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WASHINGTON, D.C. 20548

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The Honorable Alan Cranston
Chairman, Subcommittee on
Health and Hospitals
Committee on Veterans' Affairs
United States Senate

at

3903

Dear Mr. Chairman:

This report, our second and final report pursuant to your request of August 24, 1973, concerns Veterans Administration (VA) contracts awarded to Big 4 Construction Company for medical research trailer construction at VA's Brentwood Hospital in Los Angeles, California. You expressed interest in finding out whether VA knew of alleged poor job management by Big 4 when granting time extensions on Big 4's trailer contracts; the effect at Brentwood of Big 4 working concurrently on other VA contracts; the effect delays had on Brentwood's medical research program; and the additional money VA spent to provide alternative medical research space, because of delays in completing the trailers.

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p.308:

Enclosure I looks at these four areas as well as VA's improper use of operating fund appropriations to partially finance the research trailer construction. Briefly, we found:

- VA may not have been fully aware of any poor job management by Big 4 when VA approved an initial 37-day time extension; however, VA rejected four additional time extension requests, totaling 133 days, because of poor job management by Big 4.
- Big 4 was working concurrently on three other VA contracts, which may have contributed to Big 4's delays at Brentwood.

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--Brentwood medical research was delayed about 1 year because delays in completing the trailers caused the researchers, who were to occupy the trailer space, to work in inadequate temporary space. The trailers were not completed on time because (1) Big 4 was late completing work on its contracts and (2) VA did not provide adequate or prompt funding for the project. The precise effect of these delays on the research program could not be measured.

--VA spent little additional money to provide alternate research space because of delays in completing the trailers.

Further, VA circumvented its minor improvement regulations by purposely dividing work requirements into individual projects, permitting part of the Brentwood trailer construction to be improperly funded with about \$270,000 from operating funds.

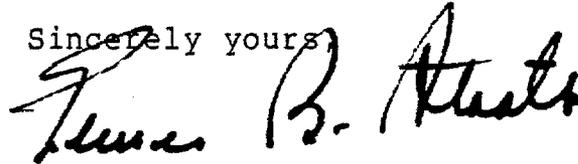
At our suggestion, VA took action to rectify the funding irregularities at Brentwood. The VA Administrator issued a directive to the heads of VA departments, staff offices, and field stations to strengthen controls over the use of operating funds for construction and minor improvement projects. The directive instructs the VA Internal Audit Service to review local funding practices in depth and to inform the Administrator of any apparent abuses in the use of operating funds. A copy of the directive is included in this report as enclosure II. VA reimbursed its Medical and Prosthetic Research and Medical Care Appropriations from the Construction of Hospital and Domiciliary Facilities Appropriation for the operating funds used on the Brentwood trailer project. Since VA took corrective actions, we are making no recommendations.

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As agreed with your office, a draft of this report was submitted to VA for review and comment. Their comments have been considered, to the extent appropriate, in preparing this report.

At the specific request of your office, we did not discuss this report with nor obtain formal comments from the contractor, Big 4. Normally we would. Although much of the information in this report is recorded in VA's files, publicly disclosing the report without the benefit of contractor comments, in our opinion, could adversely affect its private interests. These circumstances should be considered and weighed in the Subcommittee's use of the report.

Sincerely yours,

A handwritten signature in black ink, appearing to read "James B. Atwell". The signature is written in a cursive style with a large initial "J".

Comptroller General
of the United States

Enclosures - 2

PROBLEMS ASSOCIATED WITH CONSTRUCTING
MEDICAL RESEARCH TRAILERS AT THE BRENTWOOD
VA HOSPITAL IN LOS ANGELES, CALIFORNIA

BACKGROUND

In July 1971, Brentwood requested research space to retain the services of three research investigators doing joint research for VA and the University of California, Los Angeles (UCLA). Building 117 was to be refurbished and additional space provided, if necessary, by purchasing trailers. Building T-32 was later substituted for Building 117.

The VA central office provided \$300,000 from the Construction of Education and Training Facilities Fund for the project during April and July 1972. Of the \$300,000 provided, \$16,200 was earmarked for architect/engineering (A/E) services, \$50,000 for Building T-32 renovation, and \$233,800 for research laboratory construction (purchasing, installing, and modifying the trailers).

On August 14, 1972, VA purchased 14 trailers using \$121,027 of the \$233,800. Six work phases were planned to install and modify the trailers.

Brentwood solicited bids for the first three phases in September 1972. Big 4, as low bidder, was awarded two construction contracts for these phases. VA and Big 4 later negotiated a third contract covering portions of phases IV and V. Data on Big 4's Brentwood contracts is summarized in the following table.

<u>Phase of work</u>	<u>Contract number (V530C-)</u>	<u>Date of contract</u>	<u>Date contractor received notice to proceed</u>	<u>Number of calendar days allowed to complete work</u>	<u>Total contract cost</u>
I and II	321	Oct. 6, 1972	Oct. 19, 1972	a/120	b/\$ 86,493
III	430	Mar. 29, 1973	Apr. 18, 1973	45	80,103
Parts of IV and V	494	June 29, 1973	July 16, 1973	45	<u>23,546</u>
					<u>\$190,142</u>

a/Excluding 37-day extension, which extended completion date to Mar. 26, 1973.

b/Contract cost eventually increased to \$93,081.64.

GRANTING TIME EXTENSIONS ON
BIG 4'S TRAILER CONTRACTS

VA authorized an initial time extension of 37 days on Big 4's contract V530C-321 at Brentwood. VA officials, when granting this initial extension in March 1973, may not have been fully aware of any poor job management by Big 4. The extension was granted on the basis of drawing changes and adverse weather conditions that affected Big 4's progress.

Four additional time extension requests by Big 4, totaling 133 days, were rejected by VA because Big 4 managed the Brentwood contracts poorly.

Big 4 requests for time extensions and VA actions

Big 4 submitted five time extension requests to complete its three research trailer contracts. VA approved Big 4's February 1973 request, the first of the five, on March 13, 1973, extending the scheduled completion date for contract V530C-321 by 37 days.

VA advised Big 4 by an April 24, 1973, letter that its April 12 request for an additional 45 days on the same contract was denied because Big 4's work was progressing slowly with little or no supervision, the job was being poorly managed, and Big 4 was not providing the better control and supervision it had promised.

VA did not respond in writing to the two May extension requests on contract V530C-430 and the one June extension request on contract V530C-321. Brentwood engineering officials said Big 4 was orally advised that (1) one May request for 21 days was denied because Big 4 was considered responsible for the delays incurred by the trailer manufacturer and (2) the other May request for 7 days was considered excessive and denied.

The Chief, Brentwood Engineering Services, advised VA contracting officials by a June 21, 1973, memorandum that, from an engineering standpoint, "no legitimate reason" could be found for an additional 60-day extension, requested in June 1973 on Big 4's first contract, because Big 4 had been negligent on the job and did not have an adequate work force.

Examples of Big 4's poor job management

VA inspection reports and other correspondence showed weaknesses in Big 4's Brentwood contract management involving lack of job supervision, poor workmanship, inadequate manpower, submitting material and equipment samples late to VA

for approval, buying material and equipment late, and lack of harmony between Big 4 and its subcontractors/suppliers. For example:

- VA inspection reports for April to June 1973 showed that no workmen were at the job site on 8 days and only 1 to 3 workmen were present on 20 days. The inspection reports did not show how many workmen should have been on the site, but local VA officials were concerned over Big 4's inadequate work force.
- Inspection reports for August and September 1973 showed that materials were not available at the site when needed, resulting in workmen being laid off.
- Although contract V530C-430 was to be completed by June 4, 1973, VA had not received required material samples from the contractor as of July 10, 1973. These samples had to be approved by VA before the work could be done. Also, certain equipment for this contract had not been ordered by Big 4 until August 16, 1973--more than 2 months after the date the contract was to be completed.
- Because of nonpayment complaints by Big 4's subcontractors/suppliers, the surety company providing a bond guaranteeing payment to Big 4's subcontractors/suppliers requested VA on January 15, 1973, and again on October 30, 1973, to withhold progress payments to Big 4 until VA received the surety company's written approval.

DELAYS IN COMPLETING RESEARCH TRAILERS

Big 4 was late in completing the entire Brentwood research trailer project. VA records show Big 4 spent from 188 to 360 days longer than authorized on its three Brentwood contracts.

Other factors, as discussed below, also contributed to the delay in completing the research trailers.

Big 4 working on other VA contracts concurrent with the Brentwood trailer contracts

Big 4 was concurrently working on three additional VA construction contracts at locations other than Brentwood. VA officials thought these three contracts, coupled with the three Brentwood contracts, were more than Big 4 could reasonably manage. They added that Big 4's work force was not

sufficient to properly staff all six contracts simultaneously. The three additional contracts were for work at the Wadsworth and Long Beach, California, VA hospitals.

VA inspection reports and other correspondence showed Big 4's supervision and manpower on the three contracts were not adequate to complete the work within the time specified in the contracts. The VA project engineer for one contract said Big 4 tried to work on several contracts at the same time without increasing its work force. A VA engineering official at the VA Long Beach Hospital stated part of Big 4's work force worked the same days at both the Brentwood and Long Beach hospitals, which are 30 miles apart. According to VA officials, Big 4 placed its labor force on the construction site where it was receiving the most pressure at the time from VA.

VA-caused delays

VA officials stated VA and other VA contractors, including the A/E, were responsible for 50 to 60 days of Big 4's overall delay in completing its three Brentwood trailer contracts. VA's March 1973 approval of the 37-day extension included 26 days attributable to deficient A/E drawings and related rework. Big 4 was also delayed 2 weeks in installing Government-provided equipment, because the equipment was not available at the construction site. Big 4 also had problems with A/E drawings in May 1973, which may have contributed to the overall delay.

In addition, VA issued several contract change orders between January and July 1973 covering work, such as installing a manhole, relocating a gas line, installing a retaining wall, and installing a chain-link fence, for which Big 4 was not granted time extensions.

Funding delays

The way VA funded the Brentwood trailers also contributed to the delay in the availability of the trailers. VA's funding problems began before the first contract was awarded to Big 4. The entire Brentwood project was originally allocated \$300,000. About \$233,800 was earmarked for constructing the trailers. Of the \$233,800 about \$121,000 was used to purchase 14 trailers, leaving about \$112,800 for the planned 6-phased site construction work. When the first three phases were advertised for bids, bidders were instructed to bid both aggregately and separately for phases I, II, and III. Big 4 submitted the lowest aggregate and separate bids. However, because its low bid for all three phases of \$166,596 exceeded

the funds available for all six phases of site construction work, VA awarded it a contract amounting to \$86,493 for phases I and II only. Funding for Big 4's second and third contracts (the phase III contract for \$80,103 and a \$23,546 contract for parts of phases IV and V) came from VA operating fund appropriations rather than construction funds.

Further, on January 7, 1974, Brentwood submitted for VA central office approval seven nonrecurring maintenance projects with an estimated total cost of \$159,000. The seven projects were to provide emergency generators, fire sprinkler systems, air conditioning, heating, and certain concrete work for the trailers. They covered the remaining parts of phases IV and V that were not included in Big 4's contracts and all of phase VI. This work was necessary to make the trailers fully functional for medical research purposes.

On March 7, 1974, the VA central office authorized operating funds totaling \$159,016 for these seven projects. The Chief, Engineering Services, at Brentwood said a contract for \$160,678 was awarded on May 22, 1974, to an air-conditioning contractor for part of this additional work. He added that the balance of the work would be contracted for at a later date. When recontacted in October 1975 the Chief, Engineering Services, said a contract for this work, estimated to cost about \$72,900, had not been awarded but that VA still planned to do the work.

Of the initial \$300,000 that was made available for the overall project, \$50,000 was originally earmarked for refurbishing Building T-32 for use as a research facility. VA records show that \$62,197 of the \$300,000 was actually used for this purpose. Despite this investment, the building is presently being used for storage.

There is additional evidence that VA had a problem providing funds for the trailers. According to the VA contracting officer for the project, terminating Big 4's trailer contracts for default was considered but not pursued because the trailer project could not otherwise be completed by another contractor. Funds were not then available to cover either Big 4's uncompleted work or the additional work under phases IV, V, and VI of the project.

How delays affected Brentwood's medical research program

The effect Big 4's construction time overruns and VA's funding problems have had on the Brentwood medical research program cannot be precisely measured.

According to Brentwood research officials, however, planned medical research in psychopharmacology, psychogenetics, and neurochemistry was delayed about 1 year because the research trailers were not completed on time. The delay caused the research investigators who were to occupy the trailer space to remain in space that UCLA had provided for their temporary use in 1971. While the space was adequate as a temporary expedient, it was not adequate for long-term research. The research investigators had to limit planned research because adequate research space was not available.

Besides the general medical research funded by VA, other non-VA medical research projects were delayed or otherwise adversely affected by the unavailability of the Brentwood research trailers. These projects were being funded by the National Institute of Neurological Diseases and Stroke, the National Institute of Mental Health, the National Cancer Institute, and the American Cancer Society.

Although Big 4 experienced time overruns on its three contracts, VA's problems in funding the trailer construction also adversely affected the trailer project's completion.

ADDITIONAL COSTS INCURRED BY VA
BECAUSE TOO MUCH TIME SPENT
ON THE BRENTWOOD CONTRACTS

VA spent little additional money to provide alternative space for research activities, because too much time was spent on the trailer contracts. The money spent included payments to the contractor furnishing the trailers for remedying construction deficiencies and to UCLA for animal care.

Payment to contractor furnishing the trailers

The trailer contractor billed VA for an additional \$1,997.15 because of delays in being able to install the trailers. According to VA's contracting officer, about \$55 of the \$1,997.15 was probably attributable to Big 4. This cost involved additional steel plates and shims, because Big 4 failed to provide level foundations. The VA contracting officer ruled that Big 4 could not be held liable for the increased cost, primarily because Big 4 was issued contract notices to proceed only 11 days before the trailers were delivered.

Payments to UCLA

For July 16 to December 15, 1973, UCLA billed VA \$3,044.08 for research animal care. Of this amount, \$1,368 represented additional costs to VA because the trailer project had not been completed. VA may have incurred additional costs for animal care for later periods; but, at the time of our review, VA had not been billed by UCLA for those periods.

A UCLA official said VA would not be billed for the temporary space used by VA research personnel.

IMPROPER FUNDING OF THE BRENTWOOD RESEARCH TRAILER CONSTRUCTION

VA improperly used agency operating funds amounting to \$267,902.57--\$264,327 from VA's Medical and Prosthetic Research Appropriation and \$3,575.57 from its Medical Care Appropriation--to finance part of the Brentwood research trailer construction.

In the process of obtaining and using operating funds to finance the continuing construction work, the VA central office and Brentwood Hospital officials took deliberate steps to circumvent VA's minor improvement regulations.

Improper use of operating funds

The Brentwood project was originally funded as a construction project, with an allocation of \$300,000 from construction funds. Total funds actually used on the project, however, amounted to \$567,902.57. The additional \$267,902.57, obtained from agency operating fund appropriations, was used to finance the following construction work on the Brentwood trailers:

Phase III (contract V530C-430)	\$ 80,103.00
Parts of phases IV and V (contract V530C-494)	23,546.00
Additional work on phases IV and V and work on phase VI (contract V530C-551)	160,678.00
Miscellaneous contracts, purchase orders and contract changes	<u>3,575.57</u>
Total	<u>\$267,902.57</u>

VA regulations authorize the use of operating funds for certain maintenance and repairs, alterations, additions, new buildings, and minor improvements, as long as the work is not (1) part of a construction project and (2) over \$25,000, excluding the cost of equipment. Any work exceeding \$25,000, excluding equipment costs, must be treated as a construction project to be financed from construction funds. This work is not to be divided into parts or phases as a means of reducing the cost of the work under the individual parts or phases to less than \$25,000 each.

Between November 1972 and March 1974, at the request of Brentwood officials, operating funds totaling \$256,016 were allocated to the Brentwood project by the VA central office. Other operating funds available at Brentwood, totaling about \$12,000, were also used on the project. Part of the funds, \$159,016, was made available by circumventing the regulations.

How VA regulations were circumvented

Brentwood, in November 1973, submitted a project proposal to the VA central office covering the construction work needed to make the trailer projects functional once Big 4 had completed the work under its three contracts. This project involved work on phases IV, V, and VI of the six-phased site construction work for the trailers.

Brentwood submitted the work to the VA central office as one project. However, the VA central office rejected the submission and asked Brentwood to resubmit it as individual projects.

Brentwood, on January 7, 1974, resubmitted the work as seven nonrecurring maintenance and repair projects. These seven projects were estimated to cost \$159,016.

On March 7, 1974, the VA central office provided \$159,016 for the seven-part construction work on the trailers.

In April 1974, VA issued a single invitation for bids for these seven projects, grouped into three work phases. The low bid for the three phases of work totaled \$248,270, considerably exceeding the funds available. On May 22, 1974, a contract totaling \$160,678 was awarded by Brentwood, without VA central office knowledge or approval, for part of the three phases. The Chief, Engineering Services, at Brentwood said a contract for the balance of the work would

be awarded later. As of October 1975, however, a contract had not been awarded although, we understand, Brentwood still plans to do so.

Conclusions

The Brentwood research trailer project was a construction project, and using operating funds to finance part of the construction was prohibited by VA regulations. Accordingly, VA acted improperly in using \$267,902.57 from operating funds to partially finance the construction of this project.

Further, construction requirements needed to make the trailers functional as originally planned--valued at about \$159,000--were purposely and improperly divided into seven individual projects of under \$25,000 each, so operating funds could be used for the construction, circumventing VA regulations prohibiting such practice.

VA COMMENTS AND ACTIONS

In May 1974, we brought these matters to the attention of the Director, Budget Service, in VA's Office of the Controller. The Director advised us that he could not support the use of operating funds on this project, nor could he support the division of part of the construction into seven separate projects. He agreed that construction work over \$25,000 should be financed from construction funds. He pointed out that VA regulations explicitly prohibit dividing work into parts or phases to stay within the \$25,000 limitation. VA's General Counsel later affirmed the Director's position.

As a result of our inquiries, VA initiated an internal investigation into the Brentwood research facility funding. The investigation confirmed our findings that VA had improperly used research funds and maintenance and repair funds to finance part of the construction. The investigation report contained a recommendation that consideration be given to "restoring the misused funds and properly charging the work to construction funds."

On June 3, 1975, we met with the Assistant Administrator for Planning and Evaluation and other VA officials representing the various VA central office departments and offices involved in the Brentwood case, to encourage VA to act to correct the improper funding of the Brentwood trailer construction project.

The VA officials at this meeting agreed with our findings and agreed to promptly take the necessary corrective action.

On June 26, 1975, the Administrator of Veterans Affairs issued a directive to the heads of VA departments, staff offices, and field stations pointing out and reemphasizing existing limitations on the use of operating funds and directing VA's Internal Audit Service to increase its surveillance of VA's use of operating funds. (See enc. II.)

Also, on September 29, 1975, as instructed by the VA Controller, the VA Data Processing Center in Austin, Texas, processed an accounting transaction withdrawing \$267,902.57 from VA's construction appropriation and transferring it to the appropriate operating appropriation accounts. This corrected the charges to the operating appropriation for the funds used on the Brentwood construction project.



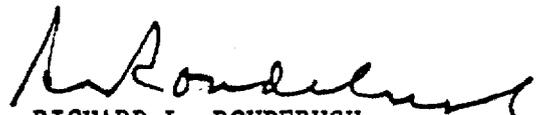
VETERANS ADMINISTRATION
OFFICE OF THE ADMINISTRATOR OF VETERANS AFFAIRS
WASHINGTON, D.C. 20420

June 26, 1975

HEADS OF DEPARTMENTS, STAFF OFFICES, AND FIELD STATIONS

It has come to my attention that controls need to be strengthened over certain field station practices in the use of funds for construction and minor improvement projects. Specifically, these practices involve the inappropriate use of operating funds for some construction and the "splitting" or division of a project into parts or phases as a means of reducing the cost of construction to that of authorized limits for local approval.

The VA Policy Manual (MP-3, Part 1, Chapter 4) and related directives are clear and provide appropriate authorities and controls over the use of operating funds for construction and minor improvement projects. I intend to hold responsible officials accountable for assuring that the letter and intent of VA policy and directives are followed. I am instructing Internal Audit Service to review these practices in depth during each audit and to report every instance of apparent abuse to my office.


RICHARD L. ROUDEBUSH
Administrator