VA Office of Inspector General

OFFICE OF AUDITS AND EVALUATIONS

# Department of Veterans Affairs

*Review of Management of Health Care Center Leases*

**October 22, 2013**
**12-04046-307**

# ACRONYMS AND ABBREVIATIONS

| | |
|---|---|
| HCC | Health Care Center |
| OALC | Office of Acquisition, Logistics, and Construction |
| CFM | Office of Construction and Facilities Management |
| OIG | Office of Inspector General |
| RPS | Real Property Service |
| VA | Veterans Affairs |
| VHA | Veterans Health Administration |
| VISN | Veterans Integrated Service Network |

# Report Highlights: Review of VA's Management of Health Care Center Leases

## Why We Did This Review

In June 2012, the House Committee on Veterans' Affairs expressed concerns regarding VA's management of seven Health Care Center (HCC) leases. Public Law 111-82 authorized about $150.1 million for HCC facility activations. We conducted this review to determine if VA effectively managed timeliness and costs in the HCC lease procurement process.

## What We Found

VA's management of timeliness and costs in the HCC lease procurement process has not been effective. As of August 2013, only four of seven leases had been awarded and no HCCs had been built, despite VA's target completion date of June 2012. This occurred because the HCCs were a new initiative and guidance was not available for planning leases of this magnitude.

VA did not meet the milestones it established for HCC activation and occupancy in spite of providing Congress with an aggressive project schedule. Given the lack of progress to date and the inadequate planning documentation, it will take far more time than Congress anticipated for VA to award and activate the seven leases.

Further, VA could not provide accurate information on HCC spending into April 2013; officials provided various estimates, from about $4.6 million to $5.1 million, on costs to prepare for HCC lease awards. According to VA officials, central cost tracking was not in place to ensure transparency and accurate reporting on all HCC expenditures. Until effective central cost tracking is instituted, expenditures to acquire the leases will not fully be accounted for. VA also will not have reasonable assurance of accuracy in reporting total HCC costs to Congress.

## What We Recommended

We recommended the Principal Executive Director, Office of Acquisition, Logistics, and Construction, and the Under Secretary for Health:

- Establish adequate guidance for management of the procurement process of large-scale build-to-lease facilities.
- Provide realistic and justifiable timelines for HCC completion.
- Ensure HCC project analyses and key decisions are supported and documented.
- Establish central cost tracking to ensure transparency and accurate reporting on HCC expenditures.

## Agency Comments

The Principal Executive Director, Office of Acquisition, Logistics, and Construction, and the Under Secretary for Health concurred with our recommendations. We consider the corrective action plans they submitted acceptable and will follow up on their implementation.

Linda A. Halliday

LINDA A. HALLIDAY
Assistant Inspector General
for Audits and Evaluations

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# INTRODUCTION

***Objective***

The VA Office of Inspector General (OIG) performed this review to determine whether VA effectively managed the lease procurement process for seven Health Care Centers (HCCs) authorized by Public Law 111-82. We focused on timeliness and costs in the HCC lease procurement process.

***Health Care Centers***

An HCC is a large-scale outpatient clinic positioned to provide all the medical services of a hospital, excluding inpatient beds. Inpatient services are provided by VA Medical Centers or affiliated providers. The Veterans Health Administration (VHA) proposed HCC leases as alternatives to undertaking major construction projects aimed at addressing major facility capital needs and patient workload requirements. HCC lease procurements are the joint responsibility of VHA and the Office of Construction and Facilities Management's (CFM) Real Property Service (RPS). VHA provides requirements at project initiation, as well as funding for HCC leases. RPS provides day-to-day management of all lease procurement activities from project initiation to lease award.

In October 2009, Congress passed Public Law 111-82 authorizing about $150.1 million that may be used for seven HCC leases in Montgomery, AL; Loma Linda, CA; Monterey, CA; Charlotte, NC; Fayetteville, NC; Winston-Salem, NC; and Butler, PA.

*Congressional Concern Over HCC Management*

In a June 2012 letter to the Secretary of Veterans Affairs, the Chairman of the U.S. House of Representatives Committee on Veterans' Affairs expressed concern with VA's management of activities to award, construct, and activate the seven HCCs. The letter focused on VA's delays in completing the HCCs and a lack of transparency in reporting to Congress on HCC project status. The letter requested a detailed account of the status of each HCC, including all actions taken and costs incurred to date, estimates associated with costs going forward, updated prospectus information, and estimated HCC completion dates. VA provided this information in August 2012.

***Other Information***

The following appendixes provide additional information.

- Appendix A provides pertinent background information.
- Appendix B provides details on our scope and methodology.
- Appendix C provides the status of the seven HCC leases as of August 2013.

# RESULTS AND RECOMMENDATIONS

## Finding VA's Management of Health Care Center Leases Needs Improvement

VA's management of timeliness and costs in the HCC lease procurement process has not been effective. As of August 2013, only four of seven leases had been awarded and no HCCs had been constructed and occupied, despite VA's target completion date of June 2012. This occurred because the HCCs were a new initiative and guidance was not available for planning leases of this magnitude. VA officials also could not provide justification for the project schedule presented to Congress. Given the lack of progress to date and the inadequate planning documentation, it will take far more time than Congress anticipated for VA to award and activate the seven leases.

Further, VA could not provide accurate information on HCC spending into April 2013; officials provided various estimates, from about $4.6 million to $5.1 million, on costs to prepare for HCC lease awards. According to VA officials, central cost tracking was not in place to ensure transparency and accurate reporting on all HCC expenditures. Until effective central cost tracking is instituted, expenditures to acquire the leases will not be fully accounted for. VA also will not have reasonable assurance of accuracy in reporting total HCC expenditures to Congress.

***Established Milestones Not Met***

VA did not meet the milestones it established for HCC activation and occupancy. In accordance with Title 38 United States Code § 8104, *Congressional Approval of Certain Medical Facility Acquisitions*, VA submitted prospectuses for seven HCC projects as part of the 2010 Congressional Budget Submission. These prospectuses identified the budget authority for each HCC, descriptions of the lease, narratives of considered alternatives, and demographic data for the veteran population and enrollment in the service area.

The prospectuses also identified a schedule for each HCC that provided milestone dates for lease award, construction completion, and activation/occupancy. VA established identical milestone dates for all seven HCC projects outlined in the prospectuses submitted to Congress even though the projects varied in size. Specifically, VA allotted 10 months to award each lease, and 22 months for construction and activation.

Table 1 outlines the planned milestones for all HCC projects as outlined in the prospectuses.

*Table 1*

| Planned HCC Milestones Established by 2010 Prospectus Data | |
|---|---|
| **Milestone** | **Date** |
| HCC Authorization | October 2009 |
| Lease Award | August 2010 |
| Construction Completion | May 2012 |
| Activation/Occupancy | June 2012 |

*Source: OIG analysis of Public Law 111-82, and VA's 2010 Congressional Budget Submission*

As indicated, VA planned to have seven HCCs activated and occupied by June 2012. However, as of August 2013, only four of seven HCC leases had been awarded. The Butler, PA, lease was awarded in May 2012. The VA OIG conducted a review and issued an advisory memo to the Office of Acquisition, Logistics, and Construction (OALC) raising concerns about the contractor's misrepresentations. Based on its review, OALC issued a stop work order to the prime contractor in June 2013 and terminated the lease in August 2013. The Fayetteville, NC, lease was awarded in September 2012; and the Montgomery, AL, and Winston-Salem, NC, HCC leases were awarded in May 2013. None of these facilities have been constructed or occupied. The other three HCC projects remain in various stages of the lease-acquisition process. Appendix C provides the status of all seven HCC projects as of August 2013.

*Lack of Appropriate Guidance To Support the Schedule for Establishing the HCCs*

VA did not have specific guidelines in place to account for all the steps and time required for lease projects with such high costs as those of the new HCC initiative. VA Handbook 7816, *Lease Management Procedures*, stipulated a timeline of 21 to 35 months for prospectus-level leases with annual costs exceeding $600,000 per year. VA planned 32 total months for completion of the seven HCC facilities, with annual lease costs ranging from $3.8 million to $16.2 million. VA's plans fell within the established time frames, but the costs were well beyond the dollar range provided in the handbook. Documentation was not available to support whether or not VA applied the criteria in the handbook in planning and establishing the HCC schedules.

VA proceeded with a two-step acquisition process that did not build in adequate time for acquiring the seven large HCC projects. The two-step process separated land acquisition and the contractor selection into different phases, which gave VA more control over facility location. This process allowed VA to select a preferred site by negotiating an assignable option contract for land. The terms of this contract could then be included in a solicitation for a contractor to build the facility. Appendix A provides additional information on VA's lease-acquisition process.

VA should have lengthened the 32-month HCC timelines to accommodate the two-step approach that included land acquisition. VA presentations depicted that the two-step process would add 8 to 9 months to each overall lease acquisition. For example, our analysis of the site selection process included the time VA took from posting the solicitation for the land to executing the land option agreement. The initial project schedule in the prospectuses planned for 165 days for HCC site selection. However, we determined that the actual site selection process ranged from 323 to 646 days, for an average of 416 days for the seven HCC sites. This average constituted more than two and a half times the number of days VA initially allotted for HCC site selection.

According to the current Director of RPS, facility size should affect the time required to acquire a lease. Larger parcels of land would be needed, which are shorter in supply and require more extensive purchase negotiations. Also, larger parcels of land would require more time for VA to meet requirements of the National Environmental Policy Act. Given the requirements posed by using larger parcels of land, VA should have scheduled additional time to acquire the seven HCC facilities.

*Lack of Documentation and Support for Established Timelines*

VA did not adequately document key decisions related to the planning of HCC projects. Correspondence between key stakeholders clearly indicated that an aggressive approach was intended for the HCC projects. However, planning documentation was not available to support whether VA adequately assessed the feasibility of accomplishing the HCCs in the promised 32-month time frame.

For example, RPS did not finalize an official, signed acquisition plan for the seven HCCs until June 2012, a full 32 months after authorization of the projects. An acquisition plan identifies, coordinates, and integrates the efforts of all personnel responsible for the lease procurement in order to fulfill agency needs in a timely manner at a reasonable cost. Without such a plan, VA lacked a coordinated strategy to support accomplishing the aggressive HCC schedule.

In addition, VA's aggressive time frames for accomplishing the HCC lease acquisitions differed from how VA typically managed other lease acquisitions. The current Director of RPS indicated that VA leasing schedules generally allowed more time in certain areas as compared with HCC timelines. Specifically:

- Market surveys generally require 3 weeks but were scheduled to be completed within 5 days for each HCC.

- Task orders generally require 30 days but were scheduled to be processed within 10 days for each HCC.
- Issuance of a solicitation for offers generally requires 45 days but was scheduled to be done within 30 days for each HCC.

*HCC Establishment Will Require More Time*

In the absence of detailed guidance and supporting justification, VA did not have a sufficient basis for establishing the 32-month time frame when assembling the HCC prospectus schedules. As such, the schedule for HCC establishment has proven unattainable. The HCC projects will require more time than Congress expected, in comparison to what VA promised in its prospectuses.

***No Central Tracking to Ensure Accurate HCC Cost Data***

VA could not provide complete financial information on the seven HCCs. VHA delegates funds tracking to project-level management at the Veterans Integrated Service Networks (VISNs) and RPS. VHA's former Chief Financial Officer said VHA headquarters would need to request HCC information from this level to compile a complete picture of costs. Although project-level management at the VISNs and RPS tracked HCC financial information, neither could provide complete data and support regarding the total costs incurred to procure HCC leases.

For example, individual VISNs could only provide financial information they spent on each HCC lease for which they were responsible. The VISNs did not capture all project costs, such as architect engineering services that are managed at RPS. We could not identify a common fund code across the VISNs for each HCC so costs could be systematically extracted from VA's Financial Management System.

Further, RPS personnel could not readily provide complete financial information for all HCC expenses. RPS is responsible for the day-to-day management of all lease procurement activities from project initiation to lease award, including tracking associated expenses. RPS provided us versions of summary expense data in January, February, and April 2013 ranging from $4.6 million to $5.1 million that we could not consistently verify against available supporting documentation.

Table 2 illustrates HCC expenditures as reported by RPS.

***Table 2***

| Total HCC Costs Reported by RPS | | | |
|---|---|---|---|
| **HCC Facility** | **Initial** | **Corrected** | **Final** |
| Montgomery, AL | $420,071 | $572,073 | $628,253 |
| Loma Linda, CA | $979,582 | $979,582 | $1,034,932 |
| Monterey, CA | $556,112 | $642,930 | $742,930 |
| Charlotte, NC | $486,842 | $437,142 | $487,142 |
| Fayetteville, NC | $1,132,187 | $1,164,145 | $1,164,861 |
| Winston-Salem, NC | $491,396 | $488,503 | $488,503 |
| Butler, PA | $568,608 | $568,608 | $568,608 |
| **Total** | **$4,634,798** | **$4,852,983** | **$5,115,229** |

*Source: RPS-reported expenditures into April 2013*

In the absence of a central point for tracking HCC expenditures, we attempted to provide an independent reconstruction of total costs incurred for each of the seven individual sites into April 2013. We analyzed supporting documentation, including task orders, associated invoices, and payment history from VA's Financial Management System. Using this documentation, we were able to establish obligations, identify liabilities, and verify payments. Based on our analysis, we determined that invoice records were the most complete representation available of total costs incurred for each HCC.

We calculated that VA had spent about $5.1 million on HCCs for architecture-engineer services, due diligence services such as environment studies and title verification, and land option contracts into April 2013. Our cost calculation was similar to RPS's final total of $5.1 million; however, we had no reasonable assurance that this figure represented a complete accounting of HCC costs. Until effective central cost tracking is instituted, expenditures to acquire the HCC leases will remain unclear and there will be a lack of transparency to support accountability reporting to Congress.

***Conclusion***

The seven HCCs did not meet the schedules established in the prospectus submitted to Congress. VA did not have detailed guidance that included all requirements for planning and acquiring such large-scale real-property leases. HCC delivery schedules were promised to Congress without sufficient supporting justification and documentation on the feasibility of the timelines. VA will require more time than anticipated to acquire all seven HCCs. Further, because central oversight and cost tracking had not been established, VA lacked transparency for HCC expenditures. As such, the total costs necessary and expended to acquire the HCC leases remained unclear.

## Recommendations

1. We recommended the Principal Executive Director, Office of Acquisition, Logistics, and Construction, in coordination with the Under Secretary for Health, establish adequate guidance for the procurement of large-scale build-to-lease facilities.
2. We recommended the Principal Executive Director, Office of Acquisition, Logistics, and Construction, in coordination with the Under Secretary for Health, provide realistic and justifiable timelines for award, construction, and activation of the Health Care Center leases.
3. We recommended the Under Secretary for Health, in coordination with the Principal Executive Director, Office of Acquisition, Logistics, and Construction, ensure supporting analyses and key decisions regarding the Health Care Center leases are supported and documented.
4. We recommended the Under Secretary for Health, in coordination with the Principal Executive Director, Office of Acquisition, Logistics, and Construction, establish central cost tracking to ensure transparency and accurate reporting on Health Care Center expenditures.

***OALC's Management Comments***

The Principal Executive Director, OALC, agreed with our recommendations and acknowledged that OALC will take the lead in implementing Recommendations 1 and 2. The Principal Executive Director stated that OALC is working to update the Lease Based Outpatient Clinic Design Guide to establish clear guidance and uniformity in VA's lease procurement process, to include specific directions pertaining to large-scale, build to suit facilities. OALC estimates completion of the guide by August 2014.

Further, the Principal Executive Director stated that OALC is re-baselining VA's lease procurement timelines through implementation of Integrated Master Schedules. Specifically, VA has created a Master Baseline Lease Procurement Schedule that considers various factors that have historically contributed to extended timelines, and can be altered to account for project specific determinations. The Principal Executive Director identified that this effort revealed an average schedule of 26 months to awards, 26 to 30 months for build-out, and 3 to 6 months for activation. Also, VA leases submitted into the FY 2013-2014 budget indicate these durations rather than dates. The Integrated Master Schedules for all major lease procurements are scheduled to be implemented in November 2013. Appendix D provides the full text of the Principal Executive Director's comments.

***VHA's Management Comments***

The Under Secretary for Health agreed with our findings and Recommendations 3 and 4. The Under Secretary stated that all leases will be submitted and reviewed through VA's Strategic Capital Investment Planning process, which requires an analysis of alternatives for each project proposed for budget consideration which will document key decisions and supporting documentation. VHA anticipates implementation of this process by September 30, 2014.

Further, VHA will send the annual approved VA Office of Management approved lease operation plan to VISN Capital Asset Managers to ensure it is disseminated to medical center Chief Engineers and Fiscal staff. Also, VA Medical Center Chief Engineers will request a Lease Accounting Classification Code for all approved Strategic Capital Investment Plan leases. This code will capture all lease costs associated with a project which will then be input into VA's Financial Management System for central tracking. VHA anticipates implementation of these processes by September 30, 2014. Appendix E provides the full text of the Under Secretary's comments.

***OIG Response***

The Principal Executive Director's and Under Secretary's comments and corrective action plans are responsive to the intent of the recommendations. We will monitor implementation of planned actions and will close recommendations when we receive sufficient evidence demonstrating progress in addressing the issues identified.

# Appendix A Background

***HCC Initiative***

Title 38 United States Code § 8104 stipulates that funds may not be appropriated for major medical facility construction or leases with total expenditures of more than $10 million or average annual rent of more than $1 million, respectively, unless funds have been specifically authorized by law. In accordance with this law, VHA's annual budget submission included a list of capital asset needs submitted for individual approval by Congress. By FY 2010, VHA's list of unfunded major construction needs exceeded $9.1 billion, while annual budget allotments averaged about $805 million, or about 8.8 percent, for the previous 5 years. Due to these funding constraints, VA identified the need for an efficient alternative to providing major medical facilities to meet patient workload requirements.

As part of its FY 2008 Asset Management Plan, VHA commissioned studies to assess the feasibility of leasing facilities in lieu of major construction. VA determined that leasing major outpatient clinics, or HCCs, would provide the flexibility to increase veterans' accessibility to services and address critical outpatient needs without the need for additional major construction funding.

According to the Director of VHA's Office of Capital Asset Management and Support, upon approval of the HCC initiative, they reviewed the list of capital asset needs, solicited feedback from the VISNs, and assembled a list of sites where HCC leases would be feasible. VA submitted prospectuses for seven HCC projects in the FY 2010 Congressional Budget Submission. Subsequently, Congress passed Public Law 111-82 in October 2009 authorizing about $150.1 million in funding that may be used for seven HCC leases. Funding was not earmarked for the HCCs.

Table 3 identifies the specific funding authorized for each facility.

***Table 3***

**Allowable HCC Funding Under Public Law 111-82**

| HCC Facility | Expenditures |
|---|---|
| Montgomery, AL | $9,943,000 |
| Loma Linda, CA | $31,154,000 |
| Monterey, CA | $11,628,000 |
| Charlotte, NC | $30,457,000 |
| Fayetteville, NC | $23,487,000 |
| Winston-Salem, NC | $26,986,000 |
| Butler, PA | $16,482,000 |
| **Total** | **$150,137,000** |

*Source: VA funding received under Public Law 111-82, passed October 26, 2009*

***VA's Lease-Acquisition Process***

According to VA Directive 7815, *Acquisition of Real Property by Lease and by Assignment from General Services Administration*, RPS is responsible for the procurement of leases with annual unserviced rent of $300,000 or more. The average estimated annual rent for the seven HCC projects was about $9.9 million. Therefore, RPS had management responsibility for the HCC lease-acquisition process.

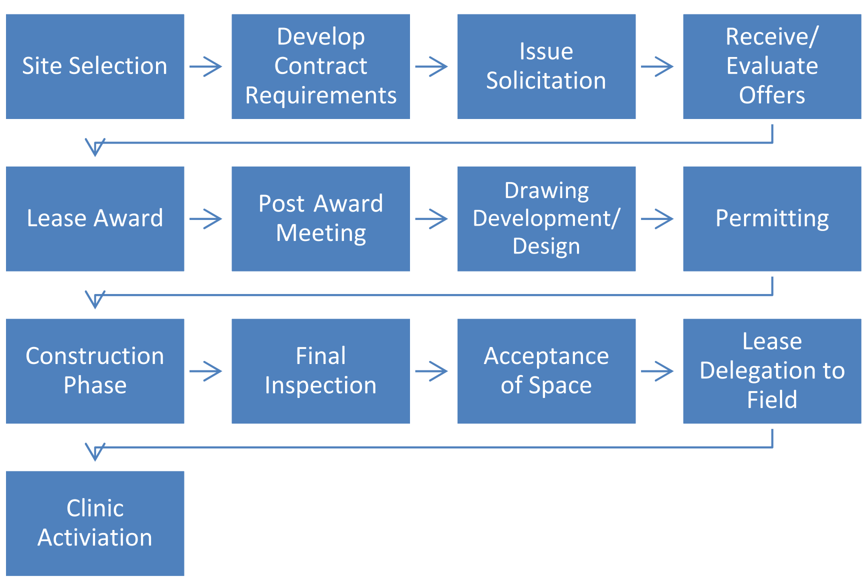
In general, RPS used a two-step lease-acquisition process, separating land procurement from solicitation of a contractor to build a facility. This allowed VA the flexibility to select a site that would best meet the needs of the organization and veterans. Once a site is selected, RPS negotiates an assignable land option contract that provides VA the exclusive right to hold the property for the offeror that is eventually awarded the lease. The offeror purchases the site from the owner and constructs the building for the purpose of leasing it to VA. This process was used for six of the HCC projects, with Butler, PA, as the lone exception.

A one-step site selection process was used for a seventh HCC project. Under this approach, the offeror proposed its own site for the facility and proceeded to construct a building on that site. According to RPS officials, VA does not benefit financially from either HCC approach. The two-step acquisition process simply allows VA to preselect a facility location.

The figure below provides an overview of the lease-acquisition process, beginning with site selection and progressing through lease award, design, and construction. Once the process is complete, RPS delegates responsibility for the HCC to the responsible VISN or VA medical facility.

***Figure***

**HCC Lease-Acquisition Process**




*Source: OIG analysis of VA's lease-acquisition process*

## Appendix B Scope and Methodology

We conducted our review work from November 2012 through August 2013. We reviewed lease procurement activities and controls over funding related to the seven HCCs authorized by Public Law 111-82.

We identified and reviewed applicable Federal laws and regulations, prior OIG audit reports, and VA policies related to the HCC initiative and similar VA leasing processes. We also reviewed transcripts from previous congressional hearings on VA's major construction and capital asset management programs.

We obtained and reviewed relevant documentation for the seven HCCs for the period from October 2009 through August 2013. We reviewed contract files for each HCC to determine if unnecessary delays occurred and if key project decisions were documented. We interviewed key personnel at the Office of Asset Enterprise Management, VHA's Office of Capital Asset Management and Support, and RPS, including the RPS project manager for each HCC.

We obtained and reviewed task orders, invoices, and payment documentation for all obligations and costs incurred related to HCCs for the period from October 2009 into April 2013. However, we could not identify a systematic method to extract HCC financial data from VA's Financial Management System to compile total HCC costs. We interviewed key personnel at VHA's Office of Finance, VISN fiscal offices, and RPS, and requested supporting documentation related to HCC expenditures.

***Data Reliability***

To assess the reliability of the Financial Management System data information provided by RPS and VHA, we performed testing, such as comparison of invoiced amounts and paid FMS data, for obvious errors in accuracy and completeness. Then we reviewed contract documentation, including task orders and land option agreements, related to the data for verification. In addition, we worked closely with knowledgeable RPS and VHA officials to identify any data problems.

When we found discrepancies (such as missing invoice data and task order documentation), we brought them to the attention of RPS and/or VHA officials for correction. We subsequently conducted our analysis and documented data limitations with respect to any errors and omissions in the data that affected our analysis. From these efforts, we determined that the data used were sufficiently reliable for the purposes of this report.

***Government Standards***

Our assessment of internal controls focused on those controls related to our review objective. We conducted our review in accordance with *Quality Standards for Inspections and Evaluations* published by the Council of Inspectors General on Integrity and Efficiency. These standards guide the conduct of all inspection work performed by Offices of Inspectors General. Accordingly, we believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our review objective.

# Appendix C Status of Health Care Center Leases as of August 2013

| Status of Health Care Center Leases | | | |
|---|---|---|---|
| **HCC Facility** | **Status** | **Lease Award (*Anticipated*)** | **Target Completion** |
| Montgomery, AL | Assignable option contract for land signed in December 2011. Lease awarded in May 2013. According to RPS officials, post-award design is underway. | May 2013 | December 2015 |
| Loma Linda, CA | Assignable option contract for land signed in November 2012. Solicitation for offers issued in December 2012. Offer due date amended to February 2013. According to RPS officials, the pre-award review and approval process is underway. | *September 2013* | June 2015 |
| Monterey, CA | Assignable option contract for land signed in November 2012. Solicitation for offers issued and pre-bid conference held in November 2012. According to RPS officials, the pre-award review and approval process is underway. | *September 2013* | March 2016 |
| Charlotte, NC | Assignable option contract for land signed in August 2011. Solicitation for offers issued and pre-bid conference held in January 2013. According to RPS officials, the pre-award review and approval process is underway. | *August 2013* | Spring 2016 |
| Fayetteville, NC | VA executed the seventh extension of the assignable option contract for land in December 2012. Two bid protests were filed in October 2012 and both were denied and resolved in January 2013. According to RPS officials, the project is in the design phase and preliminary site work is anticipated to begin in the fall of 2013. | September 2012 | December 2015 |
| Winston-Salem, NC | Assignable option contract for land signed February 2012. Solicitation for offers issued August 2012. Lease awarded in May 2013. A bid protest was filed in June 2013 and resolved in July 2013. According to RPS officials, post-award design is underway. | May 2013 | July 2015 |
| Butler, PA | Lease was awarded in May 2012. According to RPS officials, construction was set to begin the spring of 2013. Following its consideration of a review by the VA OIG, OALC decided to terminate the contract for cause in August 2013. | May 2012 | Undetermined |

*Source: VA OIG Analysis of HCC Lease Documentation*

## Appendix D Principal Executive Director, Office of Acquisition, Logistics, and Construction Comments

**Department of Veterans Affairs**

# Memorandum

**Date:** September 25, 2013

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

**Subj:** OIG Draft Report: Review of Management of Health Care Center Leases, Project No. 2012-04046-D2-0202 (VAIQ 7391293)

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

1. The Assistant Inspector General for Audits and Evaluations requested comments on the findings and recommendations of the draft report, "A Review of Management of Health Care Center Leases," to determine whether the Department of Veterans Affairs (VA) effectively managed the lease procurement process for seven Health Care Centers (HCC) authorized by Public Law 111-82; focusing on the timeliness and costs of the HCC lease procurement process.

2. The Office of Acquisition, Logistics, and Construction (OALC) has completed its review of the draft report and concurs with each of the recommendations. OALC, in consultation with the Veterans Health Administration has determined that OALC will take the lead in implementing Recommendations 1and 2, and as recommended, will coordinate with the Under Secretary for Health on Recommendations 3 and 4. As such, OALC provides the following comments.

   **a. Recommendation 1:** We recommend the Under Secretary for Health, in coordination with the Executive in Charge of the Office of Acquisition, Logistics, and Construction, establish adequate guidance for the procurement of large-scale build-to-lease facilities.

   **OALC Response:** Concur. OALC is currently updating the Lease Based Outpatient Clinic Design Guide that will allow for clear guidance and uniformity in VA's lease procurement process. OALC will include specific direction within this document regarding large-scale, build to suit facilities.

   An enhanced section regarding large-scale, build-to-suit leases will be included within the Design Guide on or before August 2014. A reference will

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be included in "VA Handbook 7815, Acquisition of Real Property by Lease and by Assignment from General Services Administration" on or before November 2013**. Estimated completion date: August 2014**

**b. Recommendation 2:** We recommend the Under Secretary for Health, in coordination with the Executive in Charge of the Office of Acquisition, Logistics, and Construction, provide realistic and justifiable timelines for award, construction, and activation of the Health Care Center leases.

**OALC Response:** Concur. OALC is re-baselining VA's lease procurement timelines through a programmatic implementation of Integrated Master Schedules. VA has created a Master Baseline Lease Procurement Schedule that takes into account the various factors that have historically contributed to expansion of lease procurement timelines. Additionally, the Baseline Lease Procurement can be altered to account for project-specific determinations, such as selecting either a one- or two-step lease procurements. This re-baseline has revealed an average schedule of 26 months to award, 26-30 months for build-out, and 3-6 months for activation. VA's current leases that are submitted into the fiscal years 2013-2014 budget indicate these durations, rather than dates, to account for any delays in receiving authorization.

The Integrated Master Schedules for all major lease procurements, including the Heath Care Centers (HCCs), are scheduled to be implemented in November 2013. **Estimated completion date: December 2013.**

3. Should you have any questions regarding this submission, please contact Ms. Annette M. Powe, at (202) 632-4606 or annette.powe@va.gov.

Glenn D. Haggstrom

## Appendix E Under Secretary for Health Comments

**Department of Veterans Affairs**

# Memorandum

**Date:** September 26, 2013

**From:** Under Secretary for Health (10)

**Subj:** OIG Draft Report, Review of Management of Health Care Center Leases (VAIQ 7397773)

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

1. Thank you for the opportunity to review the draft report. I have reviewed the draft report and concur with the findings for Recommendations 3 and 4. Attached is the action plan addressing Recommendations 3 and 4.

2. The Veterans Health Administration (VHA) will work collaboratively with the Department of Veterans Affairs, Office of Acquisition, Logistics, and Construction to address any joint recommendations.

3. If you have any questions, please contact Karen M. Rasmussen, M.D., Acting Director, Management Review Service (10AR) at (202) 461-6643.

Robert. A. Petzel, M.D.

Attachment

**ATTACHMENT**

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

**OIG Draft Report, Review of Management of Health Care Center Leases (VAIQ 7397773)**

**Date of Draft Report: August 22, 2013**

| Recommendations/ Actions | Status | Completion Date |
|---|---|---|

**Recommendation 1. We recommend the Executive in Charge of the Office of Acquisition, Logistics, and Construction, in coordination with the Under Secretary for Health, establish adequate guidance for the procurement of large-scale build-to-lease facilities.**

Executive in Charge of the Office of Acquisition, Logistics, and Construction will provide action plan.

**Recommendation 2. We recommend the Executive in Charge of the Office of Acquisition, Logistics, and Construction, in coordination with Under Secretary for Health, provide realistic and justifiable timelines for award, construction, and activation of the Health Care Center leases.**

Executive in Charge of the Office of Acquisition, Logistics, and Construction will provide action plan.

**Recommandation 3. We recommend the Under Secretary for Health, in coordination with the Executive in Charge of the Office of Acquisition, Logistics, and Construction, ensure supporting analyses and key decision regarding the Health Care Center leases are supported and documented.**

VHA Comments: Concur

All leases, including Health Care Center leases, will be submitted and reviewed through Department of Veterans Affairs (VA) Strategic Capital Investment Planning (SCIP) process to ensure each initiative fulfills medical center gaps for access, utilization, and/or space. The SCIP process requires an analysis of alternatives for each project proposed for budget consideration which will document key decisions and supporting documentation.

| | | |
|---|---|---|
| | In process | September 30, 2014 |

**<u>Recommandation 4.</u> We recommend the Under Secretary for Health, in coordination with the Executive in Charge of the Office of Acquisition, Logistics, and Construction, establish central cost tracking to ensure transparency and accurate reporting on Health Care Center expenditures.**

<u>VHA Comments</u>: Concur

a. VHA's Office of Capital Asset Management Engineering and Support (OCAMES) will send the annual VA Office of Management approved lease operation plan to Veterans Integrated Service Network Capital Asset Managers to be disseminated to the medical center Chief Engineers and Fiscal staff.

In process September 30, 2014

b. Veterans Affairs Medical Center Chief Engineers will request a Lease Accounting Classification Code (LG ACC) from VA's Office of Assets Enterprise Management for all SCIP leases approved by OCAMES. Each approved lease will have an LG ACC number assigned to the project. The LC ACC will capture all lease cost associated with a project which will then be input into Financial Management System (FMS) for centralized tracking.

In process September 30, 2014

Veterans Health Administration
September 2013

# Appendix F Office of Inspector General Contact and Staff Acknowledgments

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|---|---|
| OIG Contact | For more information about this report, please contact the Office of Inspector General at (202) 461-4720. |
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