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Recovery Act-Funded Naval Hospital Replacement Project
at Camp Pendleton, California, Was Adequately
Justified and Planned and, if Implemented,
Performance and Reporting Controls
Will Be Effective

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Acronyms and Abbreviations

NAVFAC	Naval Facilities Engineering Command
NAVMEDWEST	Navy Medicine West
NHCP	Naval Hospital Camp Pendleton
OMB	Office of Management and Budget
QA	Quality Assurance
QMAD	Quantitative Methods and Analysis Division
SPC	Structural Performance Category
SW	Southwest
TMA	TRICARE Management Activity
UFC	Unified Facilities Code



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

September 30, 2011

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (HEALTH
AFFAIRS)
NAVAL INSPECTOR GENERAL
COMMANDING OFFICER, NAVAL FACILITIES
ENGINEERING COMMAND, SOUTHWEST

SUBJECT: Recovery Act-Funded Naval Hospital Replacement Project at Camp Pendleton, California, Was Adequately Justified and Planned and, if Implemented, Performance and Reporting Controls Should Be Effective (Report No. D-2011-120)

The DoD Office of Inspector General is performing audits of DoD's implementation of Public Law 111-5, "American Recovery and Reinvestment Act of 2009," February 17, 2009 (Recovery Act). Our objective was to determine whether DoD and its Components are implementing the Recovery Act.¹ Specifically, we evaluated whether TRICARE Management Activity (TMA) and Navy Medicine West (NAVMEDWEST) personnel properly justified and planned the Naval Hospital Camp Pendleton (NHCP) Replacement project, valued at \$506 million, to ensure the appropriate use of Recovery Act funds. We also evaluated the effectiveness of Government controls over contractor's performance and reporting on the NHCP replacement project, including contracts awarded to qualified small businesses.

The NHCP Replacement project at Camp Pendleton, California, will result in a multi-story replacement hospital with an inpatient medical facility, ancillary departments, emergency care, primary care, specialty care clinics, and support spaces. Naval Facilities Engineering Command (NAVFAC) Southwest (SW) personnel awarded a site planning contract for the NHCP Replacement project on July 1, 2009, and the contract to develop the design concept for the hospital on September 18, 2009. NAVFAC SW personnel awarded the design/build contract for the NHCP Replacement project on September 1, 2010, and construction work on its foundation began on June 6, 2011. The Navy expects to complete the hospital by January 7, 2014.

Replacement Project Was Adequately Justified and Planned

TMA and NAVMEDWEST personnel properly justified and planned the NHCP Replacement project to ensure the appropriate use of Recovery Act funds.

¹ We conducted audit work against two audit announcement memoranda. See the scope and methodology section for the details.

NAVMEDWEST personnel provided planning documents that revealed the facility does not meet today's seismic criteria or the Unified Facilities Code (UFC) for medical military facilities.

Existing Hospital Does Not Meet Seismic Safety Standards

Although the NHCP does not meet the seismic standards, the NHCP Replacement project will be built to the equivalent of the highest structural performance category (SPC) -5 and nonstructural performance category-5 ratings. Seismic studies of the existing hospital determined its survivability as SPC-1, posing a significant risk of collapse and a danger to the public. California Senate Bill 1953, enacted in 1994, expanded the scope of the 1973 Alfred E. Alquist Hospital Seismic Safety Act (Hospital Act). The Hospital Act requires that all hospitals licensed by the California Office of Statewide Health Planning and Development be evaluated for seismic survivability. The levels of structural seismic performance range from potential collapse hazard, which is SPC-1, to immediate occupancy after a seismic event (SPC-5). Those considered at most risk of collapse or significant damage and possible loss of life in the event of a major earthquake would receive a SPC-1 code and would have to be replaced or retrofitted to meet the Hospital Act's higher seismic safety standards.

The goal of the Hospital Act is to have hospitals achieve a rating of SPC-3. Facilities rated at this level may experience structural damage, but the damage would not significantly jeopardize life. According to the Hospital Act, in order for a SPC-1 coded facility to offer some protection to lives, it had to be brought up to a minimum of SPC-2 by 2013. An April 2007 Capital Planning Study of NHCP strongly emphasized that without a seismic retrofit, the highest level of structural classification available to the NHCP is a SPC-2 rating. According to the seismic studies, buildings with a SPC-2 rating would not comply with the structural provisions of the Hospital Act, but would not significantly jeopardize life following strong ground motion. While a seismic retrofit to the existing hospital would help it meet the Hospital Act requirements, the 2007 study also noted that a seismic retrofit project of this type may adversely affect operations during construction and degrade the size of several departments.

Additionally, the existing NHCP does not comply with the nonstructural seismic requirements. Like its structural counterpart, nonstructural performance also provides five seismic performance levels. The Hospital Act requires that hospitals rated nonstructural performance category-3 have some critical equipment and systems that are not braced and anchored to ensure the hospital would be able to provide basic emergency care following an earthquake provided the building structure is not extensively damaged. Seismic studies commissioned by NAVFAC to evaluate NHCP each rated it at nonstructural performance category-1; thus, the NHCP does not meet the requirements of the Hospital Act.

Although Federal Government facilities do not fall under the jurisdiction of the Hospital Act, TMA and Navy personnel stated that there is an obligation to perform whatever corrective actions that are necessary to ensure the safety of patients and staff. Since DoD requires the use of the International Building Code, the NHCP Replacement project is

being designed in accordance with the 2007 California Building Code which incorporates, by adoption, the International Building Code. The design for the NHCP Replacement project includes requirements for the hospital to be the equivalent of a SPC-5 and nonstructural performance category-5 rating.

Existing Hospital Does Not Meet Space Planning Guidelines

According to planning documents, the NHCP needs significant functional upgrades to meet the space planning criteria, which determines department sizes. UFC 4-510-01, “Unified Facilities Criteria- Design: Medical Military Facilities,” July 8, 2009, provides general guidance and procedures for design and construction of military treatment facilities.

NHCP was designed in 1969 primarily for an inpatient mission with a maximum inpatient capacity of 584 beds. In 1974, the Navy completed construction of the hospital. The hospital now has 72 beds and provides a wide range of general health care services to approximately 149,000 eligible beneficiaries. In FY 2010, personnel at NHCP conducted 561,342 outpatient visits and 4,960 inpatient admissions. Recent medical trends focus more on outpatient care and less on inpatient care. Because the existing hospital was designed primarily for inpatient services, it has an inefficient layout of services for both patients and staff.

Master Plan Forecasts Future Health Care Needs

Based on the review of the planning documents and our onsite observations, we determined that the NHCP Replacement project is a valid requirement and was adequately justified and planned to ensure the appropriate use of Recovery Act funds. In April 2003, the NHCP Replacement project’s Master Planning Team prepared a master plan, forecasting the future health care needs at Camp Pendleton. The master plan cited major deficiencies in the NHCP that included deficiencies in meeting Americans with Disabilities Act requirements and inadequate support and storage space. In addition, many outpatient departments were located in spaces that were originally designed for inpatient use.

The master plan also included a Health Care Requirements Analysis, which identified NHCP Replacement project’s required product lines; reorganized work centers; and predicted workload for each work center, associated staffing needs, and space utilization requirements. According to its planning methodology, the Health Care Requirements Analysis considered various available sources to evaluate population-based workload projections, levels of provider productivity, and staffing to determine facility needs.

When determining solutions for the NHCP Replacement project’s needs, the Navy Bureau of Medicine and Surgery completed an economic analysis that considered both a renovation with seismic upgrades and a replacement option. Although the original net present value calculations for the renovation were initially more favorable, the Navy deemed the impact to patient care during a major renovation/upgrade unacceptable.

Preliminary Controls Over Contractor's Performance in Place

NAVFAC SW and NAVMEDWEST personnel established controls to monitor contractor's performance that, if implemented, should ensure the project avoids unnecessary delays and cost overruns. On September 1, 2010, NAVFAC SW personnel awarded a design/build contract, valued at \$394 million, to Clark/McCarthy for the design and construction of the NHCP Replacement project. As of April 2011, NAVFAC SW personnel had awarded six additional contracts to prime recipients² and plans to award several additional contracts or task orders as needed.

Project Management Team Dedicated to Project Oversight

NAVFAC SW and NAVMEDWEST personnel collaboratively established a project management team, exclusively dedicated to the oversight of the NHCP Replacement project. The multi-disciplinary management team includes the Resident Officer in Charge of Construction; Medical Construction Liaison Officers; personnel from the NAVFAC Medical Facility Design Office; the program manager; contracting officers; fire protection, electrical, civil/structural, and mechanical engineers; an architect; and an interior designer. Some team members were involved in planning the project's acquisition strategy and participated in awarding the contracts. NAVFAC SW and NAVMEDWEST personnel stated that the team will remain in place until the project's completion. The team is also co-located on the construction site with Clark/McCarthy's construction managers. The project management team, as well as the public, has access to a Clark/McCarthy Webcam that provides 24-hour live video monitoring of the construction site.

Quality Assurance Plan In Place for Design/Build Contract

NAVFAC SW also has a quality assurance (QA) plan in place to ensure that Clark/McCarthy meets the technical requirements for inspection, testing, and other contract quality requirements essential to the integrity of supplies or services. To identify and address non-conformance issues, NAVFAC SW uses QA reports, which document the work in progress and the condition of the project. NAVFAC SW also monitors Clark/McCarthy using an agreed-to contractor schedule. The schedules include detailed milestones for design and construction, such as when design package submittals are due and when inspections will occur. Additionally, the design/build contract includes qualification, certification, and test plan requirements for Clark/McCarthy to monitor and perform as part of their QA oversight of the project.

NAVFAC SW Plans on Implementing Additional Oversight Contract

Because of the magnitude of the NHCP Replacement project, the team plans to solicit and award a QA commissioning oversight contract that will provide consulting services

² Prime recipients are non-Federal entities that receive Recovery Act funding directly from the Federal Government.

to assist the Government with their QA surveillance program. According to the Resident Officer in Charge of Construction, the proposed consulting contract would ensure that Clark/McCarthy is providing adequate quality control over the commissioning of equipment and systems in the hospital, preventing accidents, hazards, and loss of life. If the project management team implements controls over the contractor's performance as planned, the Navy will be able to monitor whether the project is being executed within established milestones and cost.

NAVFAC SW Implemented Controls Over Recipient Reporting

NAVFAC SW personnel established controls over the recipient reporting process that, if implemented, should ensure recipients report in accordance with section 1512 of the Recovery Act and Office of Management and Budget (OMB) guidance. Section 1512 of the Recovery Act requires recipients of Recovery Act-funded awards to submit quarterly reports on the use of funds to the www.FederalReporting.gov Web site.

Recovery Act Recipient Reporting Guidance

OMB Memorandum M-10-08, "Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates," December 18, 2009, and OMB Memorandum M-10-14, "Updated Guidance on the American Recovery and Reinvestment Act," March 22, 2010, place responsibility upon awarding agencies to review Federal contractors' recipient reports. Also, on September 30, 2009, Office of Federal Procurement issued a policy memorandum, "Interim Guidance on Reviewing Contractor Reports on the Use of Recovery Act Funds in Accordance with FAR Clause 52.204-11," which described the reporting process and the requirements for agencies to review reports for consistency with award information, significant errors, and material omissions in reporting.

DoD Memorandum, "Guidance on Reviewing Contractor Reports Required by the American Recovery and Reinvestment Act of 2009," December 16, 2009, required contracting officers to review quarterly recipient reports and assist contractors in their recipient reporting. The guidance noted that recipient reporting is part of the terms for each Recovery Act contract and, as such, contracting officers should address a contractor's failure to comply with timely or accurate reporting as they would any other contract performance issue.

NAVFAC SW Made Process Improvements to Its Review Process Using a Lean Six Sigma Review

NAVFAC SW personnel had processes in place to monitor recipient reporting for Recovery Act-funded awards under its purview and, in July 2010, established a Lean Six Sigma review of its procedures. Its Lean Six Sigma initiative streamlined the process and resulted in NAVFAC SW appointing a central agency reviewer, solely responsible for reviewing recipient reports on NAVFAC SW awarded projects and activities with Recovery Act funds. NAVFAC SW personnel also developed and implemented internal guidance pertaining to Recovery Act reporting requirements, which they update in

accordance with the latest Recovery Act guidance. The agency reviewer at NAVFAC SW conducts OMB required reviews to identify significant errors and material omissions contained in recipient reports of Recovery Act-funded contract awardees.

Additionally, in accordance with OMB Memorandum M-10-08, contracting officers at NAVFAC SW provided award recipients with a “Quick Reference Matrix for Contractor Reporting” (matrix). The NAVFAC SW matrix provided recipients key award information that they needed to successfully submit their reports to the www.FederalReporting.gov Web site, meeting OMB’s intent to help improve the quality of data recipients reported under section 1512 of the Recovery Act.

NHCP Replacement Project’s Prime Recipients Generally Reported Reliable Information

We performed limited tests on the accuracy of the data six prime recipients reported to www.FederalReporting.gov³ in their most recent quarterly reports, as of May 5, 2011. We found that the reports accurately reflected the project description, amount of award, total amount of funds invoiced, and scope of work being performed. The narrative for the project descriptions were extensive and informative, with a complete description of the overall project and expected outcomes. We did not test the accuracy of the number of jobs created. See the Audit Scope and Methodology section of this report for further details.

Although there were seven prime recipients for the NHCP Replacement project, at the time of our review, only six of the seven had reported as section 1512 of the Recovery Act required. The exception was the recipient of contract N62473-09-D-2601-0002. NAVFAC SW awarded the contract on December 6, 2010, valued at \$98,827.00, against an existing indefinite delivery-indefinite quantity contract. Although NAVFAC SW had guidance and processes in place, the administrative contract officer did not make the agency reviewer aware of the contract award; therefore, the agency reviewer at NAVFAC SW did not identify the award for inclusion on NAVFAC’s master list of Recovery Act-funded contracts. The agency reviewer at NAVFAC SW was then unable to track the recipient’s failure to submit its report for two quarterly reporting cycles.

As a result of our review, the agency reviewer began immediate corrective action with the recipient of contract N62473-09-D-2601-0002 to correct its non-reporting. In consultation with NAVFAC headquarters, the agency reviewer at NAVFAC SW deemed the recipient’s reporting omission as the culpability of both the Government and the Federal contractor. Therefore, NAVFAC headquarters advised the agency reviewer to not report the recipient as a non-compliant, non-reporter. The agency reviewer subsequently updated its master list of Recovery Act-funded contracts to include details

³ According to OMB M-09-21, “Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009,” the www.FederalReporting.gov Web site works in conjunction with the www.Recovery.gov Web site. Recipient reports are submitted to www.FederalReporting.gov and are ultimately published on www.Recovery.gov. Only registered Federal agencies and recipient users can submit or review data through www.FederalReporting.gov.

of the award and ensured the recipient would report during the next quarterly reporting cycle. The recipient of contract N62473-09-D-2601-0002 submitted its first recipient report during the second quarterly reporting cycle (July 2011).

We also found that the prime recipient of contract N62473-09-D-2602-0017, valued at \$92,714.00, and awarded against a Recovery Act-funded task order against an indefinite delivery-indefinite quantity contract, reported an incorrect award date. The recipient incorrectly reported the date of its Recovery Act-funded award as August 9, 2010, instead of the correct date of August 11, 2010. According to the agency reviewer, the Federal contractor was expected to correct this data element in its report during calendar year 2011's second quarterly reporting cycle. Our review of recipient reported information posted to the www.Recovery.gov Web site found that the Federal contractor did so.

Small Business Program Awards for the NHCP Replacement Project Exceeding Goals

The prime recipient, Clark/McCarthy, appears to be exceeding the Small Business Program participation goals NAVFAC SW established in the design/build contract for the NHCP Replacement project. Section 6.1 of OMB Memorandum M-09-10, "Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009," February 18, 2009, and Sections 1.6 and 6.1 (paragraph 6) of OMB Memorandum M-09-15, "Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009," April 3, 2009, provide a strong preference for Government agencies to use small businesses for Recovery Act-funded projects, wherever possible.

NAVFAC SW personnel determined through an analysis of "sources sought" that because of the nature of the NHCP Replacement project's scope and schedule that the design/build contractor would maintain most aspects of the design and construction work. However, to help meet OMB's strong preference for Government agencies to use small businesses for Recovery Act-funded projects wherever possible, NAVFAC SW personnel established an overall small business subcontracting goal of 45 percent for the design/build contractor and specific targets for five small business socio-economic programs. Those small business subset programs included women-owned, small disadvantaged, HUB Zone, veteran-owned, and service-disabled veteran-owned. The NAVFAC SW analysis also recommended that certain "work elements" be set aside by North American Industry Classification System code for small business concerns' participation and provided its estimate of the amounts available for this set aside work.

NAVFAC SW's 45 percent subcontracting goal for the NHCP Replacement project exceeded the 31.7 percent subcontracting goal that DoD established for defense contracts for FYs 2010 and 2011 and showed NAVFAC SW's commitment to ensuring small business concerns' participation in the NHCP Replacement project.

Clark/McCarthy responded to the NAVFAC SW's goal of 45 percent for the NHCP Replacement project and expressed its commitment to exceed the small business participation goal by as much as 20 percent in its subcontracting plan. Clark/McCarthy's reports on its subcontracting for this contract showed it is exceeding the design/build

contract requirements and is on track for meeting its internal goal of 65 percent. The Deputy for Small Business Programs, Marine Corps Installation West, a division of NAVFAC SW, stated that she is very pleased with the progress that Clark/McCarthy is making. Through its small business training and outreach program, registering prospective subcontractors, and soliciting bids from the different construction trades, Clark/McCarthy's March 31, 2011, subcontracting report showed it had achieved an overall small business commitment of 60.1 percent, representing \$148,430,533 of the \$246,974,645 in total subcontracts. In addition, with the exception of the NAVFAC SW's target of 10 percent participation by woman-owned small business, Clark/McCarthy had exceeded each of the NAVFAC SW targeted small business socio-economic programs; some by as much as 50 percent, according to the report.

NAVFAC SW also awarded two tasks orders for "Vegetation removal (mowing and clearing)" against an existing contract it held with a prime recipient and small business concern under contract N62473-06-D-0011. We determined that the contracting officer validated this Federal contractor's small business status prior to awarding the task orders. Additionally, we determined that this contractor was classified as a HUB Zone small business concern based on its self-representation and certification through the Online Representations and Certifications Application Web and the North American Industry Classification System standards for landscaping services and award reporting through the Federal Procurement Data System-Next Generation.

Review of Internal Controls

NAVFAC SW internal controls over the NHCP Replacement project were generally effective as they applied to the audit objective.

Audit Scope and Methodology

We conducted this audit from March 2011 through September 2011 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective.

We performed audit work pursuant to announcement memoranda, "Assessment of the Planning and Implementation for the American Recovery and Reinvestment Act of 2009, (Project No. D2009-D000FH-0167.000)," February 26, 2009, and "Audit of DoD Implementation and Reporting of the American Recovery and Reinvestment Act of 2009 (Project No. D2011-D000FH-0146.000)," January 14, 2011. We audited the planning of the NHCP replacement project at Camp Pendleton. Because the NHCP Replacement project was in the early stages of construction, we are unable to fully address the status of contractor's performance. We limited our review to an assessment of the controls that the Navy established over contractor's performance and contractor reporting on the project, including contracts awarded to qualified small businesses for the NHCP Replacement project. Our review included interviewing personnel at TMA, NAVMEDWEST, and NAVFAC SW. We also reviewed Federal, DoD, and Navy guidance.

Planning

We determined whether the project was properly justified and planned to ensure the appropriate use of Recovery Act funds. We reviewed project requirement and planning documentation, such as the DD Form 1391, "Military Construction Project Data," health care requirements analysis, economic analysis, environmental assessment, seismic and various studies, and compared them to applicable guidance to ensure completeness and that the project was valid and well documented. We performed onsite inspections of the project location and the existing NHCP to verify project justification.

Contractor's Performance

We determined whether the QA plan specified work requiring surveillance and the method of surveillance. We reviewed the QA plan for the design/build contract. We ensured that the plan included the technical requirements for inspection, testing and other contract quality requirements essential to ensure the integrity of the supplies or services; ensured contract requirements included control of quality for the services acquired; monitored agreed-to-contractor schedules; and identified and addressed non-conformance. In addition, we performed visual inspection of the construction site for the NHCP Replacement project.

Recipient Reporting

We determined whether controls over the recipient reporting process were in place to ensure recipients report in accordance with section 1512 of the Recovery Act and OMB guidance. We reviewed contract files and compared award documents and contract notification letters to the recipient's quarterly reports submitted to the www.FederalReporting.gov Web site. We validated the recipient reported data to corroborating sources and documentation, which included contract files, key award information NAVFAC SW provided to the award recipients through its "Quick Reference Matrix for Contractor Reporting," information that we obtained from our voucher searches through the Electronic Document Access Web site, and information gained through other applicable Web site searches. Although we determined that the contractor complied with Federal Acquisition Regulation clause 52.204-11 and controls over the oversight of recipient reporting, we did not validate the number of jobs created that the contractor reported to the www.FederalReporting.gov Web site.

Small Business Oversight

We determined whether NAVFAC SW met small business participation and subcontracting goals based on the Small Business Act and the DoD Office of Small Business Programs. We reviewed contractor self-representation and certifications through the Online Representations and Certifications Application Web site and the North American Industry Classification System standards for landscaping services and award reporting through the Federal Procurement Data System-Next Generation. We also reviewed contract files to determine if contracting officials reviewed the contractor's small business status prior to awarding the task order. We did not review contractor self-representation and certifications for small businesses subcontracted by the prime recipient, Clark/McCarthy. We reviewed contract files for NAVFAC SW's commitment

to small business participation in the design and construction of the NHCP Replacement project.

Use of Computer-Processed Data

We used computer-processed data to perform this audit. Specifically, we used the Federal Procurement Data System-Next Generation, Central Contractor Registration, Online Representations and Certifications Application, Federal Business Opportunities, Electronic Document Access, the www.Recovery.gov and www.FederalReporting.gov Web sites in meeting our audit objective. We also relied on Excel spreadsheets created by Resident Officer In Charge of Construction and NAVFAC SW personnel. 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. Our audit focused on the planning for and recipient reporting of contract actions on a specific Navy project. From these procedures, we concluded that the data were sufficiently reliable for our audit purposes.

Use of Technical Assistance

Before selecting DoD Recovery Act projects for audit of its planning and justification, the Quantitative Methods and Analysis Division (QMAD) of the DoD Office of 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 them 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. Initially, QMAD selected 83 projects with the highest risk rankings; auditors chose some additional projects at the selected locations. The NHCP Replacement project is included in the 83 selected projects.

We 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 of not only of Recovery Act dollars being expended, but also types of projects and types of locations across the Military Services, Defense agencies, State National Guard units, and public works projects managed by the U.S. Army Corps of Engineers.

Prior Audit Coverage

The Government Accountability Office, the DoD Office of 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>.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-8866 (DSN 664-8866). If you desire, we will provide a formal briefing on the results.



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



Inspector General Department of Defense

