



U.S. Department of the Interior
Office of Inspector General

AUDIT REPORT

**GRANTS FOR THE CONSTRUCTION
OF HEALTH CARE FACILITIES,
GOVERNMENT OF THE VIRGIN ISLANDS**

**REPORT NO. 96-I-722
MAY 1996**



United States Department of the Interior

OFFICE OF THE INSPECTOR GENERAL
Washington, D.C. 20240

MAY 3 1996

MEMORANDUM

TO: The Secretary

FROM: *Wilma A. Lewis for*
Wilma A. Lewis
Inspector General

SUBJECT SUMMARY: Final Audit Report for Your Information - "Grants for the Construction of Health Care Facilities, Government of the Virgin Islands" (No. 96-I-722)

Attached for your information is a copy of the subject final report.

Although funds related to U.S. Department of the Interior grants for the construction or renovation of health care facilities were expended in accordance with applicable laws and regulations, improvements were needed in the Government's policies and procedures regarding contract administration and construction oversight. As a result of the deficiencies identified, there was no assurance for 11 contracts, totaling \$7.7 million, that the Government received the most favorable prices, terms, and conditions; liquidated damages of \$302,000 had not been assessed against four contractors who did not complete work within required time frames; 59 change orders, totaling \$3.9 million, were issued because original plans and specifications were not sufficiently detailed; six grant drawdowns, totaling \$3.8 million, were not posted to the correct accounts; the Government was billed \$1.4 million for on-site representation services that should have been provided by the Department of Public Works; \$4 million could be spent on renovations to a health care facility that will not accommodate all of the clinical services originally intended for the facility; and advance payments of \$1.4 million were made to a contractor for equipment that was never installed at the St. Thomas Community Hospital.

We made nine recommendations to the Government of the Virgin Islands, which included: (1) ensuring that the Department of Property and Procurement monitors compliance with the competitive procurement requirements of the Virgin Islands Code and enforces existing policies and procedures related to the assessment of liquidated damages and the issuance of contract change orders; (2) providing the Department of Public Works with the resources necessary to effectively carry out the construction inspection responsibilities mandated by the Virgin Islands Code; (3) working with Department of the Interior officials to develop construction designs for renovation on the Charles Harwood Complex that will satisfy the Department of

Health's clinical space requirements within available grant fund limitations; (4) taking necessary action to recover advance payments from the contractor that did not complete contracted renovation work at the St. Thomas Hospital; and (5) providing the Department of Health with the funds necessary to staff, equip, and operate two health clinics constructed with grant funds. Based on the Governor's response, we considered eight recommendations resolved and implemented and requested additional information on the recommendation pertaining to the disposition of proposed contracts that were not awarded in accordance with legal requirements.

If you have any questions concerning this matter, please contact me or Ms. Judy Harrison, Assistant Inspector General for Audits, at (202) 208-5745.

Attachment



United States Department of the Interior

OFFICE OF THE INSPECTOR GENERAL
Washington, D.C. 20240

MAY - 3 1996

Honorable Roy L. Schneider
Governor of the Virgin Islands
No. 21 Kongens Gade
Charlotte Amalie, Virgin Islands 00802

Subject: Final Audit Report on Grants for the Construction of Health Care
Facilities, Government of the Virgin Islands (No. 96-I-722)

Dear Governor Schneider:

This report presents the results of our review of grants awarded to the Government of the Virgin Islands by the Office of Territorial and International Affairs, U.S. Department of the Interior, for the construction of health care facilities. The objective of the audit was to determine whether: (1) contracts for the construction of health care facilities were awarded and administered in accordance with applicable laws and regulations; and (2) grant funds were expended in accordance with grant conditions and applicable laws and regulations.

Although the audit was completed prior to Hurricane Marilyn in September 1995, we withheld issuance of this draft report during the immediate hurricane recovery period. Based on our reevaluation of the audit findings and recommendations, we believe that, although some of the specific examples cited in the findings may now be dated, the issues discussed in the report and the recommendations are still valid. The recommendations, if implemented, would result in long-term improvements in the construction contracting and oversight functions of the Government of the Virgin Islands.

During the audit, we found that funds related to Department of the Interior grants were expended in accordance with applicable grant terms and conditions and applicable laws and regulations. However, we did identify several administrative deficiencies related to contract administration and construction oversight. Specifically, we found that:

- Adequate contract files were not maintained to document procurement actions; there was no assurance that competitive procurement procedures were used to the maximum extent practicable; plans and specifications were not sufficiently detailed to minimize the need for contract change orders; and the receipt and recording of drawdowns against Federal grants could not be verified.

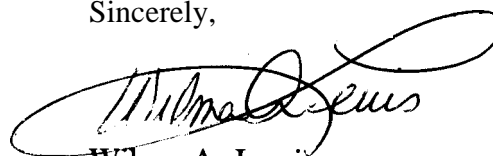
- Oversight of construction projects for health care facilities was not adequate; project budgets were inadequate for the equipment and staff needed to make full use of newly constructed health care facilities; sufficient funds were not available to refurbish the Charles Harwood Complex to the extent needed to meet health care needs; there was no assurance that the contractor and its subcontractors which were given advance payments for Phase III refurbishment at the St. Thomas Hospital completed all required work; and there was no assurance that construction projects were completed expeditiously and closed out.

Your March 8, 1996, response (Appendix 3) to the draft report generally concurred with the report's nine recommendations and was sufficient for us to consider eight of the recommendations resolved and implemented. We requested additional information regarding the corrective actions to be taken for the remaining recommendation (see Appendix 4).

The Inspector General Act Amendments of 1988 require semiannual reporting of the monetary impact of findings to the U.S. Congress. The monetary impact of the findings contained in this report is in Appendix 1. Also, the Inspector General Act, Public Law 95-452, Section 5(a)(3), requires semiannual reporting to the Congress on all audit reports issued, actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been taken.

In view of the above, please provide a response, as required by Public Law 97-357, to this report by June 21, 1996. The response should provide the information requested in Appendix 4. A copy of your response should also be provided to our Caribbean Regional Office, Federal Building - Room 207, Charlotte Amalie, Virgin Islands 00802.

Sincerely,

A handwritten signature in black ink, appearing to read "Wilma A. Lewis", written in a cursive style with a large, sweeping flourish at the end.

Wilma A. Lewis
Inspector General

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INTRODUCTION

BACKGROUND

Title 3, Section 418, of the Virgin Islands Code gives the Department of Health “the general authority and jurisdiction to provide general medical and surgical care of acceptable standards for the people of the Virgin Islands.” In order to carry out this mandate, the Department, in 1988 and 1989, developed a Comprehensive Territorial Health Plan. The Health Plan identified the health care needs of the Virgin Islands and the health care facilities that would be required to meet the Plan’s goals. Prior to Hurricane Hugo in September 1989, renovation work had commenced on several health care facilities within the Virgin Islands. The hurricane destroyed much of the new work and demolished other existing health care facilities. Therefore, in response to the Department of Health’s special needs and the destruction of facilities caused by the hurricane, in April 1991, the Department, in conjunction with a stateside consulting firm, developed the Comprehensive Health Facilities Construction Plan. The Construction Plan, which was based on functional space planning, identified the hospital, clinical, and administrative space needs of the Department.

The Construction Plan identified 16 construction projects, totaling \$101 million, for health care facilities in the Virgin Islands. However, only 12 projects, totaling \$82 million, were actually funded. Further, only 8 of the 12 funded projects received funding from the Office of Territorial and International Affairs, U.S. Department of the Interior. As of January 1995, about \$53.1 million had been approved for payment to contractors for those eight projects and for overall project management as follows:

<u>Project</u>	<u>Budget</u>	<u>Interior Funding</u>	<u>Other Funding*</u>	<u>Contract Amount</u>	<u>Contractor Payments</u>
	(Amounts in Millions)				
St. Croix Hospital	\$25.9	\$7.0	\$18.9	\$21.2	\$20.2
St. Thomas Hospital	23.8	11.6	12.2	19.1	18.6
Ingeborg Nesbitt Clinic	5.6	3.8	1.8	5.5	5.1
Myrah Keating Smith Clinic	5.5	1.9	3.6	4.4	3.9
St. Thomas Community Rehabilitation Center	0.8	0.8	---	0.8	0.7
Charles Harwood Complex	4.1	4.1	---	0.6	0.5
St. Croix Community Rehabilitation Center	0.8	0.8	---	---	---
Knud Hansen Complex	0.6	0.5	0.1	---	---
Overall Project Management**	<u>N.A.</u>	<u>N.A.</u>	<u>N.A.</u>	<u>4.8</u>	<u>4.1</u>
Total	<u>\$67.1</u>	<u>\$30.5</u>	<u>\$36.6</u>	<u>\$56.4</u>	<u>\$53.1</u>

*Other funding came from Virgin Islands bond proceeds, the Federal Emergency Management Agency, and the U.S. Department of Energy.

**There was not a specific budgeted amount for this category. Instead, it was based on a percentage of construction costs plus incidental expenses.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether: (1) contracts for the construction of health care facilities were awarded and administered in accordance with applicable laws and regulations; and (2) grant funds were expended in accordance with grant conditions and applicable laws and regulations.

Our review was made in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances.

We reviewed construction projects for eight health care facilities funded, in part, by U.S. Department of the Interior grants during fiscal years 1990 through 1994. Our review included an analysis of 14 construction contracts and 6 professional services contracts, which totaled \$56.4 million for the eight projects. Two projects had no construction activity during the scope of our audit. The audit was conducted at the Departments of Health, Finance, Property and Procurement, Licensing and Consumer Affairs, and Planning and Natural Resources and at the Office of Management and Budget.

We concluded that, on an overall basis, grant funds were expended in accordance with grant conditions and applicable laws and regulations. Our review showed that partial payments made to contractors for claimed construction activity were properly accounted for on the Periodical Estimates for Partial Payment and that funds earmarked for projects approved by the U.S. Department of the Interior were used exclusively for those projects. Therefore, we concentrated our review on internal control weaknesses related to contract administration and construction oversight. The weaknesses are discussed in the Findings and Recommendations section of this report. The recommendations, if implemented, should improve the internal controls in these areas.

PRIOR AUDIT COVERAGE

In September 1994, the Office of Inspector General issued the report "Construction Contracts, Capital Improvement Program, Government of the Virgin Islands" (No. 94-1-1194). The report, which included the results of our review of some of the contracts related to the St. Thomas Hospital and the Myrah Keating Smith Clinic, concluded that improvements were needed in the procurement, oversight, and financial accountability of construction contracts under the Capital Improvement Program. Our current audit showed that the same types of deficiencies existed for other construction contracts for health care facilities.

FINDINGS AND RECOMMENDATIONS

A. CONTRACT ADMINISTRATION

The Government of the Virgin Islands did not ensure that contracts for the construction of health care facilities were awarded and administered effectively. Specifically, we found that: (1) contract files did not document procurement actions taken; (2) there was no assurance that competitive procurement practices were used to the maximum extent practicable; (3) plans and specifications did not contain sufficient detail to minimize the need for contract change orders; and (4) the receipt and accurate recording of drawdowns against Federal grants could not be verified. The Virgin Islands Code and the Government's Accounting Manual, respectively, contain detailed requirements for awarding contracts and for providing an adequate and effective system of accounting controls over available funds. The deficiencies in the contract administration process occurred because the Government did not provide sufficient oversight to ensure that: (1) the Department of Property and Procurement enforced its internal policies regarding the contents of contract files; (2) the Departments of Health and Public Works updated plans and specifications before allowing contracts to be put out for bids; and (3) the Office of Management and Budget and the Department of Finance coordinated information regarding drawdowns against Federal grants. As a result, for the 20 contracts we reviewed, there was no assurance for 11 contracts, totaling \$7.7 million, that the Government received the most favorable prices, terms, and conditions. Further, 7 of the 20 contractors began work and incurred costs of approximately \$190,000 before their contracts were fully executed; liquidated damages of approximately \$302,000 should have been assessed against 4 contractors who did not complete work timely; 4 contractors not licensed to conduct business in the Virgin Islands performed contract work, and 59 change orders, totaling \$3.9 million, were issued to a prime contractor primarily because original plans and specifications were not sufficiently detailed. In addition, Statements of Remittance could not be located at the Department of Finance for two grant drawdowns, totaling \$989,000, and six grant drawdowns, totaling \$3.8 million, were not posted to correct accounts.

Procurement Practices

Title 31, Chapter 23, of the Virgin Islands Code and the corresponding sections of the Virgin Islands Rules and Regulations contain detailed requirements to ensure that procurement actions are made on the basis of full competition and with the objective of providing the best possible contract prices, terms, and conditions for the Government. For example, Title 31, Section 239(10), of the Code permits contractual services to be negotiated provided that: (1) each responsible bidder has been notified of the intention to negotiate and has been given a reasonable opportunity to participate in the negotiations; (2) the negotiated price is lower than the lowest rejected bid of any responsible bidder; and (3) the negotiated price is the lowest negotiated price offered by any responsible supplier. Also, Title 31,

Section 239-4, of the Virgin Islands Rules and Regulations requires the following action when a contract is negotiated on a competitive basis:

Offers shall be solicited from all such qualified sources as are deemed necessary . . . to assure full and free competition, consistent with the purchase or contract and to the end that the purchase or contract will be made to the best advantage of the Government, price and other factors considered. Such offers, wherever possible, shall be supported by statements and analyses of estimated costs or other evidence of reasonable prices and other matters deemed necessary.

Contract Files. Despite the procurement requirements, the contract files at the Department of Property and Procurement were not complete and therefore did not provide adequate documentation of procurement actions taken with regard to each contract. Based on our review of 20 contract files, we found that the file for one construction contract, totaling \$464,000, did not contain invitations for bids, requests for proposals, or other documentation to show that competitive proposals were solicited; the file for another construction contract, totaling \$584,000, could not be located; and the files for five professional services contracts, totaling \$1.8 million, did not include documentation to support that the contracts were awarded on the basis of competitive negotiations.

Noncompetitive Procurement. Of the 20 contracts included in our review, 3 contracts, totaling \$4.8 million, were not awarded to the lowest bidder and 1 contract, totaling \$130,000, was awarded on a sole source basis as a supplemental contract.

Two of the three contracts were not awarded to the lowest bidders because the bidders did not submit qualification statements or bid bonds as required by the Invitations for Bid. For an asbestos removal contract at the Myrah Keating Smith Clinic, all responsive firms were allowed to negotiate before a contractor was selected, while an electrical contract at the Charles Harwood Complex was awarded to the second lowest bidder without prior negotiations. We believe that under Title 31, Section 235-65, of the Virgin Islands Rules and Regulations, which allows the correction of “minor irregularities” in bids, the two contractors could have been given the opportunity to provide the missing qualification statements and bid bonds. If the contractors were unable to provide these documents, efforts should have been made to negotiate a lower price with the companies that were eventually selected. In neither case did the evaluation committee indicate in its report that these actions had been taken. Therefore, there was no assurance that the Government received the most favorable prices, terms, or conditions.

For the third contract that was not awarded to the lowest bidder, the lowest bid for construction of the Ingeborg Nesbitt Clinic was rejected based on the company’s volume of work and insufficient performance on other ongoing Government contracts. The evaluation committee selected the second lowest bidder as the most responsive. Although we do not question the Government’s reason for rejecting the

lowest bid, we believe that once the Government made that decision, it should have attempted to negotiate a lower price with the selected company, whose bid was \$448,000 higher than the rejected bid. There was no evidence in the contract files to show that such negotiations had taken place.

In comparison, the initial evaluation committee selected, for the contract to refurbish the St. Croix Hospital, the second lowest bidder as the most responsive, basing its decision on the company's successful completion of the St. Thomas Hospital. The committee also expressed reservations over the low bidder's performance on a contract to refurbish the Myrah Keating Smith Clinic. However, the Commissioner of Property and Procurement rejected this decision and formed a second evaluation committee, which selected the lowest bidder,

Our review also disclosed that a \$130,000 contract was issued as a supplement to a \$150,000 contract for emergency electrical repairs to the Charles Harwood Complex. However, our analysis showed that the contract supplement included about \$57,000 for the removal and replacement of ceiling tiles and light fixtures. This work, classified as architectural repair by the Department of Health's project representative, was not required for acceptable completion of the original contract and therefore was outside the scope of the original contract. We believe that this work should not have been included in the supplemental agreement but instead should have been awarded as a new contract subject to competitive procurement procedures. Because competition was not used to award the contracts, there was no assurance that the Government received the most favorable price, terms, and conditions for this work.

Business Licensing. Title 27, Chapter 9, of the Virgin Islands Code contains the business licensing requirements for individuals or corporations conducting business in the Virgin Islands. Our review of files at the Department of Licensing and Consumer Affairs disclosed that four contractors were not appropriately licensed to conduct business in the Virgin Islands during the period of their contracts. The contractors performed major renovations to the St. Thomas Hospital, roof repairs to the St. Thomas and St. Croix Hospitals, asbestos monitoring at the St. Croix Hospital and the Ingeborg Nesbitt Clinic, and air quality monitoring at the Myrah Keating Smith Clinic.

Advance Work. Our review of contract files also disclosed that seven contractors began work or submitted invoices for work not yet performed and incurred costs of approximately \$190,000 before their contracts were fully executed. Department of Property and Procurement policy prohibits contractors from beginning work before their contracts are fully executed.

Liquidated Damages. We further found that the Government did not assess liquidated damages in accordance with contract provisions and existing regulations for 4 of the 14 construction contracts included in our review for which work was not completed within the required time frames. Title 31, Section 242-87, of the Virgin Islands Rules and Regulations states that for contracts not completed within the time

specified in the contract as extended by written authorization, liquidated damages will be assessed on a sliding scale based on the original contract amount for each day that contract work remains uncompleted. We concluded that liquidated damages totaling \$302,000 should have been assessed in accordance with contract provisions against four contractors that did not complete work in a timely manner.

Change Orders

For 11 of the 14 construction contracts included in our review, 104 change orders, totaling \$5.7 million, were issued. This number included 59 change orders, totaling \$3.9 million, for the contractor that performed the refurbishment of the St. Croix Hospital. Our review of the St. Croix Hospital change orders disclosed that most change orders were issued because original plans and specifications were not updated to take into consideration the deterioration of the building between the time Hurricane Hugo struck in September 1989 and the beginning of construction activities in November 1992. For example:

- In February 1993, a change order, totaling \$460,940, was issued to replace 131,322 square feet of defective fireproofing at various locations throughout the Hospital. The contractor discovered, in January 1993, that the spray-on fireproofing was “delaminating from the metal deck and beams.”

- From April 1993 through February 1994, four change orders, totaling \$305,253, were issued for additional repairs and sealing of joints on the existing air-conditioning duct work. However, the duct work that remained after replacement of the fireproofing could not pass the required pressure tests. Therefore, additional repairs were necessary to effect a proper cooling system. In June 1993, the Department of Health’s project manager disclosed to the Director of the Capital Improvement Program that his firm “underestimated” the amount of work to repair the existing duct work.

- In June 1993, a change order contained \$150,000 to replace mildewed plaster board, which was classified as an “unforeseen condition.”

- In June and September 1993, two change orders, totaling \$419,191, were issued for the contractor to conduct a Post Demolition Survey and report. The report included the projected time to complete the project, the percentage presently completed, and the maximum time needed to complete the remaining work.

- In September and November 1993, three change orders, totaling \$186,734, were issued to remove contaminated soil. Naphthalene, a heavy hydrocarbon, was discovered while excavating for new cistern piping. The contractor was required to provide the services of a consulting environmental firm that had a minimum of 5 years of experience in the abatement of hydrocarbons.

- In February 1994, a change order, totaling \$300,000, was issued to repair existing water mains that were leaking throughout the building. The contractor stated that this condition was not discovered until the pipes were put under pressure tests or were in use.

- In April 1994, a change order, totaling \$913,998, was issued for extended general conditions and an extension of time.

- In August and October 1994, two change orders, totaling \$485,000, were issued for all force account work (work performed on the basis of an hourly rate rather than at a fixed price) in order to ensure that sufficient funds would be available to cover the costs of continued unforeseen conditions. The Department of Health's project manager allowed the contractor to bill change orders on a force account basis, since the manager said that he believed the contractor's lump sum change orders were "excessively high."

We believe that the large number of change orders issued and the extent of additional work required indicate that the facility was only superficially reviewed after Hurricane Hugo and that, as a result, potential contractors did not have reliable information on which to submit proposals in response to the original request for proposals. Therefore, there was no assurance that the Government received the most favorable prices, terms, and conditions for the change order work performed.

In addition, we found that for one of the contracts reviewed, change orders increased the contract amount by more than the 25 percent limit contained in Title 31, Section 242-32, of the Virgin Islands Rules and Regulations. Specifically, a \$464,000 contract for roof repairs to the St. Thomas Hospital was increased by \$125,466 (27 percent) through six change orders.

Federal Grant Drawdowns

Of the \$30 million in grants awarded by the Department of the Interior for health care facilities construction, \$22.9 million was drawn down through November 1994. However, we found that statements of remittance for two drawdowns, totaling about \$989,000, were not recorded and that *six* drawdowns, totaling \$3.8 million, were not appropriately recorded to a temporary holding account. Section 320 of the Government's Accounting Manual requires that the Department of Finance provide an adequate and effective system of accounting controls over funds available to departments and agencies. Deficiencies in the drawdown process occurred because of inadequate coordination among the Virgin Islands Office of Management and Budget, the Departments of Finance and Health, and the related banking institutions.

The Office of Management and Budget's Senior Grant Analyst told us that when documents evidencing grant drawdowns were received from the Office of Territorial and International Affairs, this information was sent by facsimile to the Department

of Finance. However, the drawdowns were not always posted by the Department because the necessary drawdown information was not always routed to the Department's Federal Programs Unit, which was responsible for the postings. As a result of our audit inquiries, in March 1995 the Senior Grant Analyst again notified the Department of Finance's Accounting Division of the proper recording for the six grant drawdowns, which had been deposited into a temporary holding account during September 1991 to March 1993. Department of Finance officials told us that they were unable to record the prior years' deposits into the fiscal year in which they actually occurred because the prior years' records had already been closed out. However, the officials told us that they would make the necessary adjustments to the current fiscal year data and make a notation on financial records that the deposits actually occurred during prior fiscal years.

Payments to contractors were not impacted by the posting errors because the funds were available in the bank account against which the checks were drawn. However, the lack of coordination among the various agencies resulted in a breakdown of internal controls over Federal funds and the inability of the Government to record expenditures against the appropriate grant accounts. This negatively impacted the Government's ability to produce accurate financial statements for the affected accounts.

As a result of our audit inquiries, the Office of Management and Budget now notifies the Department of Finance's Treasury Division and the related banking institutions of all pertinent data related to grant drawdowns. This procedural change has significantly decreased the need to place unidentified funds into the temporary holding account.

Recommendations

We recommend that the Governor of the Virgin Islands:

1. Ensure that the Department of Property and Procurement monitors compliance with the requirements of the Virgin Islands Code, Virgin Islands Rules and Regulations, and the Department's own internal procedures with regard to the procurement of construction and professional services contracts. Additionally, the Department should return, without approval, proposed contracts that have not been awarded and negotiated in accordance with the legal requirements.

2. Ensure that the Department of Property and Procurement verifies that contractors are licensed to do business in the Virgin Islands before approving any contracts awarded to those contractors.

3. Ensure that the Department of Property and Procurement enforces existing policies and procedures with regard to the assessment of liquidated damages against contractors that do not complete required work within the time frames specified in their contracts.

4. Ensure that the Department of Public Works or its designated representatives review contract specifications sufficiently so that there is minimal need for contract change orders after construction contracts are awarded.

5. Ensure that the Department of Property and Procurement enforces existing policies and procedures with regard to the issuance of change orders and supplemental contracts.

Governor of the Virgin Islands Response and Office of Inspector General Reply

The March 8, 1996, response (Appendix 3) to the draft report from the Governor of the Virgin Islands concurred with the five recommendations. Based on the response, additional information is needed for Recommendation 1, and Recommendations 2-5 are considered resolved and implemented (see Appendix 4).

Recommendation 1. Concurrence.

Governor of the Virgin Islands Response. The response stated that the Department of Property and Procurement had corrected the deficiencies in contract administration by moving the contract files to a secure area and restricting access to Contracting Section employees.

Office of Inspector General Reply. The response did not indicate what actions would be taken in regard to instances in which user agencies submit contracts to the Department of Property and Procurement that were not awarded or negotiated in accordance with legal requirements. Therefore, additional information is requested regarding the corrective actions planned (see Appendix 4).

Recommendations 2-5. Concurrence.

Governor of the Virgin Islands Response. For Recommendation 2, the response stated that the Department of Property and Procurement had instituted procedures to ensure that contractors have valid licenses before being allowed to begin work on any project. The response also stated that the Department had developed a checklist for construction and professional services contracts.

For Recommendation 3, the response stated that the Department of Property and Procurement would establish policies and procedures regarding liquidated damages against contractors who do not complete legally contracted work within the required time frame.

For Recommendation 4, the response stated that the Department of Property and Procurement had established, in coordination with the Department of Public Works and user agencies, policies for reviewing the need for change orders.

For Recommendation 5, the response stated that the Department of Property and Procurement would “vigorously” enforce existing provisions of the Virgin Islands Code relating to change orders.

B. CONSTRUCTION OVERSIGHT

The Government of the Virgin Islands and its designated representatives did not maintain adequate oversight of construction projects for health care facilities. Specifically, we found that: (1) on-site in-house representation services were not provided; (2) funds to refurbish the Charles Harwood Complex were insufficient; (3) advance payments made to subcontractors for Phase III of renovations to the St. Thomas Hospital did not stimulate job completion; and (4) construction punch lists (lists of unfinished items) were not completed.

Title 3, Section 138, of the Virgin Islands Code requires the Department of Public Works to participate in the planning of and to supervise the construction and repair of Government buildings. However, after the contract of the Government's Program Management Consultant was terminated, the Department of Health retained the services of architectural firms to act as project representatives to oversee the health care facilities construction projects. Deficiencies in the construction oversight process occurred because the Department of Public Works did not have sufficient staff to assign an inspector to each health care facility's construction project on a full-time basis and the architectural firms did not always provide full-time on-site representation. As a result of these and other concerns, the Department of Health was billed \$1.4 million for on-site representation services that should have been performed by the Department of Public Works; \$4 million could be spent on the Charles Harwood Complex for a structure that will not accommodate all of the clinical services in one central location as desired; and \$1.4 million in advance payments was made for equipment that was never installed at the St. Thomas Hospital. In addition, projects could not be closed out because punch list items had not been completed.

Project Management Contracts

The Department of Public Works did not have sufficient staff to maintain adequate oversight of construction projects for the Department of Health. In addition, the contract for the Program Management Consultant, who was involved in the award and oversight of construction contracts under the Government's Capital Improvement Program, was terminated in September 1992. Therefore, the Department of Health contracted with at least three architectural firms to provide on-site representation services, at a total cost of about \$1.4 million, as follows:

- The architectural firm that provided an evaluation of the St. Thomas and St. Croix Hospitals and the Myrah Keating Smith Clinic was retained to provide on-site representation for these facilities from August 1992 to December 1994. Amendments to the original contract with the Government allocated approximately \$1.1 million for on-site representation services. Our analysis showed that the architectural firm's project representative provided full-time on-site representation at the St. Croix Hospital but only weekly visits to the St. Thomas Hospital Phase 111 and Myrah Keating Smith Clinic projects.

- A local architectural firm was contracted to provide on-site representation and construction management services for construction projects for various health care facilities from March 1993 to January 1996. The contract included approximately \$187,000 for on-site representation services. Further, our analysis of the contract and its two amendments showed that it may not be possible for the contractor to complete services valued at about \$255,000 included in Amendment No. 2 during the time frame specified in the amendment. For example, the scope of services for Amendment No. 2 included \$175,000 for preparation of bid documents and inspection services at the Charles Harwood Complex; \$35,000 for inspection services for the new medical equipment installation at the St. Croix Hospital; \$20,000 for interior design and inspection services for the East End Health Center; and an unspecified allocation of \$5,000 for the St. Croix Community Rehabilitation Center. There was no assurance that work on any of these projects would commence during the scope of the amendment, January 20, 1995, to January 20, 1996. Moreover, while the contractor outlined the potential services to be completed during the scope of the amendment, the contractor was paid a fixed fee on a monthly basis regardless of actual output. Additional services valued at about \$40,000 included in Amendment No. 2 were also included in the base contract and in Amendment No. 1. For example, the scope of services for Amendment No. 2 included \$25,000 for the preparation of bid documents and inspection services for various buildings at the Knud Hansen Complex; \$10,000 for the design and oversight of the chemical storage facility at the St. Thomas Hospital; and \$5,000 for technical assistance regarding the disposition of the St. Croix Modular Hospital.

- A local architectural firm performed on-site representation at the Ingeborg Nesbitt Clinic from March 1993 to August 1994, at a cost of about \$114,000. These services were required because of the termination of the contract for the Government's Program Management Consultant.

We believe that the cost of providing on-site representation during construction could have been significantly reduced from the \$1.4 million paid to the three architectural firms had the Department of Public Works been sufficiently staffed to carry out its mandated construction management responsibilities. Our review also disclosed that, notwithstanding the presence of the on-site representatives, the construction work was not completed in a timely manner. For example, the Myrah Keating Smith Clinic was completed a year behind schedule; the St. Croix Hospital contract completion date was extended from November 1993 to August 1994, with substantial completion not occurring until October 1994; and the St. Thomas Hospital Phase III work, scheduled for completion in June 1993, had not been completed as of April 1995. Each time the construction contract completion dates were extended, the contracts for project representation were also extended.

Charles Harwood Complex

The Charles Harwood Complex was scheduled for refurbishment in order to house all clinical services in one central location on St. Croix. According to the space

planning study prepared in April 1991, 22,000 square feet was needed for optimum clinic space. As part of the fiscal year 1992 Department of the Interior grant, the Department of Health allocated \$4.1 million for the Charles Harwood Complex. No other funding sources were identified for this project. In April 1993, a local architectural firm prepared four design options for the Complex, ranging in price from \$4 million to \$5.4 million, as follows:

- Option 1 (\$4.5 million) was to construct an entirely new two-story clinic in the southwest corner of the site.

- Option 2 (\$4.0 million) was to renovate a portion of the second floor of the main building and the adjacent clinic annex and construct a 5,600 square foot connecting structure between the renovated main and annex buildings.

- Option 3 (\$5.4 million) was to renovate a portion of the main building so that all clinic spaces would be located on a single level within the main building.

- Option 4 (\$4.8 million) was to construct an entirely new one-story clinic in the northwest corner of the site. This option would require that the Department of Property and Procurement's motor pool, which is located on the Complex's property, be vacated and demolished.

After the initial planning phase, the architectural firm received indications from Department of Health officials that the funding for the project would be reduced from the original \$4.1 million. Therefore, the architectural firm recommended that a modified version of Option No. 2 be implemented. This option would construct a smaller connecting structure between the renovated main and annex buildings in order to bring the cost of the project within the lower budget. However, the smaller final facility may not be large enough to house all intended clinical services. Additionally, an official of the Office of Territorial and International Affairs, U.S. Department of the Interior, told us that as of March 1995, the \$4.1 million grant was still available for the Charles Harwood Complex renovation project.

Because more than 2 years have elapsed since the architectural firm's original design options and cost estimates were developed, the actual cost of making the desired renovations to the Charles Harwood Complex will probably exceed the \$4.1 million in available funding, and some design compromises may be necessary to complete the project within the existing funding constraints. Because the project is being funded entirely through Federal funds, we believe that the Department of Health should work with representatives of the U.S. Department of the Interior to develop an alternative design that can be constructed within the \$4.1 million budget and will satisfy both the intent of the original grant and the Department of Health's needs for consolidated clinical facilities on St. Croix.

Advance Payments

Work on Phase III of renovations to the St. Thomas Hospital included the erection of concrete and steel buildings to house major equipment that was also to be provided as part of the contract. This equipment included an incinerator, two generators, three water heaters, three water holding tanks, and a steam boiler. Contract work, which began in March 1992, was scheduled for completion in January 1993. The completion date was subsequently extended to June 1993. However, as of March 1995, the project had not been completed.

In July 1993, the Government amended the construction contract to allow for advance payments at the “sole discretion” of the Government. The Government took this action to assist the prime contractor in the purchase of the major equipment items, to keep the subcontractors on the job, and to keep the contract in progress. Three advance payments, totaling \$1.4 million, were made as follows:

- In August 1993, the Government approved an advance of \$854,000 for the purchase of the incinerator, water system equipment. and boiler and for electrical labor applications.

- In March 1994, the Government approved an advance of \$327,000 to further finance the purchase of the incinerator and for electrical equipment.

- In August 1994, the Government approved an advance of \$186,000 for electrical, mechanical, and air-conditioning applications.

Despite these three advances and the purchase and shipment of the major equipment items to the St. Thomas Hospital, the contractor and its subcontractors did not complete the installation and hookup of the equipment. Additionally, in March 1995, the Department of Health asked the Virgin Islands Attorney General to investigate the alleged misappropriation of government funds by one subcontractor. Without the incinerator, generators, and boiler, the St. Thomas Hospital may not retain Health Care Financing Administration certification, which could result in the loss of about \$10 million annually in Medicare funds.

We believe that the Government should review the contract and the contractor’s performance in order to determine whether it is in the Government’s best interest to terminate the contract, seek reimbursement of amounts paid for work which has not been completed, and simultaneously contract with another construction firm to complete the project.

On-Site Inspections

From January to March 1995, we visited six health care facilities that were constructed, repaired, or renovated with grant funds received from the Department of the Interior (see Appendix 2). We found that newly constructed facilities were

not furnished or staffed and that punch list items were not completed in order to close out the projects.

Recommendations

We recommend that the Governor of the Virgin Islands:

1. Provide the Department of Public Works with the resources and oversight authority necessary for it to effectively carry out the construction inspection responsibilities mandated by the Virgin Islands Code.

2. Direct the Department of Health to work with appropriate representatives of the U.S. Department of the Interior to develop construction designs for renovations to the Charles Harwood Complex that can be accomplished with the \$4.1 million in available grant funds and will satisfy both the intent of the original grant and the Department of Health's needs for consolidated clinical facilities on St. Croix.

3. Consider terminating the contract for Phase III of renovations to the St. Thomas Hospital in order for the Government to obtain another construction contractor to bring the project to completion. As part of this process, the Government should take actions to recover amounts paid to the current contractor and subcontractors for work that has not been completed.

Governor of the Virgin Islands Response and Office of Inspector General Reply

The March 8, 1996, response (Appendix 3) to the draft report from the Governor of the Virgin Islands concurred with the three recommendations. Based on the response, we consider the three recommendations resolved and implemented (see Appendix 4).

Recommendations 1-3. Concurrence.

Governor of the Virgin Islands Response. For Recommendation 1, the response stated that the Governor had directed the Office of Management and Budget to allocate the resources necessary for the Department of Public Works to fill all engineering vacancies "to enhance its inspection responsibilities."

For Recommendation 2, the response stated that the Department of Health had taken appropriate action, with the assistance of the U.S. Department of the Interior, to develop construction designs for the renovation of the Charles Harwood Complex.

For Recommendation 3, the response stated that the Department of Property and Procurement had terminated the original contract for renovation of the St. Thomas Hospital and that the Attorney General's Office had begun to take legal action for

work not performed by the contractor. The response also stated that two other firms had been contracted to complete the renovation project.

C. OTHER ACTIVITIES

Construction planning activities for new health care facilities, such as the St. Thomas Community Rehabilitation Center and the Ingeborg Nesbitt Clinic, did not include budgets to adequately equip and staff the facilities. Funding identified for these projects included only amounts needed for construction and construction oversight activities. As a result, the Department of Health had to request supplemental funding of about \$4 million to operate the facilities.

In October 1994, dedication ceremonies were held for the substantially completed St. Thomas Community Rehabilitation Center. In November 1994, the former Acting Commissioner of Health requested, through the Office of Management and Budget, the identification of a funding source and the passage of a supplemental budget of \$712,000 per year to operate the 16-bed facility. The \$712,000 request consisted of \$544,000 for personal services and \$168,000 for operating expenses. In the request, the former Acting Commissioner noted that the Department of Health was spending \$1.8 million annually for the treatment of 11 mental health patients at a facility in Washington, D.C.

In October 1994, the Ingeborg Nesbitt Clinic was also considered to be substantially complete. Accordingly, in October 1994, the former Acting Commissioner of Health submitted, to the Office of Management and Budget, a revised supplemental budget, totaling \$3.3 million, to staff and equip the Clinic. The \$3.3 million request consisted of \$1.7 million for personal services, \$681,000 for equipment, \$595,000 for supplies, and \$302,000 for operating expenses. In the request, the former Acting Commissioner stated that the Clinic will provide urgently needed care and support services for the population of Frederiksted, St. Croix, and that the operation of the Clinic was totally dependent on the availability of funds as identified in the supplemental budget.

As of March 1995, the Office of Management and Budget had not responded to the Department of Health's requests for supplemental funding, and both facilities were not completely furnished and remained unstaffed and unoccupied. We believe that the Government should place a high priority on identifying funding sources to operate these facilities in order to provide vital health care services for the people of the Virgin Islands.

Recommendation

We recommend that the Governor of the Virgin Islands identify funding sources for the Department of Health to staff, equip, and operate the St. Thomas Community Rehabilitation Center and the Ingeborg Nesbitt Clinic.

Governor of the Virgin Islands Response and Office of Inspector General Reply

The March 8, 1996, response (Appendix 3) to the draft report from the Governor of the Virgin Islands concurred with the recommendation, stating that the Federal Grants Task Force, the Commissioner of Finance, and the Director of Management and Budget had been directed to identify possible funding sources for the Department of Health to staff, equip, and operate the St. Thomas Community Rehabilitation Center and the Ingeborg Nesbitt Clinic. Based on the response, we consider the recommendation resolved and implemented (see Appendix 4).

CLASSIFICATION OF MONETARY AMOUNTS

Findings	Funds To Be Put To Better Use
A. Contract Administration	
Liquidated Damages	\$302,000*
B. Construction Oversight	
Project Management Contracts	<u>\$1,400,000**</u>
Total	<u>\$1,702,000</u>

* Of this amount, \$221,900 represents Federal funds, and \$80,100 represents local funds.

**Of this amount, \$178,600 represents Federal funds, and \$1,221,400 represents local funds.

RESULTS OF ON-SITE INSPECTIONS

During January to March 1995, we visited six health care facilities to observe construction projects that were funded, in part, by the Department of the Interior. At the project sites, we found facilities that were not staffed and equipped for operation and facilities that were not satisfactorily completed in order to close out the construction contracts. For example:

- The St. Thomas Community Rehabilitation Center was completed in October 1994. However, as of March 1995, the facility was not fully staffed or equipped for operation. In addition, the main electrical service meter was located at the rear of the facility, although the Department of Health wanted the meter to be located at the front of the facility, away from an area to be used by patients. A contract change order was approved in March 1995 to move the electrical service meter at an additional cost of \$14,500. Until the location of the meter is decided, the facility cannot receive permanent power or a certificate of occupancy. Also, the emergency exits at the facility were not able to accommodate wheelchairs, as required by the Americans With Disabilities Act. The emergency exit of one patient wing led to a flight of stairs rather than to a wheelchair access ramp (Figure 1). Construction of the Center was funded by an \$800,000 grant from the Department of the Interior.



Figure 1. An emergency exit at the St. Thomas Community Rehabilitation Center that leads to stairs rather than to a wheelchair ramp. (Office of Inspector General photo)

- The Ingeborg Nesbitt Clinic was substantially completed in October 1994 and was considered by the Department of Public Works Project Manager to be one of the best Capital Improvement Program construction projects, based on the quality and timeliness of construction work. However, as of March 1995, the facility was not staffed or equipped for operation. Construction of the Clinic was funded by \$3.8 million in **grants** from the Department of the Interior and additional funds from local bond proceeds.

- The refurbishment of the St. Thomas Hospital was scheduled to be performed in four phases. Three phases have been undertaken, but as of March 1995, only two phases were considered complete. The refurbishment was funded by \$11.6 million in grants from the Department of the Interior and additional funds from the Federal Emergency Management Agency, the U.S. Department of Energy, and local bond proceeds.

Phase I refurbishment repaired roof damage caused by Hurricane Hugo. However, other roofing deficiencies, such as condensation leaks caused by the air handling units on the roof, were not corrected. A roofing contractor estimated that it would cost approximately \$400,000 to correct the problems on the roof. In addition, our site inspection disclosed that the vents for sewer gas ran through the air handling units housed on the roofs. Therefore, methane gas from the toilets filtered back into the Hospital through the air handling units. Further, there was no water or no electrical hookups on the roof to power-wash the roof as part of routine maintenance, as required by the roofing manufacturer's warranty. Accordingly, the roof was not considered safe for catching rainwater to be used for human consumption. As a result, the Hospital used potable water from the Virgin Islands Water and Power Authority.

Phase II refurbishment encompassed the interior of the Hospital. Contract work was performed according to plans and specifications. However, cistern leaks were not fixed, the air-conditioning flow throughout the facility was inadequate, windows replaced by the contractor were not tinted to block the sun's rays, and the water filtering system installed by the contractor did not work.

Phase III construction included the construction of concrete and steel buildings to house major equipment items, as discussed in Finding B. As of March 1995, the contractor still needed to fence the incinerator building; treat the fabricated steel at the incinerator building to stop rusting; purchase and install a vaporizer for the incinerator; install the mechanical room doors; fireproof the mechanical room; install air-conditioning for the mechanical room; install radiators on the roof of the generator building; enclose the generator building; install the hot water heaters, holding tanks, and steam boilers; and make operational the incinerator, generators (Figure 2), water heaters, water holding tanks, steam boilers, and fuel tank. According to the Acting Director of Engineering and Maintenance, the Hospital is contemplating returning the two unused generators in exchange for two units that are more powerful. The original units, a 750 kw generator and a 900 kw generator,

individually could not provide enough power to the entire Hospital in case of a power failure. The Acting Director stated that two 1200 kw generators would better serve the Hospital because the increased capacity would allow for expansion to current operating needs and the capacity would provide power to the entire Hospital in the event of a power failure.



Figure 2. One of two emergency generators at the St. Thomas Hospital that were not made operational by the contractor. (Office of Inspector General photo)

Phase IV refurbishment, which includes upgrades to the heating, ventilation, and air-conditioning systems, could not be performed because there were no available funds. Funds originally provided for this phase were used to pay for cost overruns on Phase III of the St. Thomas Hospital. The Acting Director of Engineering and Maintenance said that, based on equipment supplier quotations, a conservative estimate to upgrade the air-conditioning system would be \$1.5 million. The air handling and chiller units, which were originally installed in 1982, had a stateside useful life of about 12 years.

- The Myrah Keating Smith Clinic was substantially completed in September 1993, 1 year after the original completion date. Significant delays occurred during the roof installation. The first roofing subcontractor installed a Hypalon roof, but the installation was not approved because of looseness in the roof membrane. A second roofing subcontractor then installed a PVC-type roof over the Hypalon roof without placing a slip sheet between the two surfaces. The two roofing components (Hypalon and PVC) were determined to be chemically incompatible. The second roofing subcontractor then removed the first two roof installations and installed an

approved Sarnafil roof. Further, the medical gas units in the facility were inoperative because of leaks in the system. In June 1993, the prime contractor submitted a claim totaling \$957,000 for “costs and charges associated with the delay and disruption to the progress of the works resulting from the execution of change orders, late payments and other matters.” The Government’s contract cost consultant concurred with only \$47,000 for interest on late payments. The major issues regarding extended general conditions and additional overhead were referred to the Department of Health for final resolution. At the time of our audit, the Department of Health had not responded to the claim. Costs to refurbish and make additions to the facility were funded by \$1.9 million in grants from the Department of the Interior and additional funding from the Federal Emergency Management Agency and local bond proceeds.

- The refurbishment of the St. Croix Hospital involved extensive renovations to the facility. Despite deteriorated conditions with the duct work, fireproofing, and water lines, the work was completed according to the plans and specifications. However, the following issues remained unresolved at the time of our audit:

-- The fuel tank for the emergency generator needed to be placed at a level higher than the generator in order for the fuel to be gravity fed in case of a power failure.

-- The exhaust pipes that lead from the generator room needed to be moved because the exhaust fumes could enter the air handling units and possibly be filtered throughout the Hospital.

-- The telephone switchboard was not hooked up to the emergency generator. Therefore, incoming telephone calls would not always be received if a power failure occurred.

-- The physical therapy section was not completed. Large equipment items for patients to bathe in were not hooked up, pulleys used to rehabilitate patients were not installed, and a peg board used for rehabilitation was placed in a maintenance room instead of in the patient area (Figure 3).

-- Air-conditioning in the telephone equipment room was not adequate, which caused equipment to overheat.

-- The fire alarm system was malfunctioning.

-- Labeling of the electric circuits was not correct.

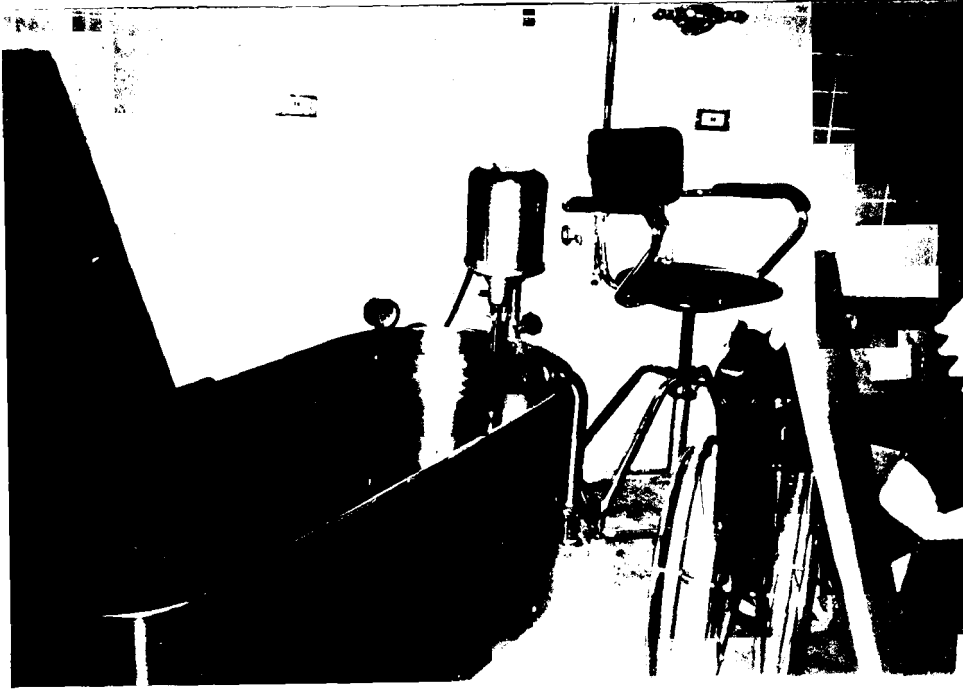


Figure 3. Uninstalled equipment in the physical therapy room at the St. Croix Hospital. (Office of Inspector General photo)

In May 1994, the prime contractor submitted a claim totaling \$6.8 million for “compensation due to the delay and disruption on the St. Croix Hospital Renovation Project.” The Government’s contract cost consultant concurred with only \$96,000 for interest on late payments, disruption to the prime contractor and its subcontractors, and crew moving time. At the time of our audit, the Department of Health had not responded to the claim. Costs to refurbish the facility were funded by a \$7 million grant from the Department of the Interior and additional funding from the Federal Emergency Management Agency, the U.S. Department of Energy, and local bond proceeds.

- The Charles Harwood Complex, originally constructed in 1950, had not been refurbished as of the time of our audit. However, emergency electrical, plumbing, and architectural repairs were made to the facility between November 1993 and March 1995. Although funding for this project consisted only of a \$4.1 million grant from the Department of the Interior, the emergency repairs were paid from local bond proceeds. The emergency repairs were performed satisfactorily. However, the replaced bathroom fixtures were not in conformance with the Americans With Disabilities Act. Handicapped fixtures were not installed, and access areas were not widened for wheelchair accessibility. The facility, though structurally sound, is in need of renovation, as discussed in Finding B.



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U.S. DEPARTMENT OF THE INTERIOR

THE UNITED STATES VIRGIN ISLANDS

OFFICE OF THE GOVERNOR
GOVERNMENT HOUSE
Charlotte Amalie, V.I. 00802
809-774-0001

March 8, 1996

Ms. Judy R. Harrison
Acting Assistant Inspector General
for Audits
United States Department of the Interior
Office of Inspector General
Headquarters Audits
1550 Wilson Boulevard - Suite 401
Arlington, VA 22209

Re: Audit Report - Grants for the Construction
of Health Care Facilities, Government of
the Virgin Islands (Assignment No. V-IN-
VIS-002-95)

Dear Ms. Harrison:

We have reviewed your Draft Audit Report No. V-IN-VIS-002-95 on Grants for the Construction of Health Care Facilities and submit the following comments:

RECOMMENDATION NO. 1

Ensure that the Department of Property and Procurement monitors compliance with the requirements of the Virgin Islands Code, Virgin Islands Rules and Regulations, and the Department's own internal procedures with regard to the procurement of construction and professional services contracts. Additionally, the Department should return, without approval, proposed contracts that have not been awarded and negotiated in accordance with the legal requirements.

RESPONSE

The Department of Property and Procurement has corrected the deficiencies in the contract administration by moving the contract files to a secure area. Access and maintenance is restricted only to employees of the Contracting Section.

RECOMMENDATION NO. 2

Ensure that the Department of Property and Procurement verifies

Ms, Judy R. Harrison
Page 2
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that contractors are licensed to do business in the Virgin Islands before approving any contracts awarded to those contractors.

RESPONSE

The Department of Property and Procurement has instituted a procedure which will determine whether there is a valid construction A/E license on file before work can begin on any project. The department has also developed internal procedures with a "check list" for construction and professional service contracts.

RECOMMENDATION NO. 3

Ensure that the Department of Property and Procurement enforces existing policies and procedures with regard to the assessment of liquidated damages against contractors that do not complete required work within the time frames specified in their contracts.

RESPONSE

Presently the Department of Property and Procurement will established policies and procedures regarding liquidated damages against contractors who do not complete legally contracted work within the required time frame.

RECOMMENDATION NO. 4

Ensure that the Department of Public Works or its designated representatives review contract specifications sufficiently so that there is minimal need for contract change orders after construction contracts are awarded.

RESPONSE

The Department of Property and Procurement has established with user agencies of the Government and the Department of Public Works policies for coordinating the need for change orders.

RECOMMENDATION NO. 5

Ensure that the Department of Property and Procurement enforces existing policies and procedures with regard to the issuance of change orders and supplemental contracts.

RESPONSE

The Department of Property and Procurement will vigorously enforce existing provisions of the V. I. Code relating to change orders.

RECOMMENDATION NO. 1

Provide the Department of Public Works with the resources and

Ms. Judy R. Harrison
Page 3
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oversight authority necessary for it to effectively carry out the construction inspection responsibilities mandated by the Virgin Islands Code.

RESPONSE

The Governor has directed the Office of Management and Budget to allocate the resources required by the Department of Public Works to fill all engineering vacancies to enhance its inspection responsibilities.

RECOMMENDATION NO. 2

Direct the Department of Health to work with appropriate representatives of the U.S. Department of the Interior to develop construction designs for renovations to the Charles Harwood Complex that can be accomplished with the \$4.1 million in available grant funds and will satisfy both the intent of the original grant and the Department of Health's needs for consolidated clinical facilities on St. Croix.

RESPONSE

The Department of Health has taken appropriate action with the assistance of representatives of the U. S. Department of Interior to develop construction designs for the renovation of the Charles Harwood Complex.

The Jaredian Design Group was selected to provide Architectural/Engineering Services for the complex.

RECOMMENDATION NO. 3

Consider terminating the contract for Phase III of renovations to the St. Thomas Hospital in order for the Government to obtain another construction contractor to bring the project to completion. As part of this process, the Government should take actions to recover amounts paid to the current contractor and subcontractors for work that has not been completed.

RESPONSE

The Department of Property and Procurement terminated the contract with Unlimited Construction for the renovation of the St. Thomas Hospital on June 20, 1995.

Two other firms were selected to bring the St. Thomas Hospital project to completion. RIMCO was awarded a contract to complete the air-conditioning system. Crosslands was contracted to complete the boiler and incinerator.

The Attorney General's Office has begun legal action for work not performed.

Ms. Judy R. Harrison
Page 4
March 8, 1996

RECOMMENDATION NO. 1

We recommend that the Governor of the Virgin Islands identify funding sources for the Department of Health to staff, equip, and operate the St. Thomas Community Rehabilitation Center and the Ingeborg Nesbitt Clinic.

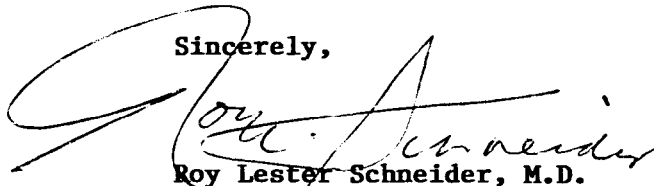
RESPONSE

The Governor has directed his Federal Grants Task Force, the (Commissioner of Finance, and the Director of Management and Budget to identify possible funding sources for the Department of Health to staff, equip, and operate the St. Thomas Community Rehabilitation Center and the Ingeborg Nesbitt Clinic.

It is my hope that our responses to your recommendations will clear up all issues regarding this audit.

If you should need any additional information regarding this audit, please feel free to contact my office.

Sincerely,

A handwritten signature in black ink, appearing to read "Roy Lester Schneider". The signature is written in a cursive style with a large initial "R".

Roy Lester Schneider, M.D.

Governor of the U. S. Virgin Islands

STATUS OF AUDIT REPORT RECOMMENDATIONS

<u>Finding/Recommendation Reference</u>	<u>Status</u>	<u>Action Required</u>
A. 1	Management c o n c u r s ; a d d i t i o n a l i n f o r m a t i o n n e e d e d .	Provide a plan of action, including target dates and the title of the official responsible for ensuring that proposed contracts which have not been awarded and negotiated in accordance with legal requirements are returned by the Department of Property and Procurement to the user agencies for necessary corrective action.
A.2-A.5; B.1-B.3; and C.1	Implemented.	No further action is required.

**ILLEGAL OR WASTEFUL ACTIVITIES
SHOULD BE REPORTED TO
THE OFFICE OF INSPECTOR GENERAL BY:**

Sending written documents to:

calling:

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