reduced the net amount of the CPRMP request to about $50.4 million. This CPRMP submission included a justification that if the request was not approved, the ambulatory care center's scope would need to be scaled back to adjust to budget constraints.[49]

Because the request exceeded $5 million, it required approval from multiple officials.[50] The OIG team obtained a copy of the CPRMP request, which had been signed by the former project manager, former project executive, and former director of CFM's Western Regional Office. But it lacked the necessary approvals from VA administration, the Strategic Capital Investment Planning Board, and CFM's executive director, who serves as the acquisition decision authority. VA could not provide the OIG with any documentation indicating that officials above CFM's Western Regional Office had reviewed the request.

The former project executive told the review team he never received notice of an approval or denial of the CPRMP request. The OIG could not determine whether the then-executive director of CFM or the then-director of OAEM ever received or considered this request. However, the OIG confirmed with the current OAEM director that the request—exceeding more than $50 million—was not entered into the Strategic Capital Investment Planning process, preventing its inclusion in VA budget requests.

The Former CFM Regional Director Denied a $459.8 Million CPRMP Request in 2021 and Reassigned the Project Manager

After the project manager did not receive the nearly $50.4 million in funding that he requested in December 2015, the Palo Alto project continued to stall until CFM initiated a contract modification in August 2019 to lift the work suspension that began in 2013. This was followed by the results of a second design study requested by the Palo Alto VA Medical Center to appropriately size the ambulatory care center and lower construction

[48] The request identified $7.5 million needed for shuttle services and temporary off-site parking to accommodate the ongoing construction. The $7.5 million to address utility work stemmed from needs identified in a separate utility infrastructure study: Strategic Utilities Infrastructure Systems Plan for the Palo Alto Division (February 2016). This study determined that by the time construction of the ambulatory care center was expected to finish, the campus's two substations would lack sufficient electrical capacity to operate the ambulatory care center. Additional electrical capacity would need to be brought in from the local utility (the city of Palo Alto) to address the shortage.

[49] A project executive is responsible for balancing the risk, cost, schedule, and performance and delivering the capability to users. The project executive may manage a specific project or program or an entire portfolio of related programs.

[50] Project changes exceeding $5 million must seek approval by VHA, staff offices, CFM, and the acquisition decision authority. Principal executive director, Office of Acquisition, and Construction, "VA-Wide Capital Program Requirements Management Process (CPRMP)," memorandum.

costs.[51] The design study recommended VA reduce the ambulatory care center by about 31,000 square feet.[52]

By August 2021, the architectural and engineering firm updated the ambulatory care center "project book," which was used to define the project requirements.[53] The new plans incorporated all the project requirement changes identified from two design studies and a utility infrastructure study. The US Army Corps of Engineers—which took over management of the ambulatory care center phase of the project in May 2020—needed this project book to develop requirements for design and construction contracts it was tasked to award and manage.[54]

Also in July 2021, the project manager for the Palo Alto project submitted a second CPRMP request seeking nearly $460 million of additional construction funding in FY 2023.[55] This request was intended to cover work outlined in the project book, including adjustments previously identified but not funded in the 2016 CPRMP request.[56] This new request would increase the Palo Alto project's total estimated cost from $716.6 million to nearly $1.2 billion. Specifically, this CPRMP request included

- over $100 million in escalating project costs,
- over $25 million for electrical upgrades identified in the 2016 patient aligned care team study,
- $30 million for temporary space to house occupants of buildings planned for demolition, and

[51] VA Palo Alto Health Care System, "Ambulatory Care Center (ACC) Realignment Study," December 20, 2019. This study was done by the same architectural and engineering firm that completed the VA Palo Alto Health Care System, "Patient-Aligned Care Team Study" in 2016.

[52] The reduction called for about 286,000 square feet, instead of the 317,000-square-foot design recommended by the Patient Aligned Care Team model study.

[53] Project books include predesign information that provides a reliable definition of project requirements and forms the foundation of all subsequent project design schematics. The project book is not intended to provide design solutions. Its purpose is to consolidate information developed for a facility into a single document to define the scope of a project. VA Medical Center Palo Alto, California, Ambulatory Care Center Project Book, August 11, 2021.

[54] Interagency Agreement No. VA101F-15-M-0005-0128 was issued under the authority of 38 U.S.C. § 8103. In May 2020, this agreement between VA and the US Army Corps of Engineers approved the US Army Corps of Engineers to oversee the management of the ambulatory care center phase of the project. The US Army Corps of Engineers was responsible for initiating project-planning services and coordinating the development of the updated ambulatory care center project book.

[55] The project manager also submitted the second CPRMP request to the director of CFM's Western Regional Office. Capital Program Requirements Management Process Compliance Review Template, CPRMP Rolling Change Submission # 1, Escalation, Impacts & Utility Upgrades for Project No. 640-424, July 2021.

[56] Funding for escalation and electrical upgrades was first requested in the 2016 CPRMP.

- over $36 million for US Army Corps of Engineers management fees.

Officials in CFM's Western Regional Office expressed concerns among themselves about approving a funding request of that magnitude. In an August 3, 2021, email, the former director of the western region wrote to former western regional director of facilities operations, "I can't send this in, we can't have doubled the cost estimate in a year … This project will be cancelled at this rate." The former western regional director of facilities operations echoed these concerns, instructing the project manager in an email, "This cannot be submitted as is; if it were, this project would be a risk for cancelation." The project manager later sent the director of CFM's Western Regional Office a follow-up email saying funds would not be needed for the FY 2023 budget request. The manager then sent a copy to himself noting he was specifically directed by the former regional director to send the email saying the earlier request was not needed.

The former project manager told the OIG team in an April 2024 interview that the $459.8 million CPRMP request "never moved past the [former regional] director." Approval of the request by CFM would have required additional approvals from the Investment Review Council and the Secretary because the amount significantly exceeded the 10 percent escalation threshold.[57] The request would have increased the project cost by 64 percent.

CFM's Western Regional Office could not provide the OIG team with documentation justifying why the funding would not be needed after all or why the project manager's request was rejected. Additionally, the Western Regional Office could not provide evidence that the second CPRMP request was forwarded to the executive director for further approval or that it received any subsequent review, analysis, or consideration outside CFM. The CPRMP policy does not contain specific guidance on how unapproved requests in CFM will be communicated to the initial requestor or which officials need to concur with the decision.

OMB guidance emphasizes the importance of retaining an experienced and knowledgeable project manager throughout a project's duration to ensure continuity in the integrated project team as well as accountability for project goals.[58] The former project manager told the OIG team that, within days after the $459.8 million funding request was denied by the former regional director, he was informed that he would be replaced. The current director

[57] Principal Executive Director, Office of Acquisition, and Construction, "VA-Wide Capital Program Requirements Management Process (CPRMP)," memorandum.

[58] OMB's "Capital Programming Guide," dated June 2006, is a supplement to Part 7 of OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, July 2007.

of CFM's Western Regional Office could not provide any records detailing the reasons for the project manager's reassignment.

CFM Directed the US Army Corps of Engineers to Stop Design Work on the Ambulatory Care Center as VA Pursued a University-Backed Project

In summer 2022, a new proposal delayed further efforts on the Palo Alto project. The then-medical center director of the Palo Alto Health Care System met with officials from a local university about the possibility of granting the university a long-term land lease to build a cancer care and research center under the authorities granted in the Communities Helping Invest through Property and Improvements Needed for Veterans Act of 2016 (the CHIP IN for Vets Act). This law allowed nonfederal entities, like universities, to build and donate facilities on VA property.[59]

In August 2022, the acting director of project delivery for CFM's Western Regional Office instructed the US Army Corps of Engineers to stop design efforts on the ambulatory care center because the construction location could potentially be displaced by the university project—though this change had not yet been approved through the CPRMP process. The CFM executive director told the OIG team that the ambulatory care center efforts were paused because the Palo Alto Health Care System and the university were exploring whether the CHIP IN for Vets Act or some other partnership could be used. CFM's associate executive director of facilities planning also told the OIG team that pursuing the federal authority with the university project came at the expense of forward progress on the ambulatory care center already under development.

A follow-up meeting with the university was held in February 2023 to further discuss the possibility of a CHIP IN partnership for the cancer care and research center. The meeting was attended by multiple VA officials, including the former acting deputy assistant under secretary for health for operations, acting assistant under secretary for health and support services, and senior adviser to the deputy under secretary for health, as well as officials from CFM, the VHA Capital Asset and Enterprise Management Office, the VHA Healthcare Environment and Facilities Program Office, OAEM, VISN 21, the VA Office of General Counsel, and local medical facility leaders. In March 2023, the Palo Alto Health Care System and the university signed a memorandum of understanding declaring their

[59] Communities Helping Invest through Property and Improvements Needed for Veterans Act of 2016, Pub. L. No. 114-294, 130 Stat. 1504. The CHIP IN for Vets Act authorized VA to carry out a five-year pilot program under which it may accept up to five donations by nonfederal entities of (1) real property that includes a constructed facility or that is to be used as the site of a facility constructed by the entity and (2) a facility to be constructed by the entity on VA's real property. In September 2021, Congress amended the CHIP IN for Vets Act authority and extended the time frame for the VA Secretary to accept donations under the pilot program until December 16, 2026.

intent to partner and build the cancer care and research center.[60] In early September 2023, representatives from VHA and the university discussed the scope of the project, where the center might be located on the VA Palo Alto campus, and what kind of lease VA could guarantee the university for its donation under the CHIP IN for Vets Act. One of the projects discussed was the ambulatory care center, which needed an estimated $748.3 million in additional funding at the time to finish construction.[61]

On September 15, 2023, the chief executive officer (CEO) of the university sent the deputy under secretary for health for operations and the principal executive director of the Office of Acquisition, Logistics, and Construction a letter offering VA a donation of up to $250 million, which could be applied to VA projects in exchange for a definitive agreement for a 99-year enhanced-use lease that provided 25 acres on the Palo Alto campus for the university to build its cancer care and research center.

The principal executive director of the Office of Acquisition, Logistics, and Construction and the executive director of OAEM both told the OIG team that the way the medical center was pursuing the CHIP IN for Vets Act authority with the university had legal challenges.[62] VA explored other options, but according to the CFM's chief of facilities planning and development, none of these alternatives provided a feasible path forward.[63]

By April 2024, the collaboration with the university was halted when the university declared it could not find a suitable location for the proposed cancer care and research center on the Palo Alto campus. In an interview with the OIG team, CFM's director of project delivery confirmed that the collaboration with the university would not proceed as initially planned.[64]

[60] In June 2023, the then-under secretary for health issued a news release on the partnership to develop new cancer treatments for veterans eligible for treatment under the Sergeant First Class Heath Robinson Honoring our Promise to Address Comprehensive Toxics (PACT) Act of 2022, Pub. L. No. 117-168, 136 Stat. 1759.

[61] Presentation by the deputy assistant under secretary for health and operations, VA Palo Alto Health Care System/[University] Medicine Capital Initiative Discussion, September 5, 2023. Other project funding needs discussed included $310 million for a spinal cord injury and disorder center, $95 million for a new research and administration building, $58 million for a new boiler house, and $49.9 million for a hospital renovation to create a new minimally invasive procedure center.

[62] To move the initiative forward, the university needed to donate the cancer center building to VA once it was built. Afterward, VA could establish a sharing agreement with the university to use the building. But a sharing agreement allowing VA to use the space or receive services, such as cancer treatment or research conducted by an affiliate, would likely fall under a use or service agreement, which is expressly prohibited by 38 U.S.C. § 8162(b)(5).

[63] The alternatives included transferring the property to the university for a subsequent sharing agreement, exchanging underutilized land for the university-owned facility, or negotiating a lease to the university.

[64] Specifically, the designated parcel on the Palo Alto campus did not align with the university's construction schedule. As of September 2024, VA was continuing discussions with the university about possibly building the cancer care and research center at VA's Menlo Park campus instead.

Because managers of the Palo Alto project did not follow VA's CPRMP, the OIG team could not determine whether senior officials were properly informed of the identified project changes. This lack of oversight may have prevented the project from being reevaluated and delayed necessary corrective actions by agency leaders.

VA Did Not Use Its Acquisition Program Management Framework Governance Structure

VA's Acquisition Program Management Framework policy, implemented in June 2017, required the Palo Alto integrated project team to complete two tasks by June 2018 before awarding contracts to design and build the ambulatory care center:

1. Develop certain required documentation, called artifacts, that "are designed to capture the critical thinking and planning required throughout an acquisition's lifecycle."[65]
2. Complete a verification decision event—occurring after the preacquisition framework phase and before the *verify* phase—to demonstrate that the project is achievable and appropriate given the funding level it has received during the budgeting process.[66]

VA did not provide sufficient evidence to demonstrate that the Palo Alto project either went through a verification decision event or had any project artifacts created to ensure a program decision authority (in this case, the executive director of CFM) assessed the project's need or business cases. The OIG team found that the project did not comply with VA's acquisition framework policy.[67]

The acquisition framework was adopted to improve the "authority, responsibility, and accountability for acquisition programs across the Department" and is intended to provide a "governed, repeatable, consistent, efficient, and transparent life cycle process for the management and oversight of acquisition programs," enabling VA to execute its mission "as effectively and efficiently as possible within fiscal and operational constraints."[68]

[65] VA Handbook 7402. As of October 2024, the Office of Acquisition, Logistics, and Construction was establishing the Acquisition Lifecycle Framework to replace the acquisition framework. The office expected to publish complete guidance on Acquisition Lifecycle Framework business processes by March 2025. As of August 14, 2025, the Acquisition Lifecycle Framework had not been implemented. According to CFM's associate executive director, the Acquisition Program Management Framework was still being used to guide major constructions acquisition until the Acquisition Lifecycle Framework is fully implemented.

[66] VA Handbook 7402.

[67] VA Handbook 7402.

[68] VA Handbook 7402.

The *verify* phase of the acquisition framework requires the project manager to prepare a series of documents, called project artifacts, for the program decision authority to review so that assigned officials can determine whether the project is fulfilling a need, that the project's acquisition strategy is achievable within its approved funding level, and that the project is ready to go forward in the acquisition planning process. The key artifacts the project manager should have developed to support the decision for the Palo Alto project were

- a **capability shortfall assessment** that defines the capability gap the project is trying to fill, how this capability aligns with VA strategic priorities, and what alternative solutions VA could consider to meet this need;
- a **strategic statement of need** that formally describes the need required to address the capability shortfall in terms that allow it to be compared with project alternatives in the business case; and
- a **business case** that justifies the acquisition and includes an analysis of project alternatives by comparing related costs, benefits, and risks.

Had the project been moved into VA's enterprise-wide acquisition framework, the program decision authority would have needed to review an updated project business case justifying the need to continue the project. This business case would have needed to demonstrate that the project still aligned with VA's strategic priorities and was viable within the project's budget and schedule constraints. If the project investment could no longer be justified, the program decision authority could have decided to terminate the project.

The OIG team has found no evidence of the project's business case being updated since the draft OMB Exhibit 300 was prepared before VA's original FY 2009 budget request. The OIG is not aware of any approved documentation or updates to this project's business case that would otherwise justify the need to continue construction of the ambulatory care center. Since the original business case was drafted, the ambulatory care center plans were subject to two design studies altering the original requirements for the project. The plans for the ambulatory care center also need to be reevaluated to see whether the current design still meets VA's strategic needs.[69]

Figure 7 shows the artifacts required for each acquisition framework decision event.

[69] In accordance with OMB Circular A-11, "Capital Programming Guide," OMB will only recommend new or continued funding for capital asset investments that fulfill a justified program objective, performance gap, or functional requirement. These requirements should be defined in terms of the mission, purpose, capability, agency components involved, schedule and cost objectives, and operating constraints. If approved for funding, VA is accountable for achieving 90 percent of the project cost, schedule, and performance goals that were approved in accordance with the Federal Acquisition Streamlining Act, Title V.

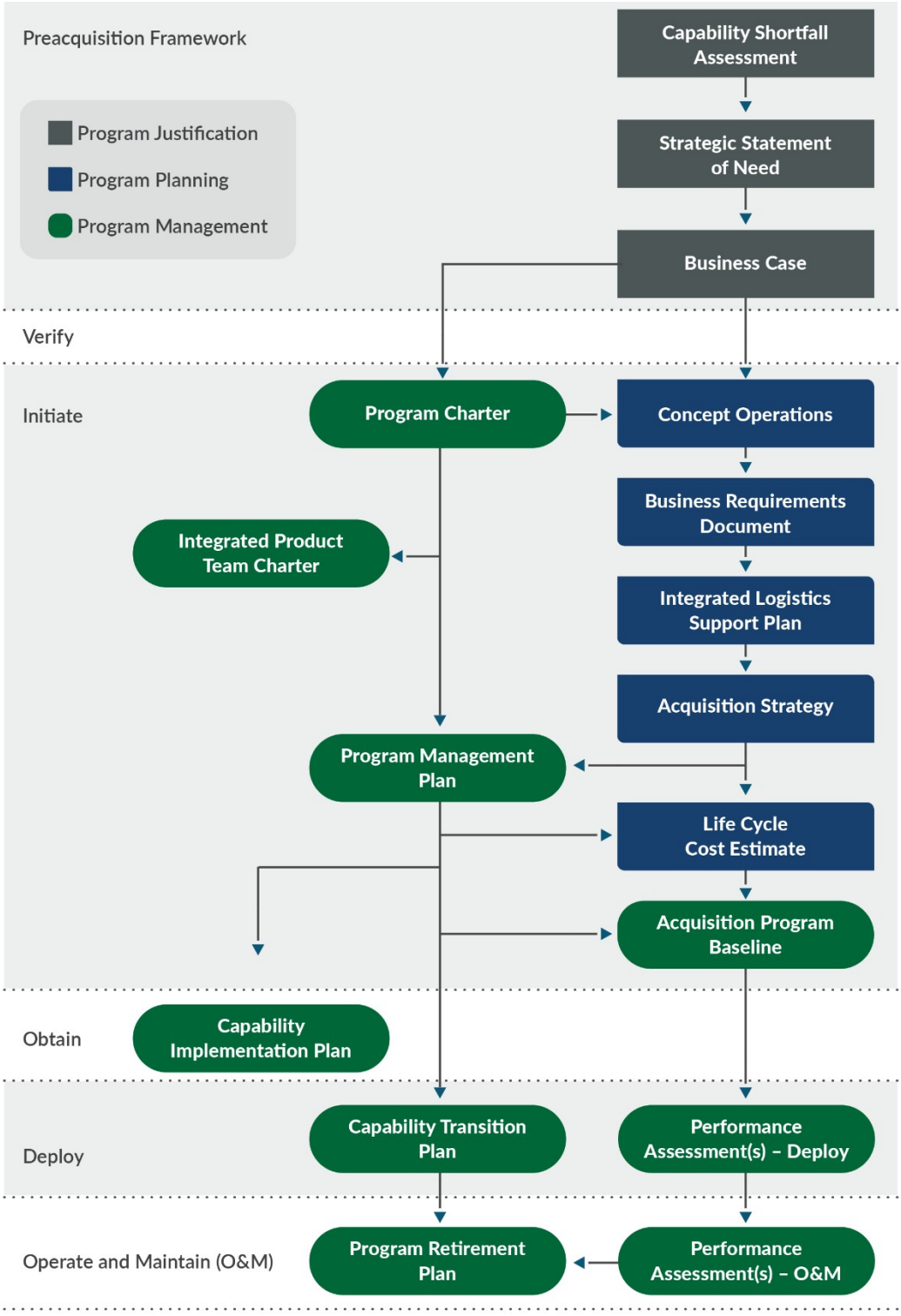

Figure 7. *Acquisition Program Management Framework artifacts aligned with framework phases. Source: VA Handbook 7402.*

Had VA officials onboarded the project into the enterprise-wide acquisition framework governance structure, they would have been able to elevate project risks and provide necessary oversight at both the program and executive levels. VA senior leaders would have been apprised of project risks related to cost, schedule, and scope. However, the OIG team could not obtain evidence that this project was ever added to the acquisition framework or that critical risks were escalated to decision authorities—which, for the Palo Alto project, would have been the executive director of CFM.

VA Did Not Use an Integrated Project Team

OMB requires federal agencies to create an integrated project team to manage major capital asset acquisitions—such as the Palo Alto polytrauma and ambulatory care center major construction project—because of their importance to agencies' missions and because of high development, operating, and maintenance costs.[70] To manage these types of major projects, OMB recommends agencies appoint integrated project teams during planning to ensure goals for a baseline budget and schedule are achieved. According to OMB's guidance, an integrated project team should

- have a written charter defining the team's responsibilities, budget constraints, and the extent of its authority and accountability for accomplishing project objectives;
- appoint a qualified project manager who understands user needs and constraints and can manage large projects to achieve cost, schedule, and performance goals and include individuals with skills in project management, contract oversight, cost estimating, risk management, sustainability, scheduling, users, budgets, technical experts, information resource management, value management, and earned-value management—all of whom are dedicated to the project for its duration to maintain continuity and team accountability;
- develop sound cost estimates based on the Government Accountability Office's "Principles of Government Cost Estimating" and establish cost and schedule thresholds for when the project might have to be terminated; and
- ensure limited management layers between the project manager and senior managers with decision authority to ensure accountability and timely approvals that keep the project on schedule.[71]

The Palo Alto project fell short of these standards. VA did not adequately establish an effective integrated project team for the project, and the project did not have a termination threshold that,

[70] OMB's "Capital Programming Guide," dated June 2006, is a supplement to Part 7 of OMB Circular A-11, "Preparation, Submission, and Execution of the Budget," July 2007.

[71] GAO, *Cost Estimating and Assessment Guide: Best Practices for Developing and Managing Capital Program Costs*, GAO-09-3SP, March 2009.

if exceeded in either cost or schedule, would begin a formal review process to determine whether the project was still viable.

Had VA leaders established an integrated project team as OMB guidance required, the Palo Alto project would have had a written charter defining team members' roles and responsibilities and agreed-upon business practices. Changes to significant project requirements could have been analyzed more quickly by independent subject matter experts to ensure they did not threaten project viability. Clear lines of decision authority and business practices established by a written charter could have ensured processes to change requirements were consistent and that all parties were accountable to budget and schedule goals established in an OMB Exhibit 300. Instead, VA's decision to not establish an integrated project team contributed to its inability to manage project requirements and ensure the project was completed on time and within budget limitations.

VA Will Need Nearly $907.8 Million More from Congress to Complete the Palo Alto Project as Planned

The Palo Alto project was approved in FY 2009 at an original cost of $450.3 million to address three critical objectives at the medical center: mitigating seismic deficiencies, expanding ambulatory care programs at the tertiary care center, and constructing a polytrauma rehabilitation facility for complex multi-trauma combat injuries. As of February 2025, VA had spent almost a half-billion dollars in construction funds on the project. Of the originally approved scope, only the polytrauma rehabilitation facility and a parking garage were complete. Of the original six buildings planned for demolition, all but one are still standing. Meanwhile, the ambulatory care center's design and construction has remained on hold since summer 2022 when CFM instructed the US Army Corps of Engineers to pause all work. And VA will not be able to achieve the remaining two critical objectives without obtaining nearly $907.8 million in additional funding from Congress.

The associate executive director of CFM's Office of Design and Construction told the OIG team that the Palo Alto project should be reevaluated for viability because the official cost estimates submitted to OMB for approval had not been updated for the Secretary's review since 2011. In March 2024, CFM estimated that 2036 was the earliest VA could finish demolishing buildings, addressing electrical deficiencies, and constructing the ambulatory care center.[72] If completed by then, according to CFM, these activities would cost about $1.2 billion—bringing the total estimated project cost to $1.6 billion for all planned phases, as shown in table 2.

[72] CFM Cost Estimating Service, Construction Project Cost Estimate (Form 6227), March 7, 2024.

Table 2. Estimated Cost to Complete Project

Description	Cost
Project spending as of February 2025	$458,811,962
Estimated cost to construct the ambulatory care center and demolish nine buildings	$1,165,600,000
Total estimated cost	**$1,624,411,962**

Source: CFM.

Of the $716.6 million approved for this project in FY 2012, about $472.5 million had been appropriated. Of that appropriated amount, about $458.8 million had been spent as of February 2025. That leaves about $244.1 million of funding approved but not yet appropriated to the project.[73]

If project funding continues to be delayed, estimated project costs will continue to increase by an average of $74 million each year.[74] As of February 2025, the projected completion date of 2036 remained uncertain. To qualify for funding, the project had to be submitted in VA's FY 2026 budget request—yet, the Palo Alto VA Medical Center's board of directors has not prioritized the ambulatory care center, and no decision had been made on how to proceed with future budget requests needed to pay for the project.[75]

Federal agencies are required to keep OMB informed when major construction projects are not meeting their project goals or the investment does not justify continued funding.[76] Therefore, VA should communicate this information through its annual agency capital plan—which is included each year with the department's budget request. The OIG team reviewed VA's prior agency capital plan submissions and found VA has not updated OMB about the current cost estimate for the Palo Alto project.[77] In VA's FY 2025 budget request, its agency capital plan said the total estimated cost for the project was still $716.6 million—the amount Congress approved in FY 2012. VA must update its agency capital plan to reflect a realistic cost estimate for this project so that OMB and Congress can make informed decisions on whether to continue funding it.

[73] An authorization defines the authority of the government to act. An appropriation provides budget authority permitting a federal agency to incur obligations and make payments from the Treasury for specified purposes, usually during a specified period. Congressional Research Service, Authorizations and the Appropriations Process, May 16, 2023.

[74] The estimate of $73.7 million per year is the OIG's calculation based on schedule delay scenarios provided by CFM's cost estimation services.

[75] Project update from the CFM western regional director and director of project delivery on August 22, 2024.

[76] OMB Circular A-11, "Preparation, Submission, and Execution of the Budget," July 2007. OMB Circular A-11, "Preparation, Submission, and Execution of the Budget," July 2010.

[77] Agencies capital plans submitted from FY 2012 through FY 2025 all reflect a total estimated cost of $716.6 million.

Conclusion

The Palo Alto major construction project was originally intended to provide ambulatory care, polytrauma care, and seismic safety at the VA Palo Alto Health Care System. But inadequate governance has caused long-standing, serious issues with the project's cost, schedule, and scope. With continued delays, the cost to taxpayers will only escalate. To prevent further waste, VA leaders must take action to strengthen governance of this project.

Specifically, VA needs to bring the Palo Alto project into its Acquisition Program Management Framework to provide a strong governance structure, and VA needs to create an updated business case that demonstrates how the unfinished portions of the Palo Alto project address the department's strategic needs with cost, schedule, and performance goals—all of which must be approved by the Secretary. In addition, VA should also update its agency capital plan to reflect current and realistic cost estimates for the Palo Alto project, including documentation of how the project will meet its critical objectives. VA would avoid nearly $907.8 million in future unfunded expenditures if the department can no longer justify the project and decides to terminate it.

Recommendations 1–4

The OIG made the following recommendations to the VA Secretary:

1. Ensure the Palo Alto major construction project (project number 640-424) is brought into the Acquisition Program Management Framework.
2. Ensure the activities and artifacts required during the *verify* phase of the Acquisition Program Management Framework are completed for the Palo Alto major construction project (project number 640-424)—including a business case with cost, schedule, and performance goals approved by the Secretary.
3. Ensure a decision event to verify the need of the acquisition is conducted for the Palo Alto major construction project (project number 640-424) and a determination is made to terminate or continue this project based on VA's strategic needs and the VA Palo Alto Health Care System's clinical needs.
4. Ensure VA's FY 2025 Agency Capital Plan is revised to show the Palo Alto major construction project's current total estimated cost and the progress the project has made toward meeting its critical objectives.

VA Management Comments

The principal executive director of the Office of Acquisition, Logistics, and Construction, who also serves as chief acquisition officer, responded on behalf of the VA Secretary. VA concurred

with the OIG's recommendations and submitted an action plan for each. The full text of VA's comments appears in appendix F.

In response to recommendation 1, VA will formally incorporate the Palo Alto construction project in the Acquisition Lifecycle Framework once a budget year has been identified. In response to recommendation 2, VA will ensure the activities and artifacts required during the *conceptual* phase of the Acquisition Lifecycle Framework are completed, including a business case with cost, schedule, and performance goals approved by the Secretary. In response to recommendation 3, VA will schedule a decision event with VA leaders when the required documentation is complete. The principal executive director did not provide completion dates for these recommendations but stated that recommendation 3 would be "ongoing" as it will be evaluated annually as VA's Five Year Development Plan is developed. The principal executive director requested closure for recommendation 4 and provided evidence supporting this request.

OIG Response

The principal executive director's comments and planned corrective actions are responsive to the intent of the recommendations. The OIG reviewed the FY 2026 Five Year Development Plan which shows a total estimated cost of about $1.6 billion, with a future need of approximately $1.1 billion. Based on this new information, the OIG considers recommendation 4 closed. The OIG will monitor execution of planned actions and will close the recommendations when the department provides sufficient evidence demonstrating progress addressing the issues identified.

The principal executive director also provided nine technical comments to improve the language of this report. Those technical comments were addressed by revisions in the report, with the following exceptions.

In two technical comments VA claimed to have evidence refuting the OIG's assertion that VA did not submit an original or updated business case for the FY 2009 and FY 2012 budget cycles. During those budget cycles, OMB required agencies to provide notice through an OMB Exhibit 300 to establish the baseline of any capital project or when making significant changes to the baseline. OMB further required approval from the VA Secretary.

The principal executive director provided two documents to the OIG. The first was a memo from the assistant secretary for management dated October 31, 2008, recommending the VA Secretary approve distribution of additional FY 2009 funding for several projects, including the Palo Alto project. This memo did not provide evidence that the Secretary communicated the project's baseline to OMB. The second document was a draft memo from the Secretary to the acting director of OMB. This document was clearly a draft, as evidenced by notes and edits showing in the "track changes" view of the Microsoft Word document. This draft did not provide evidence that the Secretary communicated the project's baseline to OMB.

Another technical comment suggested that all references to the Acquisition Program Management Framework be updated to reflect the new VA policy known as the Acquisition Lifecycle Framework. However, when the draft of this report was provided to VA for review and comment on May 14, 2025, the Palo Alto project had not been onboarded to either the Acquisition Program Management Framework or the Acquisition Lifecycle Framework. On August 14, 2025, the review team confirmed with the Acquisition Lifecycle Framework director of the Office of Acquisition, Logistics, and Construction that no official implementation guidance for the Acquisition Lifecycle Framework had been issued across VA and that no major construction projects, including the Palo Alto project, were onboarded under this framework at that time.

Appendix A: Palo Alto Project Phases

Following the fiscal year (FY) 2012 budget request, VA formed a plan to approach the Palo Alto project in multiple phases, as summarized in table A.1 and explained below. These cost details were derived from a combination of the VA Office of Inspector General (OIG) team's analysis of contract files, financial data, and a project status report that covered phases 1A through 2F.[78]

Table A.1. Phased Approach to Palo Alto Major Construction Project

Phase	Description	Award cost	Actual cost	Start Construction	Complete construction
1A	Temporary blind center (Temp Modular Bldg. Complex, Menlo Park)	$10.5 million	$11.1 million	September 2009	November 2011
1B	Site utility development	$8.3 million	$9.5 million	March 2010	December 2011
1C	Parking structure 1 (600-car parking garage)	$98.8 million	$131.2 million	January 2012	September 2013
1D	Demolish buildings 48 and 2C wing			January 2012	August 2012
1E	Polytrauma/blind rehabilitation center			January 2012	April 2017
2A	Loop road and site utilities	$111.2 million	$132.6 million	September 2014	June 2019
2B	Radiology consolidation			September 2014	June 2019
2C	Parking structure 2 (750-car parking garage)			September 2014	November 2016
2D	Recreational therapy	$19.9 million	$23.2 million	March 2014	February 2019
2E	Research and veterinary medicine unit	$95.2 million	$117.2 million	July 2016	September 2019

[78] CFM Project Status Report, "FY19 Quarter 1 VHA Program Level CFM Projects: Centers for Ambulatory Care / Polytrauma-Blind Rehab," 2019.

Phase	Description	Award cost	Actual cost	Start Construction	Complete construction
2F	Ambulatory care center and seismic work	TBD	TBD	TBD	TBD

Source: Cost information and construction start dates obtained from OIG analysis of contract files and general ledger data. Construction completion dates obtained from a project status report from the Office of Construction and Facilities Management (CFM).

Note: Amounts in table are rounded to the nearest $100,000 (or 0.1 million).

Temporary Blind Center (Phase 1A)

This phase was for the construction of a 42,000-square-foot pre-engineered temporary modular building at the Menlo Park Division of the VA Palo Alto Health Care System to house patients and staff temporarily in anticipation of the demolition of building 48.

Site Utility Development (Phase 1B)

This phase included upgrading site utility infrastructure, such as a water tank, chiller building, and electric generator building.

Parking Structure 1 (Phase 1C)

This phase was for constructing a new 600-car parking structure on four levels. Once completed, the parking structure—and the one built as part of phase 2C—made available enough parking to allow the medical center to terminate its off-site parking lease and shuttle contracts.

Demolish Buildings 48 and 2C Wing (Phase 1D)

This phase was for demolishing building 48 and the C-wing of building 2. Both buildings are in the highest seismic zone in the United States and were determined to be either exceptionally high risk or functionally deficient.

Polytrauma/Blind Rehabilitation Center (Phase 1E)

This phase included building a new 174,000-square-foot polytrauma and blind rehabilitation center to consolidate all Palo Alto inpatient and outpatient rehabilitation programs into a rehabilitation center to treat patients diagnosed with complex multi-trauma injuries including traumatic brain injury and vision impairment.

Loop Road and Site Utilities (Phase 2A)

This phase included additional site utility upgrades and installation of a new thermal energy storage tank.

Radiology Consolidation (Phase 2B)

This phase included adding a two-level radiology wing to building 100 by adding 34,000 square feet of new construction and renovating 13,000 square feet of existing space.

Parking Structure 2 (Phase 2C)

This phase was for the construction of a new 750-car parking structure on five levels with three elevators.

Recreational Therapy (Phase 2D)

This phase was for construction of a new 26,734-square-foot outpatient recreational therapy building adjacent and attached to the aquatic center.

Research and Veterinary Medical Unit (Phase 2E)

This phase consolidated all the research activities into a new 95,000-square-foot, two-story research and veterinary medical unit building. Also included in this phase was a utility level of about 31,000 square feet and a loading dock.

Ambulatory Care Center and Seismic Work (Phase 2F)

This unfinished phase is for the construction of an approximately 290,000-square-foot ambulatory care center. This building will consolidate nearly all outpatient ambulatory care clinics in the Palo Alto and Menlo Park divisions into a single treatment facility. The demolition of buildings 102, 4, 5, 54, MB1, MB2, MB3, and MB4 also remains to be completed.

Table A.2. illustrates the timeline for the Palo Alto major construction project.

Table A.2. Timeline for Palo Alto Major Construction Project

Date	Description
January 2007	Project identified as highest priority in Veterans Integrated Service Network 21
June 2008	$164.9 million appropriated by Congress
August 2008	Architectural and engineering firm began design
September 2008	Initial budget request approved for $450.3 million by Congress
September 2009	Temporary blind center construction started
March 2010	Site utility development construction started
April 2011	$54 million appropriated by Congress
July 2011	Budget request increased by $266.3 million to $716.6 million
October 2011	Revised budget request for $716.6 million approved by Congress
November 2011	Temporary blind center construction completed

Date	Description
December 2011	$75.9 million appropriated by Congress
December 2011	Site utility development construction completed
January 2012	Construction on parking structure 1 started
January 2012	Construction on polytrauma and blind rehabilitation center started
January 2012	Demolition of buildings 48 and 2C started
August 2012	Demolition of buildings 48 and 2C completed
March 2013	$177.8 million appropriated by Congress
September 2013	Parking structure 1 construction completed
October 2013	Ambulatory care center design work stopped by architectural and engineering firm
April 2014	Construction of recreational therapy started
September 2014	Construction on loop road and site utilities started
September 2014	Parking structure 2 construction started
September 2014	Radiology consolidation construction started
February 2016	Strategic utilities infrastructure systems plan completed
May 2016	Patient aligned care team study completed
July 2016	Construction on research and veterinary medicine unit started
September 2016	Project manager identified need for an additional $50.4 million
November 2016	Parking structure 2 construction completed
April 2017	Polytrauma and blind rehabilitation center construction completed
February 2019	Recreational therapy construction completed
June 2019	Loop road and site utilities construction completed
June 2019	Radiology consolidation construction completed
August 2019	Ambulatory care center design work resumes
September 2019	Research and veterinary medicine unit construction completed
December 2019	Ambulatory care center realignment study completed
June 2020	The US Army Corps of Engineers is designated the construction agent of the ambulatory care center, partnering with CFM
August 2021	Architectural and engineering firm completes the project book for the ambulatory care center
August 2021	The project manager identifies need for an additional $459.8 million
September 2021	Ambulatory care center funds removed from operating plan, and VA could not proceed with design
June 2022	Palo Alto Health Care System officials and officials with a local university met at the Palo Alto campus to discuss potential opportunity

Date	Description
September 2022	CFM instructed the US Army Corps of Engineers to stop work on the ambulatory care center with a “project pause”
January 2023	The contract with the architectural and engineering firm was closed; CFM anticipated a university partnership under the Communities Helping Invest through Property and Improvements Needed for Veterans Act of 2016
March 2023	A nonbinding memorandum of understanding signed between Palo Alto Health Care System and the university
March 2024	CFM identified the need for an additional $1.1 billion to complete planned work
April 2024	The university could not proceed with ambulatory care center project at the Palo Alto campus

Source: Comprehensive documentation provided by CFM, representing the extensive body of evidence assessed throughout the VA OIG review.

Appendix B: Scope and Methodology

Scope

The VA Office of Inspector General (OIG) team conducted its work from November 2023 through May 2025. The OIG team reviewed VA's Ambulatory Care and Polytrauma Major Construction Project No. 640-424 at VA's Palo Alto campus in California.

Methodology

To accomplish the objective of the review, the OIG team performed the following steps:

- Reviewed relevant laws, regulations, policies, procedures, and guidance that govern major construction projects.
- Visited the Palo Alto medical campus to verify the demolition and construction of project buildings.
- Interviewed facility staff, project officials, and contracting officials to gather information on project scope changes, cost increases, and schedule delays.
- Reviewed specific contract modifications to identify the reasons behind scope changes, cost increases, and construction schedule delays.
- Examined and analyzed project documentation, requesting clarifications or more information when necessary.

Internal Controls

This review of the Palo Alto major construction project was performed using Council of the Inspectors General on Integrity and Efficiency standards, which did not require an initial assessment of the internal controls. However, during the review, the team found that the Palo Alto major construction project did not implement an acquisition framework that would have provided an effective governance structure, as required per VA policy.[79]

The team assessed internal controls to determine whether they were significant to the review's objective. This included consideration of the five internal control components: control environment, risk assessment, control activities, information and communication, and monitoring.[80] In addition, the team reviewed the principles of internal controls as associated with

[79] VA Handbook 7402, *VA Acquisition Program Management Framework (APMF) Procedures*, June 2, 2017.

[80] Government Accountability Office (GAO), *Standards for Internal Control in the Federal Government*, GAO-14-704G, September 2014.

the objective and identified four components and five principles as significant.[81] The team identified internal control deficiencies during this review and proposed recommendations to address those listed in table B.1.

Table B.1. VA OIG Analysis of Internal Control Components and Principles Identified as Significant

Component	Principle	Deficiency identified by this report
Control environment	2. The oversight body should oversee the entity's internal control system.	VA could implement the existing Acquisition Program Management Framework policy to provide better oversight of Palo Alto's major construction project.
	5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.	VA could better enforce accountability by ensuring all the required documentation is complete and accurate and appropriately approved and fully supports day-to-day decision-making.
Risk assessment	7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.	VA officials could better assess and appropriately respond to risks associated with the project if complete and accurate information is collected and communicated.
Information and communication	13. Management should use quality information to achieve the entity's objectives.	VA officials could implement the existing Acquisition Program Management Framework policy and ensure the appropriate documentation is obtained and fully supports the agency's objectives.
Monitoring	16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.	VA officials could implement their existing policies to provide adequate governance of the major construction program to ensure baselines are established to allow sufficient monitoring of the program/project.

Source: VA OIG analysis of internal control components and principles. The principles listed are consistent with the GAO's Standards for Internal Control in the Federal Government.

Data Reliability

The OIG team tested the reliability and the accuracy of the data systems used to obtain initial project financial information, which was pulled using VA's electronic contract management system MicroStrategy reporting tool. To verify reliability, the team reconciled the amounts obtained via MicroStrategy to the actual scanned documentation available in VA's electronic

[81] Because the review was limited to the internal control components and underlying principles identified, it may not have disclosed all internal control deficiencies that could have existed at the time of this review.

contract management system and to VA's Accounting System, the Financial Management System.

The OIG team could not reconcile the amounts obtained from the MicroStrategy data pull to scanned source documentation for only three of the 171 transactions reviewed, which indicates a greater than 98 percent accuracy in the data. Additionally, the OIG team reconciled the material contracts associated with this Palo Alto project to VA's Accounting System and found that the variances noted between the two datasets were less than 1 percent. Therefore, the OIG team determined that the financial data obtained from VA's electronic contract management system are sufficiently reliable to meet the review's 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: Offices Responsible for Major Construction

Figure 1 of this report introduced the various VA offices involved with the major construction process. This appendix provides more details for each.

VA Secretary

The Secretary is responsible for providing medical facilities for veterans entitled to medical care.[82] To carry out this responsibility, the Secretary has the legal authority to "construct or alter any medical facility … as the Secretary considers necessary."[83] All proposed project changes—including for space and cost—greater than 10 percent require the Secretary's approval.

Office of Acquisition, Logistics, and Construction

The principal executive director of the Office of Acquisition, Logistics, and Construction serves as VA's chief acquisitions officer. This office oversees VA's major construction program, serves as the primary adviser on construction-related items, and manages the progress of specific construction projects.[84]

Office of Construction and Facilities Management

The position of executive director of the Office of Construction and Facilities Management (CFM) is established by federal law, and the individual appointed to the position is responsible for overseeing and managing the planning, design, construction, and operation of facilities and infrastructure of VA, including major and minor construction projects.[85] The executive director's responsibilities include

- developing and updating short-range and long-range strategic capital investment strategies and plans for VA;
- overseeing planning, design, and construction of facilities for VA including determining architectural and engineering requirements and ensuring compliance with applicable laws relating to VA's construction program;
- managing the short-term and long-term leasing of VA's real property;

[82] 38 U.S.C. § 8102(a).

[83] 38 U.S.C. § 8103(a)(1).

[84] VA Directive 4085, *Capital Asset Management*, December 2, 2020.

[85] VA Office of Construction and Facilities Management, "Construction Management Program Guide for Resident Engineers for Projects Exceeding $100 million," September 28, 2018.

- overseeing repair and maintenance of VA facilities including custodial services, building management and administration, and maintenance of roads, grounds, and infrastructure; and
- managing procurement and acquisition processes relating to the construction and operation of VA facilities, including the awarding of contracts related to design, construction, furnishing, and supplies and equipment.[86]

For the Palo Alto major construction project and under the acquisition framework, the executive director of CFM would be the program decision authority.

Project Manager

Major construction projects are assigned a project manager who reports to one of the CFM regional offices. The project manager is accountable for the progress of all projects to which they are assigned. The project manager coordinates with VHA, is accountable to CFM leaders for successful completion of the project, and supports engineers in the day-to-day administration of construction projects.[87]

Resident Engineer

A resident engineer is the government's representative at the project site and is responsible for administering the contract, inspecting work, protecting the government's interests, and ensuring minimal interference with the operation of the VA facility during contract work.[88] The resident engineer represents the contracting officer and is responsible for obtaining compliance with contract requirements. In general, the resident engineer helps promote the progress of the construction contract without assuming the responsibilities of the contractor.

The senior resident engineer is the lead resident engineer at the project site and is responsible for managing the resident engineer office and staff.[89] The senior resident engineer not only is responsible for administering the construction contract but also is the first-line supervisor at the site; they assign and evaluate the work of the resident engineer staff. The senior resident engineer coordinates work between contractors and operating staff at the VA facility.

[86] 38 U.S.C. § 312A.

[87] VA Office of Construction and Facilities Management, "Construction Management Program Guide for Resident Engineers for Projects Exceeding $100 million," September 28, 2018.

[88] VA Office of Construction and Facilities Management, "Construction Management Program Guide for Resident Engineers for Projects Exceeding $100 million," September 28, 2018.

[89] VA Office of Construction and Facilities Management, "Construction Management Program Guide for Resident Engineers for Projects Exceeding $100 million," September 28, 2018.

Assistant Secretary for Management and Chief Financial Officer

The assistant secretary for management and chief financial officer advises the Secretary on strategic capital planning matters and provides broad guidance to the executive director of the Office of Asset Enterprise Management (OAEM) about implementing capital planning requirements.[90]

Office of Asset Enterprise Management

OAEM has overall responsibility for providing oversight and advice for VA's capital assets. The office's primary purpose is to ensure all viable capital asset investment and divestment options have been explored. The office serves as the principal policy office and business adviser to the assistant secretary for management and the Secretary in selecting and executing capital investments, sustainability planning, overseeing real property leases, and planning for real property asset disposal.[91] The executive director of OAEM oversees the capital asset arena to ensure a consistent and cohesive departmental approach to capital asset portfolio management; they produce VA's long-range action plan and associated congressional budget request.

Furthermore, this office manages the Strategic Capital Investment Planning process, which is governed by both a panel and a board comprising VA officials representing each of the staff offices and administrations that have substantive interests in the outcomes of capital decisions. The OAEM executive director and the CFM executive director co-chair the Strategic Capital Investment Planning Board. Together they are responsible for overseeing and managing the Strategic Capital Investment Planning process across VA, identifying resources and requirements necessary for such operations, and communicating those requirements to VA leaders. The board provides final recommendations on major criteria and project selections for the Secretary's approval.[92]

VHA Office of Capital Asset Management

VHA's Office of Capital Asset Management provides guidance, oversight, and technical support for VHA's capital asset management and associated initiatives. This office develops budget requests for construction programs, provides engineering support to VHA medical centers, and oversees VHA's submissions under the Strategic Capital Investment Planning process. This office implements a web-based automation tool that merges all elements of the capital investment management life cycle into a single, cohesive system, including integration between

[90] VA Directive 4085.

[91] VA Functional Organization Manual, Version 8, Volume 2: Staff Offices, 2023.

[92] The board consists of eight senior executives including one individual from each of the following organizations: Office of Management; Office of Enterprise Integration; VHA; Veterans Benefits Administration; National Cemetery Administration; Office of Information and Technology; Office of Human Resources and Administration/Operations; and Office of Acquisition, Logistics, and Construction.

investment phases. The automation tool is used to evaluate VA's infrastructure and defined service gaps; develop a 10-year action plan for remediating gaps; create business cases; score and consolidate investments into a single, integrated weighted project list; support the creation of the real property capital budget; and manage investments by tracking the actual operational execution of funded projects.

Veterans Integrated Service Networks

VHA operates a nationwide network of medical centers, divided into 18 regional Veterans Integrated Service Networks (VISNs). VHA field staff participate in the early planning and preparation of Strategic Capital Investment Planning project requests with the Office of Capital Asset Management. Each VISN's capital asset manager is responsible for developing, coordinating, and validating construction projects in the VISN.

Both VHA and a VISN's capital asset manager work together to develop project requests for approval with the intent to ensure the best-informed and responsive concepts of operation and budget year project submissions, high-fidelity project plans, clear project requirements and controls, and minimization of rework. In VHA, the VISN planners and capital asset managers work collaboratively with Healthcare Environment and Facilities Programs throughout the process.

Appendix D: Acquisition Program Management Framework

This appendix offers a more detailed description of each of the phases in the acquisition framework (shown in figure D.1): preacquisition framework, *verify*, *initiate*, *obtain*, *deploy*, and *operate and maintain*.

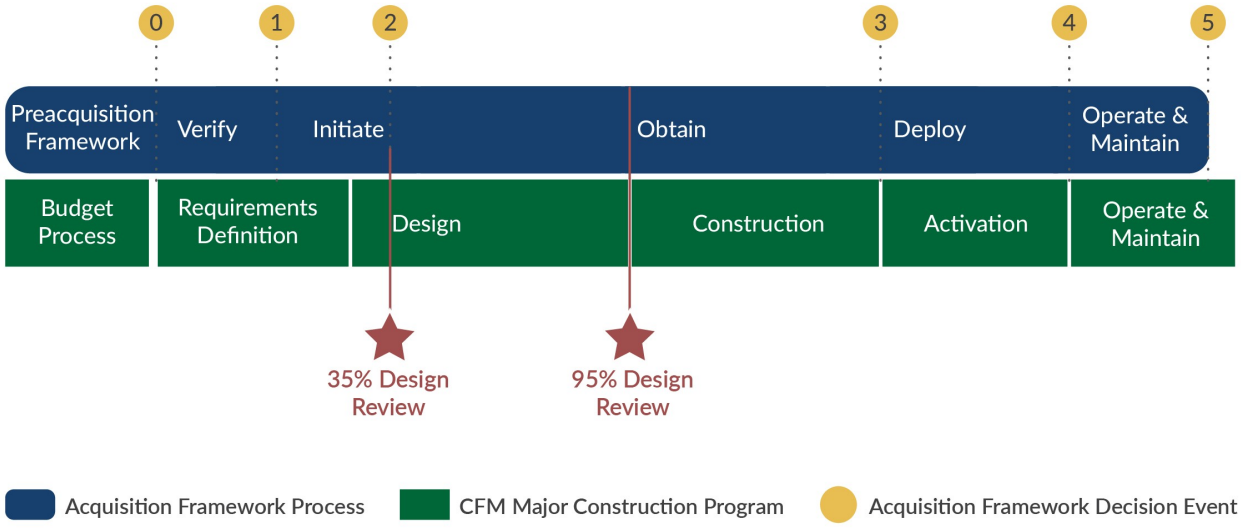

Figure D.1. *Acquisition Program Management Framework for major construction projects.*
Source: VA Handbook 7402.

Preacquisition Framework Phase

In this phase, VA identifies a program that is needed to fill a capability gap. Each administration (Veterans Health Administration, Veterans Benefits Administration, and National Cemetery Administration) identifies its own future infrastructure needs and submits business cases into the Strategic Capital Investment Planning process.[93] Each business case submission must include a project justification that addresses how the proposed capital investment would improve delivery of services and benefits, care for future infrastructure needs, and improve efficiency of operations by increasing cost-effectiveness. Business cases are then reviewed, prioritized, and submitted by the Office of Asset Enterprise Management in the annual budget request.

During this phase, the following individuals are appointed for a project:

[93] The Strategic Capital Investment Planning process identifies capital projects over a 10-year planning horizon to address performance gaps in various areas: safety, security, use, access, seismic risk, facility condition, space, parking, and energy. The process includes a formal executive review and is approved by the VA Secretary to ensure the plan closely aligns with the department's strategic goals and mission.

- **The program decision authority**. For acquisitions greater than $100 million in a single year, the program decision authority is VA's principle executive director of the Office of Acquisition, Logistics, and Construction. For acquisitions between $10 million and $100 million in a year (as in the case of the Palo Alto major construction project), the executive director of the Office of Construction and Facilities Management (CFM) fills this role.[94]
- **The acquisition program manager**. This operational management role is assumed by a representative from the business office in VA that is sponsoring the acquisition program and expressing its requirements or the office designing, developing, and delivering the capability (CFM). Based on the Acquisition Program Management Framework handbook, the project manager should have fulfilled this role for the Palo Alto project.
- **The business program manager**. This operational management role is assumed by a representative from the business office in VA that is sponsoring the acquisition program and dictating its requirements. No official was formally identified for this role in the Palo Alto project.

Furthermore, during this phase the following artifacts must be developed:[95]

- **A capability shortfall assessment** to define the capability gap, align the shortfall to a VA strategic goal, and consider alternative solutions.
- **A strategic statement of need** to formally describe the need required to address a capability shortfall and state the need in terms that allow for alternative capabilities to be considered in the business case.
- **A business case** to justify an acquisition program based on an analysis of alternative capabilities including a comparison of benefits, costs, and risk.
- **A program entrance memorandum** to request approval from the program decision authority for a project to enter the acquisition framework by verifying that all preacquisition framework activities have been completed.

This phase culminates in what is called a decision event—where the business program manager briefs the program decision authority on the acquisition program's artifacts, funding, and previously completed work to justify and resource the project and to demonstrate that the project is prepared to enter the acquisition framework and begin execution.

[94] VA Handbook 7402, *VA Acquisition Program Management Framework (APMF) Procedures*, June 2, 2017.
[95] VA Handbook 7402.

Verify

Once the Strategic Capital Investment Planning business case and a preliminary budget are developed, CFM will work with the VHA business program manager to define the requirements of the project.[96] Once the requirements are developed, a project book is published that defines the scope of work, assesses risks, determines the site conditions, provides environmental assessments, and offers an initial cost and schedule for the project. The construction cost estimate serves as the basis for the congressional budget request. The project book analysis is done under a separate contract from the contract with the architect and engineer of record. When the project book is completed, the program decision authority reviews the project to determine whether the project is ready to proceed to the next phase. This review is known as decision event 1, as shown in figure D.1.

Initiate

During this phase, CFM hires an architectural and engineering firm to work with VHA to explore all feasible design alternatives that satisfy the project requirements. Service representatives at the facility discuss their internal operations and interrelationships to other services with the architectural and engineering firm. The facility's planner works to ensure the project's technical aspects meet the facility's needs. The architectural and engineering firm takes this information and produces schematic drawings for the medical center director to consider. This is considered the "35 percent design" solution. At the conclusion of this phase the program decision authority reviews the project to determine whether it is ready to move to the next phase.[97] This review is decision event 2, as shown in figure D.1.

Obtain

During this phase the selected schematic design is refined to the point that no further functional decisions are required by VHA. Typically, CFM's project manager brings the design team together at the facility.[98] The facility planner and their staff work with the project manager to verify that technical aspects of the project meet the facility's needs. Service directors are asked to review the plans for functionality. After all parties agree on the design, the architectural and engineering firm begins to prepare the construction documents—which include completed drawings and specifications for bidding and constructing the project. At this point in the project, the design is considered ready to advertise to potential contractors for construction. At this point,

[96] A requirement is a desired capability (for example, a product or service) necessary for accomplishing the organization's mission, goals, or objectives. VA Handbook 7402.

[97] VA Handbook 7402.

[98] The design team consists of facility staff, the selected architectural and engineering firm, and CFM.

the design is considered "95 percent" complete, and the project is once again reviewed by the program decision authority as decision event 3, as shown in figure D.1.

CFM then solicits bids for construction contractors, chooses one, and begins construction. During construction, a senior resident engineer is assigned to administer the construction contract. The senior resident engineer monitors the daily activities of the contractor, coordinates construction activities with facility engineers, and provides periodic updates to the facility director. Requests to modify the project during the construction phase are approved by the facility director and sent to the project manager or senior resident engineer, who notifies the CFM regional office director of their findings along with a recommended course of action.

Deploy

When construction is nearly complete, the project manager, the senior resident engineer, the architectural and engineering firm, medical facility managers, and the contractor review the final construction to verify that capability requirements and expected outcomes have been achieved before the project is turned over to the medical facility.[99] This is decision event 4 and requires program decision authority review and approval before moving to next phase, as shown in figure D.1.

Operate and Maintain

During this phase, VHA continues to operate and maintain the building while monitoring its performance and value until the building is eventually retired.[100]

[99] VA Handbook 7402.

[100] VA Handbook 7402.

Appendix E: Monetary Benefits in Accordance with Inspector General Act Amendments

Recommendation	Explanation of Benefits	Better Use of Funds	Questioned Costs[101]
2	Project costs not supported by the Office of Management and Budget's Exhibit 300 submission	$0	$716,600,000
3	Avoidance of unfunded future project expenses if continued project funding cannot be justified	$907,811,962	$0
	Total	**$907,811,962**	**$716,600,000**

[101] The VA Office of Inspector General (OIG) questions costs when VA action or inaction (such as spending or failing to fully compensate eligible beneficiaries) is determined by the OIG to violate a provision of law, regulation, contract, grant, cooperative agreement, or other agreement; when costs are not supported by adequate documentation; or when they are expended for purposes that are unnecessary or unreasonable under governing authorities. Within questioned costs, the OIG must, as required by section 405 of the Inspector General Act, report unsupported costs. Unsupported costs are those determined by the OIG to lack adequate documentation at the time of the review, which in the case of this review is $716.6 million approved for the Palo Alto project since VA did not submit OMB Exhibit 300s with its fiscal year (FY) 2009 or FY 2012 budget request to justify the need for the funding.

Appendix F: VA Management Comments Office of Acquisition, Logistics, and Construction

Department of Veterans Affairs Memorandum

Date: July 18, 2025

From: Principal Executive Director, Office of Acquisition, Logistics, and Construction (003) and Chief Acquisition Officer

Subj: Office of Inspector General (OIG) Draft Report: Report Weak Governance Threatens the Viability of a Major Construction Project at the Palo Alto Medical Center in California (Project # 2023-03189-AE-0124) (VIEWS 13201095)

To: Inspector General (50)

1. The Office of Acquisition, Logistics, and Construction (OALC) has completed its review of the subject OIG draft report. OALC concurs with all findings and recommendations and will take the actions outlined in the attached implementation plan. Additionally, OALC is requesting closure of recommendation 4.

The OIG removed point of contact information prior to publication.

(Original signed by)

Phillip W. Christy

Attachment

Attachment

Office of Acquisition, Logistics, and Construction (OALC)

Weak Governance Threatens the Viability of a Major Construction Project

at the Palo Alto Medical Center in California

Project #2023-03189-AE-0124

July 2025 Implementation Plan

Recommendation 1: The VA Secretary should ensure the Palo Alto major construction project (project number 640-424) is brought into the Acquisition Lifecycle Framework.

VA Comments: Concur. Palo Alto major construction project, 640-424, will be formally incorporated into the Acquisition Lifecycle Framework (ALF) once a requested budget year has been identified. At that time, the project will follow the established processes and oversight mechanisms in alignment with the Department of Veterans Affairs (VA) acquisition and capital asset management policies. The Ambulatory Care Center (ACC) phase of this project is currently in the conceptual phase within ALF.

Status: On Hold Target Completion Date: TBD

Recommendation 2: The VA Secretary should ensure the activities and artifacts required during the conceptual phase of the Acquisition Lifecycle Framework are completed for the Palo Alto major construction project (project number 640-424)—including a business case with cost, schedule, and performance goals approved by the Secretary.

VA Comments: Concur. Palo Alto major construction project, 640-424 ACC Phase, is currently in the conceptual phase of the ALF process. The documentation required, to include the business case containing cost, schedule, and performance goals, are currently underway. Once complete, these will be included during the conceptual stage.

Status: On Hold Target Completion Date: TBD

Recommendation 3: The VA Secretary should ensure a decision event to verify the need of the acquisition is conducted for the Palo Alto major construction project (project number 640-424) and a determination is made to terminate or continue this project based on VA's strategic needs and the VA Palo Alto Health Care System's clinical needs.

VA Comments: Concur. Palo Alto major construction project, 640-424 is currently in the conceptual phase of the ALF process. Once the documentation required is complete, a Milestone Decision Event (MDE) will be scheduled with VA leadership.

(1) MDE-A. An acquisition program must demonstrate that it aligns to a VA strategic goal, has been allotted funding, has completed required program artifacts, and has met other MDE-A exit criteria, in accordance with Section 11(b) in this Handbook.

Status: Evaluated yearly in the Five Year Development Plan (FYDP) development.

Target Completion Date: Ongoing

Recommendation 4: The VA Secretary should ensure VA's FY 2025 Agency Capital Plan is revised to show the Palo Alto major construction project's current total estimated cost and the progress the project has made toward meeting its critical objectives.

VA Comments: Concur. The 2025 FYDP, as submitted in the 2025 Budget Submission, reflected the updated cost in the VA Long Range Capital Plan (see the attached page 6.2-20). VA will continue to carry approved, escalated costs for the remaining project work until the ACC project is ready for consideration at which time cost and schedule of the project will be updated and the procurement brought into the ALF process. VA requests closure of this recommendation based on the evidence provided.

[Attachment removed before publication.]

Status: Completed Target Completion Date: Completed March 2024.

OALC Technical Comments

OALC concurs with the overall findings of the OIG Draft Report and provides the following additional comments for OIG's information and incorporation in the report as pertinent.

Pages	OALC Comments
30-31	Table A.1 It appears this chart is from 2019 so the total actual costs (all contracts and spending on the phase) do not align with end of February 2025 total obligations by phase. 1A = $11.1M 1B = $9.5M 1C,D,E = $131.2M 2A,B,C = $132.6M 2D = $23.2M 2E = $117.2M Overview/No Phase = $34.0 Total = $458.8M that represents other parts of the paper as the total amount spent.
ii	Section "What the review found" continued from page i. There is no expenditure of $716.6 million on the Palo Alto project to date. As stated on page i, fourth paragraph, this project has only obligated $472.5 million and expended $458.8 million.
ii	Section "What the OIG Recommended" The 2025 Capital Plan is completed and submitted with the 2025 Budget Submission. The current estimated project cost was included in the FY 2025 Capital Plan's Five-Year Development Plan (FYDP) on page 6.2-20.
1	Section "Introduction" Suggest changing wording from authorized to approved. For major construction projects, authorization has a specific connation in conjunction with 38 U.S.C. § 8104 requirements. The original authorization for Palo Alto was provided in FY 2008 supplemental appropriation under Public Law 110-28.
2	Footnote 8. The SCIP acronym does not include process. Please update to "8. This process is called the Strategic Capital Investment Planning (SCIP) process."
10	Section "Finding" Project funding and authorization in 2008 was only focused on the polytrauma portion of the project. The remaining phases were approved in the 2012 appropriation (P.L. 112-74) and authorization (P.L. 112-37).
12	Section "VA Did Not Submit an Original or Updated Business Case" continued from page 11:

	SECVA approval of 2009 appropriation allocation, including Palo Alto polytrauma funding provided in 2008 provided below acknowledges that SECVA was aware of project cost. [Attachment removed before publication.]
12	Section "VA Did Not Submit an Original or Updated Business Case" continued from page 11: See the FY 2012 Office of Management and Budget's draft submission letter reviewed by SECVA that includes Palo Alto Text and PowerPoint provided as part of the internal budget process for VA Executive Board decision reflecting Palo Alto project cost. Attached documents below provided: Word document: 2010 09 13-28 2012 Budget OMB Transmittal Letter_044 edits; and PowerPoint document: Tab 1 SECVA Pre-Brief VAEB Decision_9_22-2010 v2 (slide 10). [Attachments removed before publication.]
Throughout the Draft Report	All references to the Acquisition Program Management Framework (APMF) should be revised to reflect the new VA policy referred to as the Acquisition Lifecycle Framework (ALF) throughout the OIG Draft Report including footnote references. All references to the Acquisition Program Management Framework (APMF) in the recommendation narratives 1-4 should be revised to reflect the Acquisition Lifecyle Framework (ALF). All references to the "Verify Phase" of the APMF should be revised to the "Conceptual Phase" of ALF including the recommendation narratives 1-4.

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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