

VA Office of Inspector General

OFFICE OF AUDITS & EVALUATIONS



## Veterans Health Administration

*Audit of  
State Home Construction  
Grant Program Management  
of American Recovery  
and Reinvestment Act Funds*



April 15, 2010  
09-01814-129

## **ACRONYMS AND ABBREVIATIONS**

CFM	Office of Construction and Facilities Management
FY	Fiscal Year
FMS	Financial Management System
GAO	Government Accountability Office
GEC	Office of Geriatrics and Extended Care
MOA	Memorandum of Agreement
OIG	Office of Inspector General
OMB	Office of Management and Budget
SHCGP	State Home Construction Grant Program
SF	Standard Form
VA	Department of Veterans Affairs
VHA	Veterans Health Administration

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# Report Highlights: Audit of State Home Construction Grant Program Management of Recovery Act Funds

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## Why We Did This Audit

This audit determined if opportunities exist for Veterans Health Administration (VHA) to strengthen management of the State Home Construction Grant Program (SHCGP) and improve the transparency and accountability of American Recovery and Reinvestment Act of 2009 (Recovery Act) funds spending. The President has stipulated that every taxpayer dollar spent on economic recovery must be subject to unprecedented transparency and accountability. The Recovery Act provided VHA \$150 million for state grants to construct or renovate veteran extended care facilities and established a deadline of September 30, 2010, for VHA to obligate the \$150 million.

## What We Found

VHA is on track to meet the deadline for obligating SHCGP Recovery Act funds. As of December 31, 2009, VHA had conditionally obligated about \$141 million (94 percent) of the \$150 million and had plans that should ensure VHA obligates the remaining \$9 million (6 percent) by September 30, 2010.

However, to improve accountability and transparency and help ensure effective use of the \$150 million, SHCGP managers need to develop a risk management plan that identifies all potential risks and implements adequate strategies to mitigate these risks. These strategies include increasing the

monitoring of states' oversight of contractors and establishing additional performance measurements. VHA did not implement these strategies because they relied on states to manage risks and did not establish adequate policies and procedures. As a result, increased risks exist that SHCGP may not effectively accomplish Recovery Act objectives and states receiving the \$150 million will not be subject to adequate accountability and transparency.

## What We Recommended

We recommended the Under Secretary for Health prepare an SHCGP risk management plan, establish policies and procedures to monitor states' oversight of contractors, and develop performance measurements that assess annual and long-term SHCGP outcomes.

## Agency Comments

The Under Secretary for Health agreed with our finding and recommendations. We consider the planned actions acceptable and will follow up with their implementation. See Appendix D for the full text of the Under Secretary for Health's comments.

*(original signed by:)*

**BELINDA J. FINN**  
Assistant Inspector General  
for Audits and Evaluations

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## INTRODUCTION

### **Objective**

This audit determined if opportunities exist for VHA to strengthen management of SHCGP and improve the transparency and accountability of states' spending of Recovery Act funds. Appendix A describes the scope and methodology used to answer this objective.

### **Recovery Act Funding for State Grants**

On February 17, 2009, the President signed the Recovery Act into law. The goals of the Recovery Act include stimulating the Nation's economy, creating or saving jobs, and protecting those in greatest need. The President stipulated that every taxpayer dollar spent on economic recovery must be subject to unprecedented levels of transparency and accountability. The Recovery Act includes \$150 million for VHA to provide state grants for constructing, acquiring, or modifying hospital, nursing home, domiciliary, and adult day health care facilities for veterans disabled by age or disease.

### **Overview of SHCGP**

SHCGP within VHA's Office of Geriatrics and Extended Care (GEC) is responsible for distributing the \$150 million of Recovery Act funds to states. The principle mission of SHCGP is to promote the development and provision of housing and supportive services to disabled veterans through state partnerships. VA may fund up to 65 percent of the cost of state extended care facilities. States must fund the remaining 35 percent. Seventy-five percent of the residents in a state extended care facility must be veterans. All non-veteran residents must be spouses of veterans or parents of children who have died while serving in the U.S. armed forces. Appendix B provides additional background information on SHCGP.

### **Status of SHCGP Recovery Act Spending**

The Recovery Act established a deadline for VHA to obligate the \$150 million by September 30, 2010. As of December 31, 2009, VHA had obligated about \$141 million (94 percent) of the \$150 million. Of the \$141 million, VHA had conditionally obligated about \$131 million.<sup>1</sup> To ensure states receive the \$131 million promptly, SHCGP is monitoring states' timeliness in meeting aggressive deadlines to submit the remaining grant requirements and following up on states' progress by frequently contacting state officials. To ensure the remaining \$9 million (6 percent) is obligated before the deadline, SHCGP plans to select from a list of 53 projects totaling about \$405 million and obtain updated grant documentation for those projects by August 15, 2010. Appendix C provides details on the status of VHA's spending of SHCGP Recovery Act funds.

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<sup>1</sup>VHA conditionally obligates funds to states that have substantially met grant requirements but needs more time to complete the remaining requirements. From the date the VA Secretary signs a conditional approval letter, states have up to 180 calendar days to complete grant requirements. Funding becomes available to states after they meet all requirements.

## RESULTS AND RECOMMENDATIONS

### **Finding VHA Needs To Implement Additional SHCGP Risk Management Strategies**

To improve accountability and transparency and help ensure effective use of the \$150 million SHCGP Recovery Act funds, SHCGP managers need to develop a risk management plan that identifies all potential risks and implements adequate strategies to mitigate these risks. These strategies include increasing the monitoring of states' oversight of contractors and establishing additional performance measurements.

VHA did not implement these required strategies because they relied on states to manage risks and did not establish adequate policies and procedures. As a result, increased risks exist that SHCGP may not effectively accomplish Recovery Act objectives and states receiving the \$150 million will not be subject to adequate accountability and transparency.

#### ***SHCGP Needs a Risk Management Plan***

SHCGP did not develop and implement a program-specific risk management plan. On February 18, 2009, the Office of Management and Budget (OMB) issued a memorandum for the heads of departments and agencies that directed Federal agencies to prepare agency-wide and program-specific risk management plans immediately. The memorandum specifically states, "No later than May 1<sup>st</sup>, agencies must provide a separate Recovery Program Plan for each Recovery Act program named in the legislation." These plans must identify, prioritize, and reassess risks that could prevent the accomplishment of Recovery Act goals. OMB also directed agencies to initiate strategies to mitigate identified risks.

On September 24, 2009, VA finalized its agency-wide plan: "Risk Management Plan American Recovery and Reinvestment Act." However, as of November 30, 2009, SHCGP had not prepared a program-specific risk management plan to address specific SHCGP risks. Listed below are examples of the OMB identified risks that could jeopardize accomplishment of Recovery Act goals:

- Improper reimbursements to sub-recipients (state contractors).
- Inadequate program outputs and outcomes.
- Insufficient resources to achieve program objectives.
- Insufficient controls to mitigate risk of waste, fraud, and abuse.

- Unqualified personnel overseeing funds.

Although the VA-wide plan discusses these types of risks, it does not adequately address the risks that could jeopardize SHCGP accomplishment of Recovery Act goals. For example, the VA-wide plan identified risks of fraud, waste, or abuse. The plan also described risk mitigation strategies of conducting internal audits and providing annual statements on control effectiveness to OMB. The plan also designated the probability of fraud, waste, or abuse as medium and the possible impact as high. However, to address risks at the program level, SHCGP managers need to develop a risk management plan that includes strategies to mitigate risks of potential SHCGP-specific fraud, waste, or abuse.

SHCGP managers also need to ensure the risk management plan identifies all potential risks and implements adequate strategies to mitigate these risks. These strategies include improving the monitoring of states' oversight of contractors and establishing program performance measurements. Appendix B contains an illustration of how these additional risk management strategies will strengthen the grants management process.

**Improved  
Monitoring  
Needed**

VHA was not adequately monitoring states' oversight of contractors who construct veteran extended care facilities. The Recovery Act requires states to invest funds with unprecedented transparency and Federal agencies to hold states accountable for results. In September 2009, the Government Accountability Office (GAO) issued the report: *Recovery Act—Funds Continue to Provide Fiscal Relief to States and Localities While Accountability and Reporting Challenges Need to Be Fully Addressed* (Report No. GAO-09-1016).

The GAO report concluded that states have implemented various internal control programs; however, these programs do not fully address the unique risks related to the Recovery Act. GAO's conclusion on the inadequacy of state internal control programs underscores the importance of VHA monitoring states' oversight of contractors. To help mitigate the risks associated with contractors, VHA must evaluate the adequacy of states' contractor monitoring plans and implementation of the plans.

**State Plans for  
Contract  
Monitoring**

VHA must ensure states prepare comprehensive plans for monitoring contractor qualifications and performance. SHCGP staff did not obtain contractor-monitoring plans from states that received non-Recovery Act funds. In addition, SHCGP did not plan to change procedures to obtain monitoring plans from states that receive Recovery Act funds. The Recovery Act requires states to monitor contractors that receive Recovery Act funds to ensure compliance with applicable federal requirements and contract terms and conditions. Each state's plan for monitoring Recovery Act funded activities must address areas such as the following:

- Evaluating contractor policies and procedures.
- Utilizing data collection instruments such as interview guides and review checklists.
- Comparing contractor timeliness with contract schedules.
- Providing monitoring reports and other feedback to contractors.
- Verifying contractors have implemented corrective actions.

Because the Recovery Act requires unprecedented transparency and accountability, state staff tasked with responsibilities to manage grants may need training on contractor monitoring. To assist states, VHA should collect and review documentation of state monitoring plans to ensure that states understand and fulfill their responsibility to monitor contractor performance. VHA also needs to consider providing technical assistance to states to help them develop and implement these plans.

VHA monitoring of states' oversight of contractors was inadequate because SHCGP managers relied on the VA/state financial partnership (65 percent VA funding and 35 percent state funding) and assumed, without verifying, that states provided adequate contractor oversight. To improve VHA monitoring and ensure sufficient states' oversight of contractors, SHCGP must establish policies and procedures requiring an assessment of states' plans for monitoring contractors. In addition, the policies and procedures need to include controls that ensure states' implement monitoring plans that adequately address: (1) contractor qualifications, (2) contractor performance, (3) construction site visit documentation, and (4) evidence supporting claimed cost reimbursements.

***Monitoring  
Contractor  
Qualifications***

VHA needs to improve its monitoring of states' oversight of contractor qualifications. We reviewed project files for two non-Recovery Act grants that SHCGP closed out during FY 2008 and three Recovery Act grants awarded during FY 2009. The only documentation in the files that related to monitoring contractor qualifications were state certifications that contractors were not on the General Services Administration's Excluded Parties List.

Determining if contractors are on the Excluded Parties List mitigates the risk of selecting contractors debarred or suspended from transactions with Federal agencies because of a conviction or civil judgment. However, the Recovery Act requires Federal agencies to ensure states consider several other contractor qualification risks, before awarding contracts, such as those listed below:

- Inadequate financial resources to perform the contract.



- Inability to comply with delivery or performance schedules.
- Unsatisfactory past performance, integrity, or business ethics.
- Inadequate accounting and operational controls.
- Insufficient staff with the necessary experience and technical skills.
- Inadequate production and construction equipment.

To help mitigate these risks, VHA must review state-provided evidence of contractors' qualifications during the pre-award phase of grants management.

**Monitoring  
Contractor  
Performance**

VHA needs to strengthen the monitoring of states' oversight of contractor performance. To determine if VHA was monitoring contractor performance before receiving Recovery Act funds, we reviewed grant files for two non-Recovery Act projects SHCGP staff closed out during FY 2008.

The files for these two projects included two types of documents related to contractor performance. The first type was state-submitted OMB Standard Forms 271 (SF-271) "Outlay Report and Request for Reimbursement for Construction Program" that SHCGP staff use to compare claimed costs with previously approved project costs. The second type was "Final Program Review Reports" prepared by VA's Office of Construction and Facilities Management (CFM). CFM performs final program reviews after contractors complete the construction or renovation projects to ensure the contractor has met the terms of the grant's "Memorandum of Agreement" (MOA) before VA makes final payment.

SHCGP managers stated that their monitoring of states' oversight of contractors was limited to reviewing these two documents and they had not revised policies and procedures to address additional Recovery Act monitoring requirements. The Recovery Act requires VHA to consider several other contractor performance risks throughout the project performance period such as:

- Untimely delivery or performance.
- Submitting false or inaccurate contractor progress reports.
- Providing inadequate working conditions for staff.
- Using materials that do not conform to contract requirements.
- Inadequate subcontractor performance.

- Claiming costs for work not performed.
- Claiming wages for fictitious staff or staff hours not worked.

**Construction Site Visits**

The Recovery Act also requires VHA to evaluate and demonstrate the effectiveness of states' oversight of contractors' construction. Specifically, VHA must ensure states conduct sufficient construction site visits throughout the contract performance period. SHCGP staff did not obtain documentation of state construction site visits for non-Recovery Act funded projects and did not plan to obtain this documentation for Recovery Act funded projects.

VHA's standard practices include performing CFM final program reviews after contractors complete construction projects. During these reviews, CFM conducts construction site visits or evaluates state photographs of completed extended care facilities. However, CFM does not perform construction site visits during the contract performance period.

VHA must implement steps beyond its standard site visit practices to help prevent inferior, inadequate, or untimely construction. These steps include requiring states to conduct construction site visits throughout the construction performance period and VHA reviewing site visit documentation. Contractor performance areas that state staff can evaluate during site visits include confirming that actual performance agrees with reported performance, ensuring the adequacy of work facilities and conditions, and verifying that reimbursement charges claimed for contractor staff are for the same staff performing contract work.

**Evidence of Claimed Costs**

VHA must also ensure states have sufficient supporting evidence for claimed cost reimbursements. The Recovery Act requires VHA to establish procedures to validate the accuracy of information submitted using a statistical and/or risk-based sampling approach. To comply with these requirements, VHA must implement additional risk management strategies that are beyond its standard practice of obtaining SF-271s with no supporting evidence. These strategies must include requiring states to provide VHA (for a sample of claimed costs) copies of contractor vouchers, invoices, and receipts that show information such as the quantity and unit price of materials, labor hours worked, and wage rates paid.

States claim project cost reimbursements by periodically submitting SF-271s to SHCGP officials. SF-271s show the period covered by the request, the percentage of project completion, and claimed expenses by cost classifications such as administrative, equipment, and construction. However, SHCGP does not require states to submit any evidence supporting the costs claimed on SF-271s. As a result, SHCGP staff had not obtained evidence to support state cost reimbursement claims for past projects. In

addition, SHCGP did not plan to change procedures to obtain evidence for Recovery Act funded projects or future non-Recovery Act funded projects.

**SHCGP Needs  
Additional  
Performance  
Measurements**

VHA needs to establish additional performance measurements that focus on SHCGP outcomes related to veterans who are the beneficiaries of the program. Performance measurements indicate program accomplishments and help to mitigate risks that could prevent programs from achieving their intended objectives. Performance measures should capture the most important aspects of a program's mission and priorities. VHA had established the following SHCGP Recovery Act performance measurements:

- States committing required state matching funds.
- Funded projects that have been obligated.
- Funds obligated.
- Funded projects started.
- Related renovations/upgrades construction projects that improve energy efficiency.

SHCGP used all five of these measurements to monitor the spending of Recovery Act funds. These measurements assess VHA progress in obligating Recovery Act funds, contractor progress in starting construction projects, and VHA success at funding projects that improve energy efficiency. However, they do not assess VHA's performance in regards to other important outcome-oriented accomplishments such as timely completion of Recovery Act funded projects and the quantity of housing and/or support services provided to disabled veterans. In addition, they do not measure the annual and long-term accomplishments of non-Recovery Act funded operations.

SHCGP managers had not established adequate performance measurements because SHCGP policies and procedures did not require managers to establish measurements of annual and long-term outcomes of both Recovery Act and non-Recovery Act funded operations. Additional SHCGP performance measurements that address the entire program's operations and the broader outcomes of the program's core mission will help improve SHCGP performance. By doing so, VHA managers will have additional information to help them effectively mitigate risks, allocate resources, focus states on SHCGP goals, and report SHCGP outcomes and accomplishments to stakeholders.

**Corrective Actions In-Process** In September 2009, we issued *Flash Report: American Recovery and Reinvestment Act Oversight Advisory—Staffing Challenges Facing Veterans Health Administration’s State Home Construction Grant Program* (VA OIG Report No. 09-01814-210, September 1, 2009). The report identified staffing concerns that needed immediate management attention to ensure accomplishment of Recovery Act and OMB objectives. Specifically, SHCGP’s insufficient and inadequately trained staff increased the risk of Recovery Act fund obligation delays; inadequate transparency and accountability; and program fraud, waste, and abuse.

We recommended the Acting Under Secretary for Health expedite actions to acquire sufficiently trained and experienced staff to meet the increased SHCGP workload, monitoring and reporting requirements, and accelerated timeframes associated with Recovery Act spending. Since we issued our flash report, GEC has completed a staffing assessment, hired a new SHCGP Chief and a full-time and part-time Presidential Management Fellow, and prepared a draft education plan to address our recommendations.

**Conclusion** VHA has several opportunities to strengthen management of SHCGP and improve the transparency and accountability of states’ spending of the \$150 million SHCGP Recovery Act funds. These opportunities include implementing the risk management strategies of preparing a SHCGP risk management plan, increasing the monitoring of states’ oversight of contractors, and establishing additional SHCGP performance measurements.

VHA implementation of these strategies will help ensure states efficiently use Recovery Act funds to stimulate the Nation’s economy by creating or saving jobs. These strategies will also help improve SHCGP effectiveness in providing housing and/or support services to disabled veterans.

- Recommendations**
1. We recommended the Under Secretary for Health prepare and implement an SHCGP risk management plan.
  2. We recommended the Under Secretary for Health establish policies and procedures requiring VHA to review state documentation of contract monitoring plans, contractor qualifications, contractor performance, construction site visits, and evidence for claimed cost reimbursements.
  3. We recommended the Under Secretary for Health develop SHCGP performance measurements that assess annual and long-term outcomes of Recovery Act and non-Recovery Act funded operations.

**Management Comments and OIG Response** The Under Secretary for Health agreed with the finding and recommendations in the report and provided acceptable implementation plans. The Under Secretary reported that VHA is taking the necessary steps to manage risk by identifying potential risks and implementing appropriate

strategies for mitigation. As part of this process, SHCGP officials have identified program-specific areas of risk, which include Recovery Act funds, and will implement necessary mitigation and corrective actions. SHCGP officials will formalize and document the program-specific elements of risk management by adding an addendum to VHA's existing risk management plan for the Recovery Act.

To improve VHA monitoring of states' oversight of contractors, SHCGP officials, in collaboration with the VA Office of Facilities Management, plan to establish additional policies and procedures. These policies and procedures will provide additional guidance related to oversight of state documentation for contract monitoring plans, contractor qualifications, contractor performance, construction site visits, and evidence for claimed cost reimbursements. Additionally, SHCGP will establish performance measures that assess annual and long-term outcomes of Recovery Act and non-Recovery Act funded operations with the overarching goal of restoring and improving the quality of life and specialized health care services for disabled veterans. We consider the planned actions acceptable and will follow up on their implementation.

## **Appendix A Scope and Methodology**

We conducted the audit from May 2009 through February 2010. To accomplish the audit objective, we reviewed Recovery Act requirements, OMB Recovery Act implementation guidance, other applicable laws, and VA and VHA regulations, policies, procedures, and guidelines. In addition, we interviewed staff from VA's Office of Finance and VHA's CFM, GEC, and SHCGP. We also reviewed files for 55 state extended care facility projects (49 projects to receive Recovery Act funds, 4 projects to receive non-Recovery Act funds, and 2 projects completed during FY 2008). We reviewed the FY 2008 completed projects to assess the effectiveness of controls in place.

### ***Computer-Processed Data Reliability***

To accomplish the audit objective, we used computer-processed data provided by SHCGP staff. To test the reliability of this data, we compared relevant computer-processed data with hardcopy documents in grant project files. The data was sufficiently reliable for the audit objective.

### ***Compliance with Government Audit Standards***

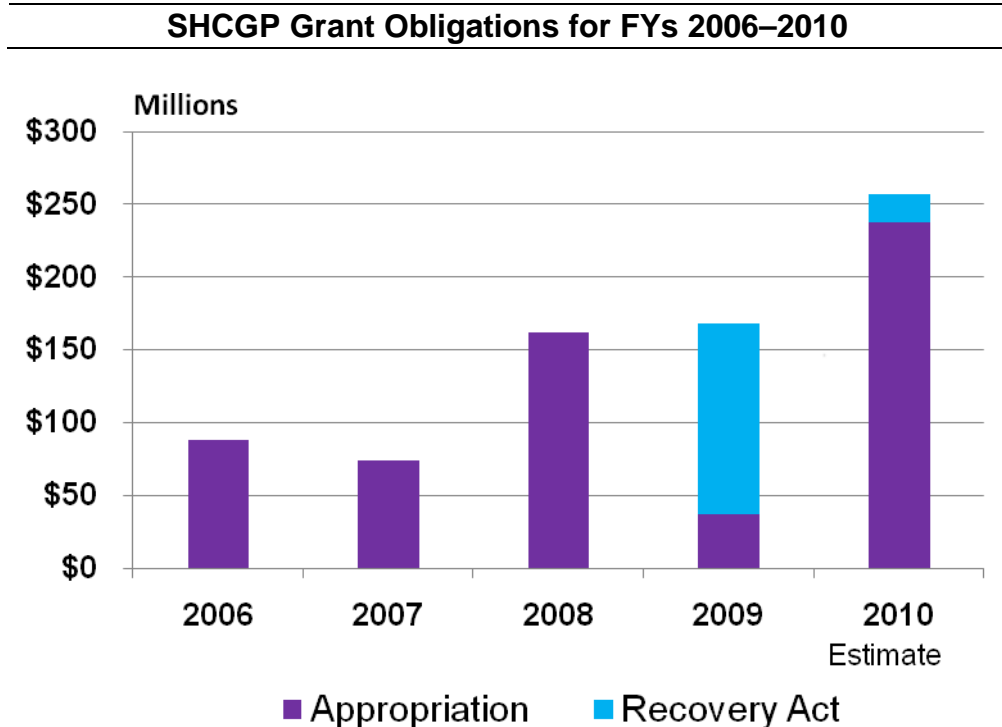
Our assessment of internal controls focused only on those controls related to our audit objective. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusion based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objective.

## Appendix B Background

### SHCGP Growth

From FY 2007 to FY 2008, VHA’s regular appropriation funded a 119 percent increase in SHCGP obligations. From FY 2008 to FY 2009, SHCGP obligations remained relatively flat, increasing only about 4 percent, with Recovery Act funding offsetting a decrease in regular appropriation funding. VHA estimates that from FY 2009 to 2010, the growth in SHCGP obligations will resume and increase by about 53 percent to about \$257 million. VHA’s regular appropriation funding of \$238 million (\$153 million carryover from FY 2009 + \$85 million for FY 2010) represents 93 percent of this increase. Figure 1 shows SHCGP grant obligations for the 5-year period FYs 2006–2010 (FY 2010 estimated).

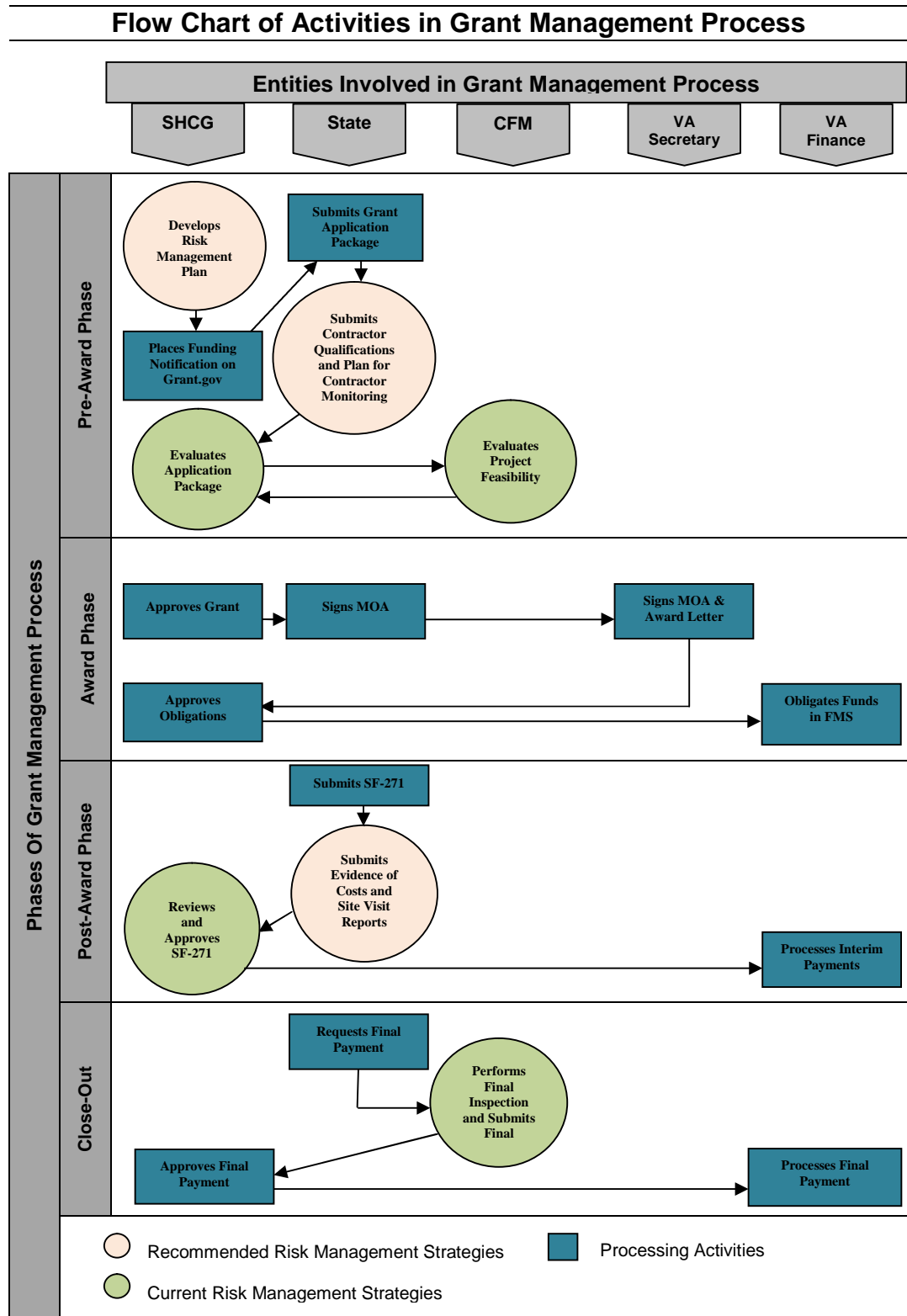
Figure 1



### The Grants Management Process

The grants management process includes four phases—pre-award, award, post-award, and closeout. While SHCGP staff has the main responsibility of managing grants, four other entities are involved in various aspects of the process—states, CFM, VA Secretary, and VA’s Office of Finance. Figure 2 on the next page shows the activities sequence for the four phases, the flow of documents between entities, and the current and recommended risk management strategies for the grants management process.

Figure 2





## Appendix C VHA's SHCGP Recovery Act Funds Spending Status

The Recovery Act provides VHA \$150 million to award states' grants for constructing or modifying extended health care facilities for veterans and requires VHA to obligate the \$150 million by September 30, 2010. As shown in Figure 3 (as of December 31, 2009), VHA had obligated \$141 million (94 percent) of the \$150 million.

Figure 3

<b>Status of SHCGP Recovery Act Fund Spending (as of December 31, 2009)</b>		
<b>State</b>	<b>Projects</b>	<b>Grant Funds (in Millions)</b>
<b><u>Obligated</u></b>		
1. Florida	1	\$3.25
2. Minnesota	1	6.18
3. New York	1	0.47
<b>Subtotals</b>	<b>3</b>	<b>\$9.90 (6.6%)</b>
<b><u>Conditionally Obligated</u></b>		
4. Arizona	1	\$18.57
5. Connecticut	1	5.95
6. Iowa	1	2.52
7. Illinois	1	0.59
8. Indiana	1	1.00
9. Michigan	1	0.70
10. Missouri	5	5.09
11. North Carolina	2	26.75
12. New Jersey	1	1.83
13. Ohio	4	1.25
14. Pennsylvania	1	31.66
15. Texas	1	17.45
16. Utah	1	12.81
17. Virginia	1	0.92
18. Wisconsin	4	3.99
<b>Subtotals</b>	<b>26</b>	<b>\$131.08 (87.4%)</b>
<b>Total Obligations</b>	<b>29</b>	<b>140.98 (94.0%)</b>
<b>Remaining To Be Obligated</b>		<b>9.02 ( 6.0%)</b>
<b>Total Recovery Act Funds</b>		<b>\$150.00 (100.0%)</b>

## Appendix D Under Secretary for Health Comments

# Department of Veterans Affairs

# Memorandum

**Date:** March 25, 2010  
**From:** Under Secretary for Health (10)  
**Subj:** *OIG Draft Report, Audit of State Home Construction Grant Program (SHCGP) Management of American Recovery and Reinvestment Act Funds (WebCIMS 450488)*  
**To:** Assistant Inspector General for Auditing (52)

1. I have reviewed the draft report and I concur with the recommendations. I want to assure you that the Veterans Health Administration (VHA) is working diligently to ensure transparency and accountability of Recovery Act funds spending for state grants to construct and renovate Veteran extended care facilities. Your report has validated our efforts to strengthen the State Home Construction Grant Program (SHCGP), and I have directed my staff to responsively consider and act upon your recommendations. I am encouraged by your report's finding that VHA remains on track to meet the deadline for obligating SHCGP Recovery Act funds (94 percent obligated as of December 31, 2009). SHCGP officials continue to be dedicated to achieving this goal and continue to actively monitor expenditures of Recovery Act funds to ensure obligation in a prompt, fair and reasonable manner.

2. I agree with your report that risk management is a key component to successfully accomplishing Recovery Act objectives, and VHA is continuing to take the necessary steps to manage risk by identifying potential risks and implementing appropriate strategies for mitigation. Following the Office of Management and Budget implementing guidance for the American Recovery and Reinvestment Act of 2009, agency officials developed the Department of Veterans Affairs Risk Management Plan, for the American Recovery and Reinvestment Act, which SHCGP adheres to. The Department of Veterans Affairs (VA) has a well-developed framework and process for overseeing Recovery Act efforts, which are led by the Deputy Secretary of Veterans Affairs, VA Chief of Staff, and the Deputy Assistant Secretary for Finance. Senior SHCGP officials meet with the Department's governance body weekly, or more frequently as needed, to oversee VA's overall implementation of the Recovery Act, and to assess related financial and program planning, progress and performance. As part of this process, SHCGP officials identify program-specific areas of risk and implement necessary mitigation and corrective actions.

Page 2

OIG Draft Report, *Audit of State Home Construction Grant Program (SHCGP) Management of American Recovery and Reinvestment Act Funds* (WebCIMS 450488)

3. To formalize and document the program-specific elements of risk management, SHCGP officials have included program specific risk mitigation strategies, which identify program-specific risks related to Recovery Act funds and strategies to mitigate those risks. The SHCGP risk management strategies are an addendum to, and in accordance with VHA's existing risk management plan.

4. In reference to your report's findings related to the need for improved monitoring of states' oversight of contractors who construct Veteran extended care facilities, I want to point out that VHA already adheres to stringent SHCGP policies and procedures, authorized in title 38 United States Code (U.S.C.) § 8131-8138 and regulated in title 38 Code of Federal Regulation (CFR) Part 59. However, as recommended in your draft report, SHCGP officials are currently reviewing existing policies and procedures, considering additional guidelines and guidance related to oversight of state documentation for contract monitoring plans, contractor qualifications, contractor performance, construction site visits, and evidence for claimed cost reimbursements.

5. Thank you for the opportunity to review the report. Attached is VHA's plan of corrective action for each of the report's recommendations. If you have any questions, please have a member of your staff contact Linda Lutes, Director, Management Review Service (10B5) at (202) 461-7245.

*(original signed by:)*

Robert A. Petzel, M.D.

Attachment

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

**OIG Draft Report, *Audit of State Home Construction Grant Program (SHCGP) Management of American Recovery and Reinvestment Act Funds* (WebCIMS 450488)**

**Date of Report: February 16, 2010**

<b>Recommendations/ Actions</b>	<b>Status</b>	<b>Completion Date</b>
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**Recommendation 1. We recommend that the Acting Under Secretary for Health prepare and implement an SHCGP risk management plan.**

VHA Comments

Concur

To formalize and document the program-specific elements of risk management, State Home Construction Grant Program (SHCGP) officials have included program specific risk mitigation strategies, which identify program-specific risks related to Recovery Act funds and strategies to mitigate those risks. The SHCGP risk management strategies are an addendum to and in accordance with VHA’s existing risk management plan.

1. To mitigate the risk of lack of communication, SHCGP has developed a case manager approach for managing state grants allowing open communication lines. Each state is assigned a single point of contact within VHA’s Office of Geriatrics and Extended Care to maintain a continuity of service and flow of information for each grant.
2. To mitigate the risk of lack of common understanding of Recovery Act guidelines and requirements, SHCGP has developed a Recovery Act Memorandum of Agreement that clearly articulates Recovery Act requirements allowing a better understanding of guidelines.
3. To mitigate the risk of lack of state commitment and ability to accept and wisely use Recovery Act funds, SHCGP required all states to submit letters indicating their ability to accept funding for each project to ensure the commitment of each state accepting Recovery Act funds.
4. To mitigate the risk of SHCGP not meeting Recovery Act guidelines for spending funds, SHCGP developed a spend down plan for remaining 2010 Recovery Act funding to include specific projects and the contingency plans.

5. To mitigate the risk that grant documentation is not processed in a timely manner, SHCGP facilitates weekly meetings with VA's Office of Construction and Facilities Management to review the status of Recovery Act construction projects.

6. To mitigate the risk of lack of planning, progress and performance implementing Recovery Act funds, SHCGP officials meet weekly with VA leadership to discuss issues and updates related to State Home Construction Recovery Act funding. SHCGP officials prepare an updated summary sheet indicating percent completion of Recovery Act projects for the VA weekly report. This weekly meeting and reporting is projected to continue until March 2011.

7. To mitigate the risk of not obligating Recovery Act funds in a timely manner, SHCGP officials submit a weekly Cabinet Report to VA leadership indicating the status of Recovery Act-related grants in the VA concurrence process. This monitoring helps ensure timely obligation of Recovery Act funding. This reporting is projected to continue until March 2011.

In Progress                      May 30, 2010

**Recommendation 2. We recommend that the Under Secretary for Health establish policies and procedures requiring VHA to review state documentation of: contract monitoring plans, contractor qualifications, contractor performance, construction site visits, and evidence for claimed cost reimbursements.**

VHA Comments

Concur

In addition to maintaining the stringent SHCGP policies and procedures, authorized in title 38 United States Code (U.S.C.) § 8131-8138 and regulated in title 38 Code of Federal Regulation (CFR) Part 59, VHA SHCGP, in collaboration with the VA Office of Facilities Management, plans to establish the following policies and procedures to compliment the existing requirements established in the regulations.

1. Prior to the beginning of any project, require states to submit contractor compliance with the wage and hour division outlined by the U.S. Department of Labor in order to ensure contractor performance in wage discrimination.
2. Require states to certify contractor's performance ensuring contractors have not been convicted of nor had a civil judgment rendered against them to mitigate the possibility of defaulting on construction.
3. Require states to submit verification of Excluded Parties List System for each contractor, which includes information regarding entities debarred, suspended, proposed for debarment, excluded or disqualified under Federal procurement rules.

4. Depending on the project lifecycle, complete program review and construction site visits on all bed producing projects and utilize digital technology on smaller projects to improve efficiency of the program and verification of contractor performance and claimed cost.
5. Review claimed cost reimbursements with the standard 424C form. Conduct statistical sampling of state records to include special claimed cost reimbursements for equipment and change orders. Ensure state complies with Federal Single Audit Act and reviews contract monitoring plans and contractor qualifications.
6. Perform contract monitoring to ensure certification regarding drug-free workplace and that no Federal appropriated funds have been paid or will be paid to any person for influencing the modification of any Federal contract or grant agreement.
7. Conduct annual site visits for all state Veterans homes in order to assess quality and environment of care.

In Progress                      April 30, 2010

**Recommendation 3. We recommend that the Under Secretary for Health develop SHCGP performance measurements that assess annual and long-term outcomes of Recovery Act and non-Recovery Act funded operations.**

VHA Comments

Concur

VHA SHCGP has established performance measures that assess annual and long-term outcomes of Recovery Act and non-Recovery Act funded operations with the overarching goal of restoring and improving the quality of life and specialized health care services for disabled Veterans. Within that framework, SHCGP has established the following outcomes and measures for Recovery Act funded projects.

1. Funds are awarded and distributed in a prompt, fair and reasonable manner. Related measures:
  - a. Notify 100 percent of states with eligible projects that Recovery Act funding is available by September 30, 2010;
  - b. Obligate 50 percent of Recovery Act funds by October 30, 2009;
  - c. Process 100 percent of states requesting Recovery Act final grant award prior to September 30, 2009;

- d. Obligate 75 percent of Recovery Act funds by November 30, 2009;
- e. Obligate 100 percent of Recovery Act funding by September 30, 2010; and
- f. Process states' completed payment requests in less than 10 business days in order to have the funding available in the Payment Management System to enable states to draw down the obligated funding.

2. Funds are used for authorized purposes and instances of fraud, waste, error and abuse are mitigated. Related measures:

- Complete program review and construction site visits on 100 percent of bed producing projects according to the project lifecycle.

3. Projects funded avoid unnecessary delays and cost overruns. Related Measures:

- Submit Cabinet Report, which includes the status of all Recovery Act funded grants in the concurrence process, on the first working day of each week.

In Progress

May 30, 2010

Veterans Health Administration  
March 2010

## Appendix E **OIG Contact and Staff Acknowledgments**

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Acknowledgments	Marcia Drawdy Stacey Gavalas Jamillah Mallory Cheri Preston Leon Roberts Felicia Stovall Al Tate Steve Wiggins
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## Appendix F Report Distribution

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This report will be available in the near future on the OIG's website at <http://www.va.gov/oig/publications/reports-list.asp> and on the American Recovery and Reinvestment Act of 2009 website at <http://www.recovery.gov/>. This report will remain on the OIG website for at least 2 fiscal years after it is issued.