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June 1987

# VETERANS ADMINISTRATION

## Procurement Actions for Crown Point Outpatient Clinic



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**Human Resources Division**

B-227397

June 25, 1987

The Honorable Augustus F. Hawkins  
Chairman, Committee on Education  
and Labor  
House of Representatives

The Honorable Austin J. Murphy  
Chairman, Subcommittee on Labor  
Standards  
Committee on Education and Labor  
House of Representatives

This is in response to your December 12, 1986, letter in which you cited your concern over the Veterans Administration (VA) not following (1) the Davis-Bacon Act provisions that require prevailing wages to be paid on federally funded or assisted construction projects and (2) required procurement procedures in the acquisition by lease of a medical outpatient clinic in Crown Point, Indiana. In later discussions with your offices, we agreed to confine our work to reviewing the procurement activities leading to the clinic's acquisition. The clinic is scheduled to be available for use by VA about October 1, 1987.

We discussed the lease contract for the Crown Point Outpatient Clinic with VA officials. We also reviewed pertinent documents and Office of Management and Budget, General Services Administration, and VA requirements and procedures relating to this procurement. However, we did not verify the accuracy of the data developed by VA in following these requirements. We also reviewed the bid protests submitted to our Office of General Counsel concerning the award of the construction contract for the Crown Point clinic.

In summary, we found that VA generally followed Office of Management and Budget, General Services Administration, and its own procurement procedures for acquiring the clinic.

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**Acquisition of Crown  
Point Outpatient Clinic**

On May 24, 1983, the VA Administrator announced plans to establish an outpatient clinic in Crown Point, Indiana. This clinic was part of a planned expansion of health care services to better serve veterans in that area. VA's Department of Medicine and Surgery, in cooperation with the VA medical center in Chicago, developed the clinic's workload—the number of expected patient visits and the related staffing requirements. Office of Management and Budget Circular No. A-104, dated June 14,

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1972, requires that an economic analysis be performed for the acquisition of general-purpose real property, such as office buildings, warehouses, and associated land for which estimated land and construction costs or market value is \$500,000 or more. This circular applies to all executive branch agencies except the U.S. Postal Service and the D.C. government. It provides guidance in accumulating current cost data relative to a decision to lease or purchase general-purpose real property. A computer program analyzes the required cost data so that a decision can be made as to whether it is more economical to lease or purchase.

VA developed cost data for the "build alternative" and the "lease alternative." This analysis showed that leasing a facility for an outpatient clinic was more economical than buying or building one. In June 1985, VA's deputy administrator approved the lease acquisition for this project.

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## Selection and Award of Contract

General Services Administration regulations contain the basic operating policies governing the acquisition of leased space. These regulations require that specific procedures be followed for such items as certification of requirements (assurances that no government space is available), market surveys, solicitation for offers, negotiation, and award of the contract.

VA's Office of Planning and Development, within the Office of Facilities, is responsible for working with its program office, in this case the Department of Medicine and Surgery, to develop a suitable construction design for the clinic. Once the program office determines the clinic's patient load, facility capability, and general location, the Office of Planning determines the clinic's size. VA used a formula process that determined the size or total square footage needed for the clinic based on the caseload and type of services to be provided.

VA's Real Property Management staff, within the Office of Facilities, is responsible for performing a market survey required by the General Services Administration to determine the best location for the facility based on the stated requirements. The market survey is intended to inform the public of government space needs and to solicit a response from the maximum number of prospective suppliers. Market surveys are required in all lease acquisitions. As part of the market survey requirements, VA placed advertisements in the local Indiana newspapers on June 22, 1985, for two consecutive weekends requesting properties for lease. The advertisements described the geographic area where the government

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wanted to lease between 38,016 and 40,000 net usable square feet of space for a VA outpatient clinic, noting that the space could be provided by new construction or modification of existing space.

In response to these advertisements, 22 possible locations were identified. Only one of these locations involved an existing building—a warehouse. Between July 29 and August 1, 1985, VA staff investigated the 22 locations. Sixteen were considered acceptable and six were unacceptable, including the one with the existing building. VA determined that building to be unacceptable from a medical point of view because it was adjacent to a factory where air pollution was a known problem. The bidder was informed of this determination on September 9, 1985.

On November 4, 1985, a solicitation for offers was issued covering the 16 acceptable locations. The solicitation requested offers for an outpatient clinic facility and specified the space requirements; the term of the lease, 15 years with one 5-year renewal option; and the due date for the offers, December 20, 1985, but remaining open until May 31, 1986. The completed clinic was to be delivered to VA by October 1, 1987. The solicitation also stated that VA would pay for all services and utilities to maintain the interior of the leased space, while the contractor would maintain the building's exterior.

The solicitation allowed for discussions with the bidders to clarify items in their offers submitted on December 20, 1985. After these discussions VA requested and received six final offers as of February 14, 1986. All offers were determined to be technically acceptable, and all were within the geographic area specified in the market survey. It was at this point that VA concluded that the clinic would be built because no acceptable existing buildings were offered. Bidders not participating in the market survey could have submitted an offer that VA would have considered if the offer was within the survey's designated area, but none were received. VA evaluated the offers and awarded the contract on May 22, 1986, to the lowest bidder. The annual rent during the 15-year lease period will be \$451,200.

The award of the contract, however, was protested by two of the losing bidders and referred to our Office of General Counsel for a decision. The protests dealt with the availability of utilities to the construction site, deviations in technical requirements, and allegations that the Davis-Bacon Act was applicable to this procurement. We ruled for VA and against the protestors on the first two points. On the Davis-Bacon issue

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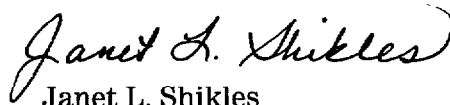
we stated that the filing of the protest was untimely because VA mentioned in its instructions to the bidders that Davis-Bacon did not apply. Because the protest was untimely, we did not rule on its merits.

In summary, our review found that the actions VA took in selecting and awarding the contract for acquiring the clinic at Crown Point generally followed prescribed procurement procedures required by the Office of Management and Budget, the General Services Administration, and VA.

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As requested by your office, we did not obtain agency comments on this report. We discussed its contents, however, with VA's Real Property Management staff, and their views have been considered in its preparation.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will send copies to the Administrator of Veterans Affairs and other interested parties and will make copies available to others on request.



Janet L. Shikles  
Associate Director

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