

Inspector General

United States
Department of Defense



Upgrade/Renovate Clinic Project at Ellsworth
Air Force Base, South Dakota Generally
Complied with the American Recovery
and Reinvestment Act

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Acronyms and Abbreviations

AFB	Air Force Base
AFMSA	Air Force Medical Support Agency
FAR	Federal Acquisition Regulation
FBO	Federal Business Opportunities
FPDS	Federal Procurement Data System – Next Generation
MATOC	Multiple Award Task Order Contract
OMB	Office of Management and Budget
QMAD	Quantitative Methods and Analysis Division
TMA	TRICARE Management Activity
USACE	United States Army Corps of Engineers



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

January 6, 2011

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (HEALTH
AFFAIRS)
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
COMMANDING GENERAL, U.S. ARMY CORPS OF
ENGINEERS

SUBJECT: Upgrade/Renovate Clinic Project* at Ellsworth Air Force Base, South
Dakota Generally Complied with the American Recovery and Reinvestment
Act (Report No. D-2011-031)

We are providing this report for your information and use. We performed this audit in response to the requirements of Public Law 111-5, "American Recovery and Reinvestment Act of 2009" (Recovery Act), February 17, 2009. We determined that the Upgrade/Renovate Clinic Project addressed valid requirements and generally complied with Recovery Act requirements. We considered management comments on a discussion draft of this report in preparing the final report. No additional comments are required.

We appreciate the courtesies extended to the staff. Please direct questions to Mr. Michael Joseph at (757) 872-4698.

A handwritten signature in blue ink, reading "Alice F. Carey", is positioned above the typed name.

Alice F. Carey
Assistant Inspector General
Readiness, Operations, and Support

*The Upgrade/Renovate Clinic Project actually encompasses three projects: Recovery Act Projects 109, 110, and 111. For the purposes of this report, we refer to them collectively as one project: the Upgrade/Renovate Clinic Project.



Results in Brief: Upgrade/Renovate Clinic Project at Ellsworth Air Force Base, South Dakota Generally Complied with the American Recovery and Reinvestment Act

What We Did

Our overall objective was to evaluate DoD's implementation of Public Law 111-5, "American Recovery and Reinvestment Act of 2009," February 17, 2009, (Recovery Act). Specifically, we reviewed the planning, funding, execution, and tracking and reporting of Recovery Act Projects 109, 110, and 111, implemented collectively under one Air Force project entitled the "Upgrade/Renovate Clinic Project." The Upgrade/Renovate Clinic Project at Ellsworth Air Force Base (AFB) cost \$16.5 million. We determined whether the efforts of personnel at the Air Force Medical Support Agency (AFMSA), the United States Army Corps of Engineers (USACE), and activities at Ellsworth AFB complied with Recovery Act requirements and subsequent related guidance.

What We Found

We determined that the Upgrade/Renovate Clinic Project addressed valid requirements. Personnel at the 28th Civil Engineer Squadron, Ellsworth AFB; AFMSA; USACE Headquarters, Fort Worth District, and Little Rock District generally planned and executed the project as required by the Recovery Act. Also, personnel at USACE Headquarters distributed Recovery Act funds to support the project in a timely manner, and the contractor reported information required by the Recovery Act.

The \$16.5 million project cost estimate was generally reasonable based on supporting documentation; however, \$1.5 million of the cost estimate was not supported. Because the task order was awarded competitively and on a firm-fixed-price basis under a Multiple Award

Task Order Contract, we believe the risk associated with the lack of supporting documentation for \$1.5 million of the cost estimate was mitigated and should not impede project implementation.

The contract and task order included all possible Recovery Act Buy American Act clauses. During our review, personnel at USACE Little Rock modified the task order to include only applicable Buy American Act clauses.

What We Recommend

This report contains no recommendations.

Management Comments

In preparing this report, we considered USACE comments on a discussion draft report. Personnel from AFMSA and Ellsworth AFB had no comments on the discussion draft report.

Figure 1. 28th Medical Group Clinic at Ellsworth Air Force Base, South Dakota



Source: Facility Manager, 28th Medical Group Clinic, Ellsworth Air Force Base, SD

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Introduction

Objective

Our overall objective was to evaluate DoD’s implementation of Public Law 111-5, “American Recovery and Reinvestment Act of 2009,” February 17, 2009 (Recovery Act). Specifically, we reviewed the planning, funding, execution, and tracking and reporting phases of three Recovery Act Projects—109, 110, and 111—implemented collectively under one Air Force project entitled “Upgrade/Renovate Clinic Project” at Ellsworth Air Force Base (AFB), South Dakota. We determined whether the efforts of the Air Force Medical Support Agency (AFMSA), the United States Army Corps of Engineers (USACE), and activities at Ellsworth AFB complied with Recovery Act requirements, Office of Management and Budget (OMB) Memorandum M-09-10, “Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009,” February 18, 2009, and subsequent related guidance.

The Recovery Act and OMB guidance requires projects to be monitored and reviewed. We grouped these requirements into the following four phases: (1) planning, (2) funding, (3) execution, and (4) tracking and reporting. See the appendix for a discussion of our scope and methodology.

Background

In passing the Recovery Act, Congress provided supplemental appropriations to preserve and create jobs; promote economic recovery; assist those most impacted by the recession; provide investments to increase economic efficiency by spurring technological advances in science and health; and invest in transportation, environmental protection, and other infrastructure. The Recovery Act also established unprecedented efforts to ensure the responsible distribution of funds for its purposes and to provide transparency and accountability of expenditures by informing the public of how, when, and where tax dollars were being spent. Further, the Recovery Act states that the President and heads of the Federal departments and agencies were to expend these funds as quickly as possible, consistent with prudent management.

DoD received approximately \$7.16 billion¹ in Recovery Act funds for projects that support the Act’s purposes. In March 2009, DoD released expenditure plans for the Recovery Act, which listed DoD projects that will receive Recovery Act funds. The Assistant Secretary of Defense (Health Affairs) received \$400 million of Recovery Act funds for Defense Health Program Operations and Maintenance projects. Of the \$400 million, TRICARE Management Activity (TMA) personnel allocated \$16.5 million to Project 109, “Modernize Outpatient Clinical Spaces,” Project 110, “Repair and Upgrade HVAC, Sanitary Sewer, Hot Water Systems in Clinic,” and Project 111, “Life

¹ DoD originally received \$7.42 billion; however, Public Law 111-226, Title III, “Rescissions,” rescinded \$260.5 million on August 10, 2010. The \$7.16 billion does not include \$4.6 billion for U.S. Army Corps of Engineers civil works projects.

Safety Upgrade in Outpatient Clinic,” at Ellsworth AFB, South Dakota. The three Recovery Act projects were implemented collectively under one Air Force project entitled “Upgrade/Renovate Clinic Project.” Table 1 lists the amounts allocated to each of the three projects.

Table 1. TMA Allocated Funds to Support Recovery Act, Defense Health Program Operations and Maintenance Projects at Ellsworth AFB, South Dakota

Recovery Act Project	Amount (in thousands)
Modernize Outpatient Clinical Spaces (109)	\$13,250
Repair and Upgrade HVAC, Sanitary Sewer, Hot Water Systems in Clinic (110)	2,900
Life Safety Upgrade in Outpatient Clinic (111)	350
Total	\$16,500

On October 31, 2009, personnel at USACE Little Rock District awarded a task order for supplies and services under a competitive Multiple Award Task Order Contract (MATOC) in the amount of \$15,622,387, with each of the three projects listed as a separate line item. The overall Upgrade/Renovate Clinic Project included a phased, multi-year repair effort to optimize primary care and ancillary services. In addition, the project will upgrade communication infrastructure, heating and air conditioning systems, windows, sewer and plumbing systems, and provide structural interior design for the facility’s first floor. The steam plant will be deactivated and a domestic heating and hot water system provided. The clinic’s third floor and portions of the second floor will be decommissioned. The planning effort includes requirements to comply with applicable Uniform Facility Codes and National Fire Protection Association building codes and restrictions. Additionally, the project will incorporate applicable Air Force and Air Combat Command objectives for high-performance, green building issues such as addressing water use, reducing energy use, commissioning building, selecting materials, and maximizing indoor environmental quality. Another goal of the project is to increase staff efficiency by realigning the facility based on the Air Force Surgeon General Primary Care Optimization Model.

28th Medical Group, Ellsworth AFB Mission

The mission of the 28th Medical Group at Ellsworth AFB is to provide a fit and healthy force for global response. According to the 2008 Economic Impact Analysis, the medical group provided a variety of healthcare services to approximately 7,700 active duty service members and dependents. In addition, about 3,800 military retirees in western South Dakota are eligible to receive care. The medical group provides such services as family practice, optometry, dental, flight medicine, mental health, physical therapy, laboratory, pharmacy, and radiology.

Project Support

Personnel at USACE provided contracting and project management services in support of the Upgrade/Renovate Clinic Project. AFMSA personnel stated the responsibility for support services initially was assigned to personnel at USACE Fort Worth District and later transferred to personnel at USACE Little Rock District. These services included awarding contracts for the Recovery Act project to upgrade and renovate the clinic and assigning project managers to oversee the contracted work.

Review of Internal Controls

DoD Instruction 5010.40, “Managers’ Internal Control Program (MICP) Procedures,” July 29, 2010, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance programs are operating as intended and to evaluate the effectiveness of the controls. We identified an internal control weakness in the administration of the Upgrade/Renovate Clinic Project as defined by DoD Instruction 5010.40. Personnel at USACE Little Rock District initially incorporated several inappropriate Recovery Act Federal Acquisition Regulation (FAR) clauses into contracting actions, as discussed in detail in the Audit Results section of this report. Management completed corrective actions during the audit, so we make no recommendations in this report. We will provide a copy of the report to the senior official in charge of internal controls for USACE Headquarters.

Audit Results. Upgrade/Renovate Clinic Project

The Upgrade/Renovate Clinic Project was a valid requirement, and personnel at the 28th Civil Engineer Squadron and AFMSA generally planned the project as required by the Recovery Act; however, \$1.5 million of the \$16.5 million project cost estimate was not supported by documentation. USACE Headquarters personnel distributed Recovery Act funds in a timely manner, and contracting personnel ensured that contracting actions for the project met Recovery Act requirements. Also, the contractor reported information required by the Recovery Act. Although the initial task order improperly included additional Buy American Act FAR clauses, USACE Little Rock District personnel modified the task order to require only the applicable clauses.

Planning: Project Needed and Generally Supported

According to project planning documents, modernizing the outpatient clinical spaces at Ellsworth AFB will reconfigure and renovate portions of the facility and will align ancillary, support, and administrative functions in accordance with DoD criteria for medical space planning. The outpatient clinic is over 50 years old and was originally designed as a hospital. Many clinic functions have been placed in areas formally used as patient bed and operating rooms and connected by 8-foot corridors. This layout has caused considerable space inefficiencies and fractured departments. Currently, patients must travel greater distances between departments and often are confused when moving around the facility. The current mechanical and plumbing systems are inefficient and costly to maintain, causing frequent outages and emergency repairs. We reviewed supporting documentation for the project requirement and cost estimates.

Requirements Were Documented

Personnel at AFMSA and the 28th Civil Engineer Squadron appropriately documented the requirements for the Upgrade/Renovate Clinic Project. We reviewed documentation supporting the project requirements and toured the clinic to inspect areas identified for replacement or renovation. In addition, in 2007 an AFMSA Assessment Team reviewed the infrastructure and functionality of the outpatient clinic and identified areas of concern including the building infrastructure; patient and family access to outpatient services; heating and air conditioning in the communication server room; asbestos and radon; life and safety systems; and space available for services such as pharmacy, laboratory, and radiology. Based on our review of planning documents, our on-site observations, and facility assessment studies, we determined that the Upgrade/Renovate Clinic Project was a valid requirement and supports the healthcare needs of the beneficiary population at Ellsworth AFB.

Based on our review of planning documents, our on-site observations, and facility assessment studies, we determined that the Upgrade/Renovate Clinic Project was a valid requirement and supports the healthcare needs of the beneficiary population at Ellsworth AFB.

Cost Estimate Was Generally Supported

Based on supporting documentation, we determined that \$15 million of the \$16.5 million project cost estimate was reasonable. Personnel at the 28th Civil Engineer Squadron completed DD Form 1391, "Military Construction Project Data," estimating the project cost at about \$15 million. Although the form is not dated, an approval signature is dated April 7, 2009. While reviewing supporting documentation, we found an undated DD Form 1391 for the project with a cost estimate of \$16.5 million, an amount that coincides with the total amount as listed in DoD's expenditure plan for Recovery Act projects. Personnel from the Air Force Surgeon General office, in collaboration with AFMSA, increased the original estimate of \$15 million by \$1.5 million but could not provide documentation supporting the additional cost.

Personnel at the USACE Fort Worth District developed an independent government estimate of \$14,947,727, including \$398,239 for Initial Outfitting-Transition services. According to FAR 15.305-1, "Proposal Evaluation," competition normally establishes price reasonableness, and when contracting on a firm-fixed-price basis occurs, the proposed prices usually satisfy the requirement to perform a price analysis. Under the MATOC, the solicitation to upgrade and renovate the clinic was open to three contractors, each of whom submitted a firm-fixed-price proposal. Because multiple proposals were submitted and competition can establish price reasonableness, we believe the risk associated with the lack of supporting documentation for \$1.5 million of the cost estimate was mitigated and should not impede project implementation.

Funding: Recovery Act Funds Distributed Timely

Personnel at USACE Headquarters distributed Recovery Act funds to USACE Fort Worth District in a timely manner, and the funding documents properly included a Recovery Act designation. Funding documents indicated that USACE Headquarters transferred Recovery Act funds in the amount of \$16.5 million on May 22, 2009, to USACE Fort Worth District, an amount consistent with the project estimate as stated in the DoD Facilities Sustainment, Restoration, and Modernization Program Plan. On October 30, 2009, after personnel at USACE Fort Worth District had expended approximately \$20,000 on planning and design, they transferred \$16.48 million to personnel at USACE Little Rock District to support the Upgrade/Renovate Clinic Project. Current total obligations for the project are about \$19.65 million. This includes \$16,277,907 of Recovery Act funds awarded to the contractor for the original task order, a revised floor plan, dental equipment revisions, a corridor addition, replacement of all basement piping, and \$3,374,672 of Operations and Maintenance funds obligated for Initial Outfitting-Transition services and asbestos abatement.

Execution: Project Execution Adequate

USACE Little Rock District personnel adequately performed the execution of the project. Personnel competitively solicited the Request for Proposal and awarded the resulting task order with full transparency to the public. Although initially containing improper Buy

American Act FAR clauses, the task order was modified to include only required Buy American Act FAR clauses for Recovery Act contract actions.

Personnel at USACE Little Rock District competitively awarded the task order at a firm-fixed-price on October 31, 2009, consistent with the estimated time frame shown in DoD's Recovery Act expenditure plan. In addition, documents in the contract file showed that United Excel Corporation, the contractor selected, was registered in the Central Contractor Registration Web site and did not appear in the Excluded Parties List System as an excluded or suspended contractor. Although Recovery Act implementing guidance requires the posting of contracting actions on the Federal Business Opportunities (FBO) Web site, personnel at USACE Fort Worth District did not post the pre-solicitation on the FBO Web site. According to those personnel, there is an internal process for Recovery Act project review prior to solicitation; however, the Request for Proposal for this project was inadvertently released prior to the review, resulting in the omission of the pre-solicitation posting. Personnel at USACE Fort Worth District did post an award notice on the FBO Web site clearly stating the notice was provided for informational purposes only. We are not addressing this as a transparency issue because the opportunity was available only to contractors under the Southwestern District MATOC for Construction and Design Build for Healthcare Facilities for the United States Air Force Medical Services Agency, United States Army Medical Command, and other customers of the United States Army Corps of Engineers.

The MATOC and the task order included the FAR clauses required by Recovery Act implementation guidance, including those for whistleblower protection reporting, the Davis-Bacon Act, and the Buy American Act. However, the task order included all possible Recovery Act Buy American Act FAR clauses, not just the applicable clauses. After we notified USACE Little Rock District personnel, they modified the task order in June 2010 to eliminate the unnecessary clauses (FAR 52.225-21 and FAR 52.225-22).

Tracking and Reporting: Contractor Reported Required Information

According to USACE Little Rock District personnel, procedures are in place to ensure the contractor reports recipient information required by the Recovery Act. Prior to each quarterly reporting period, personnel at USACE Little Rock District provide contractors written notice of the reporting requirement and remind contractors of the applicable suspense date. Personnel at USACE Little Rock District also review contractor reports and notify contractors of discrepancies needing correction. In addition, USACE Headquarters, Division, and District personnel monitor the reporting process. For the third quarter of FY 2010, United Excel reported the recipient information required by the Recovery Act, including the number of jobs and total dollar value for the project.

Conclusion: Project Implementation Generally Complied with Recovery Act Requirements

We concluded that the Upgrade/Renovate Clinic Project was needed and generally complied with guidance implementing the Recovery Act. Personnel at the 28th Civil Engineer Squadron and AFMSA only partially supported the project cost estimates, but by competitively awarding the task order, offset the risk associated with the unsupported portion of the cost. Personnel at USACE Headquarters distributed Recovery Act funds to USACE Fort Worth District in a timely manner, and the funding documents properly included a Recovery Act designation. Personnel at USACE Little Rock District ensured the project was executed in accordance with requirements of the Recovery Act, but included some unnecessary Recovery Act Buy American Act FAR clauses. They later modified the task order to delete the unnecessary FAR clauses; therefore, we are not making any recommendations.

Appendix. Scope and Methodology

We conducted this audit from September 2009 through August 2010 in accordance with generally accepted government auditing standards. Generally accepted government auditing standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

The overall objective was to evaluate DoD's implementation of plans for the Recovery Act. To accomplish our objective, we audited the planning, funding, execution, and tracking and reporting of Recovery Projects 109, 110, and 111, collectively implemented as one Air Force project entitled "Upgrade/Renovate Clinic Project," at Ellsworth AFB, valued at \$16.5 million. Specifically, we determined whether:

- the selected projects were adequately planned to ensure the appropriate use of Recovery Act funds (Planning);
- funds were awarded and distributed in a prompt, fair, and reasonable manner (Funding);
- contracts awarded were transparent, competed, and contained FAR clauses required by the Recovery Act (Project Execution); and
- recipients' use of funds was transparent to the public; and the benefits of the funds were clearly, accurately, and timely reported (Reporting).

We interviewed personnel from TMA, AFMSA, USACE Little Rock District, USACE Fort Worth District, and personnel from the 28th Civil Engineer Squadron, the 28th Comptroller Squadron, and the 28th Contracting Squadron at Ellsworth AFB. We reviewed documentation from the official contract file, DD Forms 1391 and associated support, cost estimates, funding authorization documents, statements of work, task orders, and the MATOC. We also made observations of the Upgrade/Renovate Clinic Project during a visit to Ellsworth AFB. We reviewed the FBO, Federal Procurement Data System – Next Generation (FPDS), federalreporting.gov, and recovery.gov Web sites for pre-solicitation, award postings, modifications, and reporting. We also reviewed the Central Contractor Registration and the Excluded Parties List System Web sites for information on the contractors. We reviewed Federal, DoD, Air Force, and Ellsworth AFB guidance. Although we determined whether the contractor reported in accordance with FAR 52.204-11, we did not validate the data reported by the contractor to the Recovery Act Web site at this time. We plan to address the adequacy of recipient reporting in a future DoD Office of the Inspector General report.

Use of Technical Assistance

Before selecting DoD Recovery Act projects for audit, the Quantitative Methods and Analysis Division (QMAD) of the DoD Office of the Inspector General analyzed all DoD agency-funded projects, locations, and contracting oversight organizations to assess the risk of waste, fraud, and abuse associated with each. QMAD selected most audit projects

and locations using a modified Delphi technique, which allowed QMAD to quantify the risk based on expert auditor judgment and other quantitatively developed risk indicators. QMAD used information collected from all projects to update and improve the risk assessment model. QMAD selected 83 projects with the highest risk rankings; auditors chose some additional projects at the selected locations. Project 109 was included in the 83 selected projects, and Projects 110 and 111 were judgmentally selected for review because they were jointly implemented under one contract together with Project 109.

QMAD did not use classical statistical sampling techniques that would permit generalizing results to the total population because there were too many potential variables with unknown parameters at the beginning of this analysis. The predictive analytic techniques employed provided a basis for logical coverage not only of Recovery Act dollars being expended, but also of types of projects and types of locations across the Military Services, Defense agencies, State National Guard units, and public works projects managed by USACE.

Use of Computer-Processed Data

We relied on computer-processed data from the FBO and FPDS Web sites. FBO is a single, Government-wide point-of-entry for Federal Government procurement opportunities. The FPDS is a dynamic, real-time database in which contracting officers can update data to include new actions, modifications, and corrections. We compared data generated by each system with the appropriate DoD expenditure plans, funding authorization documents, or project and contracting documentation to support the audit conclusions. We determined that the data were sufficiently reliable for the purposes of our report.

Prior Audit Coverage

The Government Accountability Office, the DoD Office of the Inspector General, and the Military Departments have issued reports and memoranda discussing DoD projects funded by the Recovery Act. You can access unrestricted reports at <http://www.recovery.gov/accountability>.



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