US DEPARTMENT OF VETERANS AFFAIRS
OFFICE OF INSPECTOR GENERAL

Office of Audits and Evaluations

DEPARTMENT OF VETERANS AFFAIRS

Review of the Major Construction Project for the New VA Medical Center in Louisville, Kentucky

Review | **25-01782-158** | **September 24, 2026**

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Executive Summary

The VA Office of Inspector General (OIG) conducted this review to evaluate the effectiveness of VA's governance in achieving the authorized initial schedule and budget for the new medical center construction project for Louisville, Kentucky—which remained under construction as of September 2026, over 16 years after it was authorized by Congress. Although 38 U.S.C. § 8104 requires congressional authorization of major medical facility projects based on a prospectus that includes a detailed estimate of total costs, it does not require a project schedule as a condition of authorization. The OIG therefore evaluated project schedule performance in accordance with the Office of Management and Budget's (OMB) Circular A-11, part 7, which directs agencies to establish and monitor schedule baselines during project execution.[1]

In January 2026, the review team met with leaders from the Office of Construction and Facilities Management and the Office of Acquisition, Logistics, and Construction to discuss preliminary findings and potential recommendations; officials acknowledged the issues, provided historical context, and described process improvements. In April 2026, the team briefed officials from the same organizations on questioned costs and the underreporting of total project costs.

What the Review Found

Ineffective planning, scope changes, and schedule delays contributed to the Louisville project taking at least 13 years more than originally planned, with an expected completion date of November 2027 (as of September 2026). Total costs nearly tripled from the initial business case estimate of $418.8 million to more than $1.1 billion.

The OIG found that VA did not implement an acquisition governance framework, even after establishing the Acquisition Program Management Framework department-wide in 2017. This limited VA's ability to monitor project performance, as required under 41 U.S.C. § 1702, and to ensure cost, schedule, and performance goals were achieved. VA also did not comply with key requirements in OMB Circular A-11 intended to support informed decision-making by Congress.[2] Specifically, the OIG found that VA did not submit a business case for the Louisville project to OMB with cost, schedule, and performance goals. Because VA could not demonstrate to the OIG that a project business case approved by the Secretary was submitted to justify the

[1] OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, June 2008, part 7; OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, August 2025, part 7.

[2] OMB Circular A-11, June 2008, part 7; OMB Circular A-11, *Preparation, Submission, and Execution of the Budget,* July 2024; OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, August 2025; OMB, "Capital Programming Guide," ver. 3.1, August 2025.

project's budget, the OIG reported the over $1 billion authorized for the Louisville new medical center project as a questioned cost.[3]

Additionally, VA did not provide Congress with a complete estimate of total project costs, as required by 38 U.S.C. § 8104(b), until fiscal year 2016—more than five years after the project's initial authorization in fiscal year 2010. VA also did not update estimated milestones or total project cost in its draft business case to reflect budget request information, as required by OMB Circular A-11. Furthermore, VA did not effectively use advance planning funds to complete critical preauthorization planning activities, including environmental reviews and design work.

VA also did not initiate the National Environmental Policy Act review process until about 10 months after budget authorization, relied on mitigation actions outside its control, and ultimately required an environmental impact statement—extending the overall review process. In addition, VA did not consistently apply its change management process, accurately report total project costs, or update business case submissions as required in accordance with OMB Circular A-11.

The OIG made seven recommendations to reinforce compliance with law, regulation, and policy. The assistant secretary for management concurred with all seven recommendations. While concurring, the assistant secretary stated that VA did not finalize the draft business case because Louisville funding was not included in the fiscal year 2009 budget request and, therefore, VA determined that a business case was not required. VA also stated that responsibility for construction execution and schedule management has rested with the Army Corps of Engineers since 2015 and that related delays and issues were outside VA's control. However, VA's explanation that the business case was not finalized because the project was excluded from the fiscal year 2009 budget request does not relieve the department of its responsibility to maintain a supportable basis for project decisions. Similarly, the mandated construction management services provided by the Army Corps of Engineers does not absolve VA of its responsibilities to approve and report significant changes and accurately account for and report costs.

Next Steps

The OIG will continue to monitor VA's corrective actions and will close the recommendations once VA provides sufficient evidence that it has addressed the risks identified in this report.

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[3] Inspector General Act of 1978, Pub. L. No. 95-452, 92 Stat. 1101 (1978).

Contents

Abbreviations

CFM	Office of Construction and Facilities Management
FONSI	Finding of No Significant Impact
FY	fiscal year
NEPA	National Environmental Policy Act
OIG	Office of Inspector General
OMB	Office of Management and Budget

Introduction

VA has faced persistent challenges delivering major construction projects on time and within budget. Prior VA Office of Inspector General (OIG) reports have identified incomplete risk assessments, weak internal controls, and inconsistent compliance with internal policies.[4] Given these recurring risks, the OIG conducted this review to evaluate the effectiveness of VA's governance in achieving the authorized initial schedule and budget for the new medical center construction project in Louisville, Kentucky—which remained under construction as of September 2026, over 16 years after it was authorized by Congress.

The federal law governing the approval of major medical facilities, 38 U.S.C. § 8104, requires congressional authorization of major medical facility projects based on a prospectus that describes the project and includes a detailed estimate of total costs. Although the law itself does not require a project schedule to be submitted as a prerequisite of authorization, federal capital programming guidance in part 7 of the Office of Management and Budget's (OMB) Circular A-11 directs agencies to establish cost, schedule, and performance baselines, which agencies must monitor during project execution.[5]

In February 2004, a report from the Capital Asset Realignment for Enhanced Services Commission recommended replacing Louisville's Robley Rex VA Medical Center, which was built in 1952 and, as of 2004, had been operating for about 52 years—exceeding the typical average 40-year lifespan for a hospital used in federal planning.[6] In May 2004, the VA Secretary recommended evaluating facility replacement, citing poor environment-of-care conditions and overcrowding. In 2006, the Secretary announced that VA would build a new, state-of-the-art medical center in Louisville, and project planning began. See appendix A for a detailed timeline.

Overview of Major Construction

Major medical facility projects are among VA's largest capital investments and, as noted, must be explicitly authorized and funded by Congress. According to 38 U.S.C. § 8104(a)(3)(4), a major medical facility project is one exceeding $30 million "for the construction, alteration, or acquisition of a medical facility." Beginning in 2015, 38 U.S.C. § 8103(e) and the Department of Veterans Affairs Expiring Authorities Act required—and continues to require—that for projects exceeding $100 million, a federal agency other than VA perform all project management

[4] Maintenance and construction reports are available on the VA OIG's website.

[5] OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, June 2008, part 7; OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, August 2025, part 7.

[6] *Hearing on the Final Report on the Department of Veterans Affairs Capital Asset Realignment for Enhanced Services Commission*, *Before the US Senate Committee on Veterans' Affairs*, 108th Cong. (March 2, 2004); "New Louisville VA Medical Center" (web page), VA, accessed February 5, 2026, https://www.va.gov/louisville-health-care/programs/new-robley-rex-va-medical-center/.

services, including design, acquisition, and construction.[7] To comply with this law, in July 2015, VA established an interagency agreement with the Army Corps of Engineers to manage these projects.[8] The next month, VA and the Army Corps of Engineers entered into an agreement for the Louisville new medical center project.

Acquisition Governance Structure

In June 2017, in response to prior audits by the OIG and the Government Accountability Office that identified management weaknesses contributing to cost increases and schedule delays, VA issued Directive 7402, which established an enterprise-wide acquisition governance structure for major construction projects, known as the Acquisition Program Management Framework.[9] The policy required all active major construction projects—including those already underway—to follow the framework. According to VA Notice 24-08, Directive and Handbook 7402 will be rescinded upon publication of a subsequent directive. As of September 2026, the OIG identified no subsequently published directive rescinding Directive 7402. The directive standardized oversight and supported responsibilities under 41 U.S.C. § 1702(b), including performance monitoring and advising the VA Secretary on strategies aligned with the agency's mission.

Project Business Cases and Prospectuses

When the Louisville project began, OMB Circular A-11 required federal agencies to submit an exhibit 300 (referred to in this report as a "business case") for all major acquisitions—including land, structures, and construction—to support initial and subsequent budget requests.[10] The business case justifies a project's need and management approach, and it proposes federally required cost, schedule, and performance goals.[11] Once reviewed through the OMB budget process and approved by the agency head (at VA, the Secretary), the established cost, schedule, and performance goals become the basis for ongoing project oversight, including periodic OMB review, performance monitoring, and reporting.[12]

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[7] Department of Veterans Affairs Expiring Authorities Act of 2015, Pub. L. No. 114–58, § 502, 129 Stat. 537.

[8] Interagency Agreement No. VA101F15M0005 between VA and the Army Corps of Engineers on July 14, 2015.

[9] VA Directive 7402, *VA Acquisition Program Management Framework (APMF) Policy,* June 2, 2017.

[10] OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, June 2008, part 7.

[11] Federal Acquisition Streamlining Act of 1994, Pub. L. No. 103-355, 108 Stat. 3351 § 313(b); OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, June 2008, pp. 578, 582, 585, 592; OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, August 2025, pp. 146, 842, 843; OMB, "Capital Programming Guide," supplement to OMB Circular A-11, Part 7*: Planning, Budgeting, and Acquisition of Capital Assets*, ver. 3.1, August 2025; OMB, "Capital Programming Guide," supplement to OMB Circular A-11, Part 7*: Planning, Budgeting, and Acquisition of Capital Assets*, ver. 2, June 2006.

[12] OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, June 2008, pp. 582–585; OMB, "Capital Programming Guide," ver. 3.1, August 2025; OMB, "Capital Programming Guide," ver. 2, June 2006.

As of August 2011, OMB no longer required agencies to submit the legacy exhibit 300s and transitioned to an electronic format. However, as of September 2026, OMB continues to require agencies to submit business cases to the maximum extent possible to justify acquisitions in the form of a performance plan.

In addition to the OMB-required business case, 38 U.S.C. § 8104 requires VA to submit a prospectus to Congress for major medical facility projects to support authorization. The information in the prospectus includes a detailed estimate of total project costs and workload data as well as an explanation of alternatives to construction that were considered.[13] Before VA can obligate additional funding that would cause total project obligations to exceed the amount authorized by Congress by more than 10 percent, 38 U.S.C. § 8104(c)(1) requires the Secretary to notify Congress about why the authorized amount is being exceeded. VA's annual budget request for fiscal year (FY) 2025 states that certain changes to a previously authorized project—such as ones that change project scope, square footage, or program cost—also require authorization.[14]

Funding

According to OMB guidance and federal financial accounting standards, to complete projects within congressionally approved funding limits, VA must develop reliable estimates to inform budget formulation and support capital investment decisions.[15]

Advance Planning and Design Fund

VA uses the Advance Planning and Design Fund (referred to in this report as "advance planning funds"), allocated annually within the major construction appropriation, to support planning and design for projects not yet authorized by Congress, as well as projects that have not yet received construction funding.[16] These funds may support feasibility studies, environmental assessments, preliminary design work, and other engineering studies necessary to develop a reliable project business case.

[13] 38 U.S.C. § 8104(b)(1)(A)(C)(F)(i).

[14] VA, *FY 2025 Budget Submission*, vol. 4, *Construction Long-Range Capital Plan and Appendix*, March 2024.

[15] The Federal Accounting Standards Advisory Board (FASAB), *SFFAS 4: Managerial Cost Accounting Standards and Concepts*, July 31, 1995, in *FASAB Handbook of Federal Accounting Standards and Other Pronouncements, as Amended*, ver. 24; OMB, "Capital Programming Guide," ver. 2, June 2006.

[16] 38 U.S.C. § 8104(a)(2) (2008); 38 U.S.C. § 8104(a)(2)(A) (2026).

Total Estimated Cost

The total estimated cost of a project includes all costs to deliver a fully usable facility, including predesign, demolition, utilities, management fees, and planning and design costs.[17] The total estimated cost should be documented in the business case and is the basis for project-specific line-item authorization.[18]

Major Construction Appropriation and Project Funding Lines

As part of the requirement for congressional authorization under 38 U.S.C. § 8104, major medical facility projects over $30 million are funded through the major construction appropriation, which includes program funding lines for items such as advance planning and design, project management fees, and legal claims.[19] The major construction appropriation also includes project line items that are specific to individual major construction projects authorized by Congress. Major construction projects can use both sources of funding for projects since they both are under the same appropriation account in the budget. However, both OMB guidance and federal financial accounting standards, as well as VA policy, require VA to track and report total estimated costs incurred by a project regardless of funding source.[20] This ensures accurate reporting and compliance with VA policies and federal guidance and keeps VA senior officials and Congress informed on the budget commitments necessary to complete the project.

Changes to Project Scope, Schedule, or Budget

In February 2014, VA's Office of Acquisition, Logistics, and Construction created the VA-Wide Capital Program Requirements Management Process (referred to in this report as the "change management process"), which requires a formal request for any proposed change that affects a project's approved scope, schedule, or cost or that exceeds dollar thresholds.[21] The process manages and tracks changes to approved major construction projects and ensures those changes

[17] FASAB, *SFFAS 4: Managerial Cost Accounting Standards and Concepts*; Construction and Facilities Management (CFM) Cost Estimating Service, *Cost Estimating Requirements for Veterans Affairs Facilities*, August 1, 2022.

[18] OMB, "Capital Programming Guide," ver. 2, June 2006; Government Accountability Office (GAO), *Cost Estimating and Assessment Guide: Best Practices for Developing and Managing Program Costs*, GAO-20-195G, March 2020; CFM Cost Estimating Service, *Cost Estimating Requirements for Veterans Affairs Facilities*.

[19] VA, *FY 2010 Budget Submission*, vol. 4, *Construction and Five-Year Capital Plan*, May 2009; VA, *FY 2026 Budget Submission*, vol. 4, *Construction, Long-Range Capital Plan and Appendix*, May 2025.

[20] OMB Circular A-11, June 2008, pp. 90, 104, 351, 552, 583; OMB Circular A-11, August 2025, pp. 106, 119, 142, 404, 857; FASAB, *SSFAS 4: Managerial Cost Accounting Standards and Concepts*; VA Financial Policy, "VA's Accounting Classification Structure," in vol. 9, *General Accounting* (October 2025).

[21] Principal executive director, Office of Acquisition, Logistics, and Construction, "VA-Wide Capital Program Requirements Management Process (CPRMP)," memorandum to the executive in charge, Office of Management, and chief financial officer, February 19, 2014.

remain aligned with the approved business case and leadership goals throughout the project's life cycle.

According to OMB guidance and VA's annual budget request, significant changes, such as increases exceeding 10 percent of the approved original business case or total obligations above the approved budget, require approval by the VA Secretary and must be reported to OMB and reauthorized by Congress.[22]

In August 2021, VA updated its Directive 0011 to require integration between the Strategic Capital Investment Planning Process and the Capital Program Requirements Management Process—reinforcing requirements that scope and cost changes should not be executed without review and approval from VA leaders.[23]

National Environmental Policy Act

The National Environmental Policy Act (NEPA) requires federal agencies to evaluate environmental impacts of a proposed construction project before taking any actions that would result in "irreversible and irretrievable commitments of Federal resources."[24] These commitments occur, for example, when an agency enters a binding contract for a specific result, not when it purchases a property that could later be used for another purpose.[25]

To oversee and guide federal implementation of NEPA, the Council on Environmental Quality—within the Executive Office of the President—issues governmentwide regulations and guidance for environmental review.

At the department level, VA Directive 0067 establishes VA policy, roles and responsibilities, and major requirements for implementing NEPA.[26] The directive requires VA to initiate NEPA analysis and address environmental requirements "at the earliest possible stage in planning any VA action."

According to 40 C.F.R. § 1501.11(b), federal agencies can achieve NEPA compliance through a phased approach, beginning with programmatic and site-specific environmental assessments.[27] Furthermore, 40 C.F.R. §§ 6.206(a) and 1508.13 say that if an environmental assessment does not identify significant impacts, the agency should issue a Finding of No Significant Impact

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[22] OMB Circular A-11, *Preparation, Submission, and Execution of the Budget,* July 2024, pp. 1001–1002; OMB, "Capital Programming Guide," ver. 2, June 2006; VA, *FY 2025 Budget Submission*, vol. 4, *Construction Long-Range Capital Plan and Appendix*.

[23] VA Directive 0011, *Strategic Capital Investment Planning Process*, August 20, 2021.

[24] 42 U.S.C. § 4332(C)(v); 40 C.F.R. § 1500.1; 40 C.F.R. § 1508.1(w)(1).

[25] *City of Crossgate v. United States Department of Veterans Affairs et al*., No. 3:18-cv-00167 (W.D. Ky. March 18, 2021).

[26] VA Directive 0067, *VA National Environmental Policy Act (NEPA) Implementation*, June 21, 2013.

[27] The Code of Federal Regulations formally describes this phased approach as "tiering."

(FONSI) and may proceed with project execution. If significant impacts *are* identified, a more detailed environmental impact statement is required. For large, complex, or high-impact infrastructure projects where significant impacts are anticipated from the outset, agencies can proceed directly with an environmental impact statement rather than using the phased approach.

Results and Recommendations

Finding: Project Planning Contributed to Delays and Escalating Costs for VA's Replacement Medical Center Project in Louisville, Kentucky

VA did not effectively manage critical project planning—including business case development, preauthorization activities, cost management, and change management—and lacked an acquisition framework, both of which are necessary to achieve approved cost, schedule, and performance goals for the Louisville major construction project. Collectively, these planning deficiencies and weak project oversight led to repeated scope modifications, significant design delays, and substantial cost increases. The new medical facility is now expected to open at least 13 years later than originally planned, and total project costs have nearly tripled from the initial draft business case estimate of $418.8 million to more than $1.1 billion as of January 2026.

As a result, veterans have continued to rely on an aging medical center that was recommended for replacement over 22 years ago and that VA initially estimated would be replaced by 2014. As of January 2026, the existing facility has operated about 34 years beyond the typical average federal planning 40-year lifespan for a hospital and carries about $72 million in deferred maintenance needs—potentially limiting VA's ability to deliver modern, reliable care.

What the OIG Did

The OIG team reviewed laws, regulations, and VA policies related to major construction. The team also reviewed contract and project files related to the new medical center major construction project in Louisville. The team interviewed and obtained information from senior executives and staff across key VA offices, including the Veterans Health Administration, the former Veterans Integrated Service Network 9, the Office of General Counsel, the Office of Budget, the Office of Asset Enterprise Management, and the Office of Construction and Facilities Management (CFM). The team interviewed relevant contractors and staff at Louisville's Robley Rex VA Medical Center who are involved in project planning and execution. See appendix B for more information on the review's scope and methodology. Additional information on the responsibilities of each office involved in major construction can be found in appendix C. The team also, to the extent possible, coordinated with the Army Corps of Engineers.

In January 2026, the team met with leaders from CFM and the Office of Acquisition, Logistics, and Construction to discuss preliminary findings and potential recommendations. Officials acknowledged the issues discussed, provided historical context, and described process improvements. In April 2026, the team briefed officials from the same organizations on questioned costs and the underreporting of total project costs.

Review of Major Acquisition Governance Structure

During this review of the Louisville major construction project, the OIG found that VA did not implement an acquisition framework, limiting its ability to provide the oversight necessary to monitor project performance, as required under 41 U.S.C. § 1702, and to ensure projects meet approved cost, schedule, and performance goals. The Acquisition Program Management Framework (the framework) was established department-wide in June 2017 to provide standardized oversight of major VA acquisition programs, including major construction.[28] Preexisting projects that had expenditures less than $200 million in one year, such as the one at Louisville, were required to be incorporated into the framework by June 2018.

This framework was intended to reinforce requirements to document business cases, conduct annual reviews to assess continued project needs and feasibility within approved budget authority, and formally document and approve significant changes to project scope, schedule, or cost, including obtaining congressional approval when required. These controls were designed to provide consistent governance and oversight in line with federal acquisition management requirements, as well as act as an essential safeguard to notify the VA Secretary when performance goals are not being met. As of January 2026, there was no governance framework implemented for major construction projects.[29]

The OIG recommends the principal executive director of the Office of Acquisition, Logistics, and Construction provide the VA OIG with an implementation schedule for an Acquisition Framework to enable monitoring of major construction project performance.

Review of Project Business Case, Planning, and Change Management

Although VA submitted prospectuses when requesting project authorization, it did not provide Congress with a complete prospectus with detailed cost estimates until FY 2016. VA also did not submit a project business case to OMB, effectively use advance project planning funds to ensure achievable milestones, manage land acquisition and environmental review risks, or follow established change management procedures.

Business Case and Prospectus

The OIG reviewed planning documents for the Louisville medical center project to determine whether VA followed the change management process. Figure 1 illustrates how this process

[28] VA Directive 7402; VA Handbook 7402, *VA Acquisition Program Management Framework (APMF) Procedures*, June 2, 2017.

[29] In March 2024, a former VA chief acquisition officer announced that the Acquisition Program Management Framework would be rescinded and replaced by an updated program, the Acquisition Lifecycle Framework. As of January 2026, the acting executive director of CFM confirmed that no formal directive or guidance had been issued to implement the new framework.

should flow from initial business case development through any proposed changes during construction or activation.

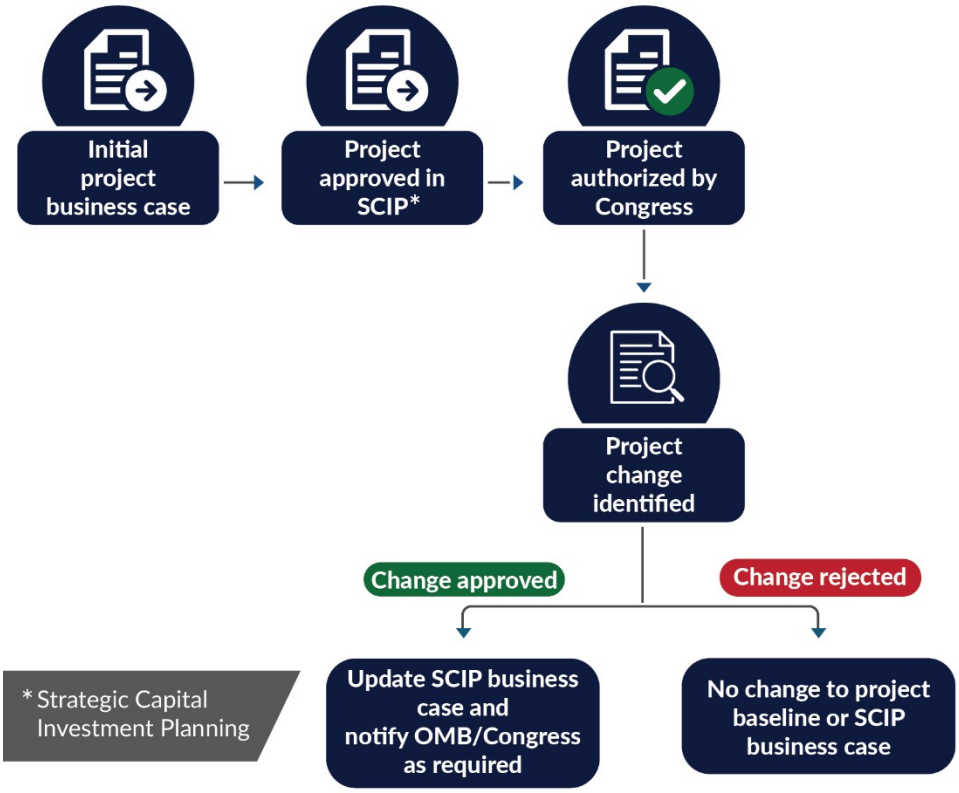

Figure 1. *Overview of the change management process.*

Sources: Principal executive director, Office of Acquisition, and Construction, "VA-Wide Capital Program Requirements Management Process (CPRMP)," memorandum to the executive in charge, Office of Management, and chief financial officer, February 19, 2014; VA Handbook 0011, Strategic Capital Investment Planning Process*, October 11, 2024.*

VA received $75 million in FY 2009 through the Military Construction and Veterans Affairs appropriation to begin land acquisition, planning, and design for the Louisville replacement medical center prior to their request for project authorization. The FY 2010 budget prospectus requesting authorization for the project documented the project's need, evaluated alternatives, demographic and workload demand, and projected operating costs of the facility.

In May 2010, Congress authorized VA to obligate the $75 million funds for construction and land acquisition. OMB Circular A-11 requires a business case that documents a project's cost, schedule, and performance goals be submitted to OMB to support major acquisition budget requests.[30] The OIG found no evidence that VA submitted such a business case to OMB for the Louisville project. The executive director of the Office of Asset Enterprise Management—which

[30] OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, August 2025, part 7.

oversees capital asset planning, supports annual budget funding requests, and coordinates with the Veterans Health Administration to assess and prioritize facility needs based on projected service demands—confirmed that no business case was ever submitted to OMB.

VA did, however, begin a *draft* business case in 2007 in anticipation of including it in the FY 2009 budget cycle, which the executive director provided to the OIG. Because the draft business case was the only documentation provided as support for the authorized project, the OIG relied on this draft to define all initial project goals. According to this draft, VA's initial estimates for the new medical facility called for an approximate 569,000-square-foot building with a construction completion date of April 2014 and a total cost of about $418.8 million.

Under 38 U.S.C. § 8104, VA must submit a project prospectus to present Congress with a project's detailed justification and funding request. A separate prospectus is required for each budget cycle in which funding is requested. The OIG found that while VA submitted required prospectuses to Congress when funding was requested, it did not provide Congress with total construction cost estimates, as required by 38 U.S.C. § 8104(b)(1), until FY 2016—over five years after Congress initially authorized the project in FY 2010 and about two years after the draft business case estimated construction would be complete. Additionally, VA did not update the project's estimated milestones or total project costs in its draft business case to reflect information submitted in budget requests, as required by OMB Circular A-11.[31] Table 1 shows the cost and schedule information VA communicated to Congress in its budget prospectuses.

Table 1. VA Prospectus Cost and Schedule Estimates

Fiscal year	Complete initial design	Start construction design documents	Award construction contract	Complete construction	Total cost
2010	—	2/1/2010	TBD	TBD	TBD
2011	2/1/2010	3/1/2010	TBD	TBD	TBD
2016	—	4/1/2015	4/1/2016	1/1/2019	$925,000,000
2020	—	10/1/2017	6/1/2020	8/1/2024	$860,000,000
2022	—	10/1/2017	7/1/2021	11/1/2025	$953,000,000
2023	—	10/1/2017	8/1/2021	6/1/2027	$1,013,000,000

Source: Prospectuses published in the applicable annual budget requests.

Note: Blank fields represent values that were not identified in the published prospectuses.

According to OMB Circular A-11, project performance goals—including total cost, communicated in the prospectus—should be consistent with the information contained in the business case. Without complete prospectus submissions or updated business cases, Congress

[31] OMB Circular A-11, June 2008, pp. 599–600; OMB, "Capital Programming Guide," ver. 3.1, August 2025.

had limited ability to oversee project cost, schedule, and performance goals beyond the planning information contained in VA's *Construction, Long-Range Capital Plan*, which identifies future VA construction and facility needs and addresses service gaps over a 10-year period.[32]

The Inspector General Act of 1978 requires inspectors general to report monetary benefits, including questioned costs, in their semiannual reports to Congress.[33] Questioned costs include costs that lack adequate supporting documentation. Because VA could not demonstrate to the OIG that a project business case approved by the Secretary was submitted to justify the project's budget, as required by OMB Circular A-11, the OIG must report the over $1 billion authorized for the Louisville new medical center project as a questioned cost. Questioned costs associated with this review are documented in appendix D.

The OIG recommends the CFM executive director establish mechanisms to make sure business cases are developed, promptly reviewed, and approved as required by OMB Circular A-11 and VA Directive 0011.

Advance Planning Funds

Critical preliminary planning activities include feasibility studies, environmental assessments, preliminary design work, and other engineering studies necessary to develop a reliable project business case. However, VA did not complete, and in some cases did not start, many of these critical planning activities before requesting budget authorization for the new Louisville facility.

After the Secretary announced in 2006 that VA would replace the Louisville medical center, VA had the opportunity, under 38 U.S.C. § 8104, to request advance planning funds to pay for preliminary work before receiving congressional authorization for the project. The OIG verified that advance planning funds were available and were used before authorization for a feasibility study initiated in 2009. However, the OIG determined that other preliminary planning activities could have used these funds and did not. For example, initial predesign services could have been paid for with advance planning funds—but, according to a former project manager, when VA requested proposals for initial design services in 2007, the acquisition was put on hold because no official funding was available. By not taking full advantage of available advance planning funds before authorization, VA increased the risk that design and construction milestones would be missed and would delay the project.

Meanwhile, the OIG found that environmental assessments—which needed to be completed before finalizing design and awarding a construction contract—were not completed until after the project received a $75 million appropriation in FY 2009 and was authorized in May 2010. The Council on Environmental Quality and VA Directive 0067 emphasize that agencies should

[32] VA, *FY 2025 Budget Submission*, vol. 4, *Construction Long-Range Capital Plan and Appendix*.

[33] Inspector General Act of 1978, Pub. L. No. 95-452, 92 Stat. 1101 (1978).

integrate NEPA into project planning at the earliest reasonable time, which allows environmental considerations to inform decisions. Guidance from the Council on Environmental Quality, as well as 40 C.F.R. § 1501.2(a), says early planning also helps avoid delays later on by helping project leaders anticipate and resolve potential conflicts, thereby contributing to the development of more predictable timelines.[34] However, although advance planning funds were available to begin environmental assessments before authorization in FY 2010, VA did not award the first NEPA environmental assessment contract until March 2011 and did not begin work on it until April 2011, about 10 months after the budget authorization.

In July 2025, a few months after the OIG began its review, CFM's acting deputy associate executive director of the Office of Facilities Planning said VA now initiates environmental impact statements earlier in project development, unlike during the planning for the Louisville project, and uses advance planning funds to support NEPA activities. According to the acting deputy associate executive director, CFM's Environmental Program Office was established in 2019 to streamline and proactively complete required NEPA activities. To substantiate these changes, in February 2026, the OIG reviewed two active major construction projects involving new hospital construction and verified that environmental impact statements for both projects were started before budget authorization using advance planning funds. These process improvements, which were implemented before the start of this OIG review, have not been formalized; doing so would help ensure consistency in future NEPA reviews and reduce the risk of project delays.

Accordingly, the director of the Office of Asset Enterprise Management should update the responsibilities section of VA Directive 0067 to reflect the expectation that, before budget authorization, major construction projects must proactively identify advance planning fund requirements to support the initiation of NEPA environmental reviews during project development.

Environmental Review

The Louisville new medical center project experienced significant delays related to the NEPA process. The OIG found that VA's early decisions during the land acquisition and NEPA review (the environmental review process required for major federal actions under 42 U.S.C. § 4332 and implementing Council on Environmental Quality regulations in 40 C.F.R. Part 1500) contributed to delays in starting project construction. In 2011, about nine months after the budget authorization, CFM continued to discuss NEPA approach options, including whether to prepare an environmental impact statement. VA ultimately pursued the environmental assessment approach; however, an environmental impact statement *was* later required. Because it was not

[34] Council on Environmental Quality, "Improving the Process for Preparing Efficient and Timely Environmental Reviews under the National Environmental Policy Act," memorandum for heads of federal departments and agencies, March 6, 2012.

initiated earlier, additional analysis was needed, extending the NEPA review process until May 2017.

Phased Environmental Assessment

By February 2011, CFM officials had not yet selected a NEPA review approach and were considering whether to proceed with an environmental assessment or an environmental impact statement. The difference between the two processes is illustrated in figure 2.

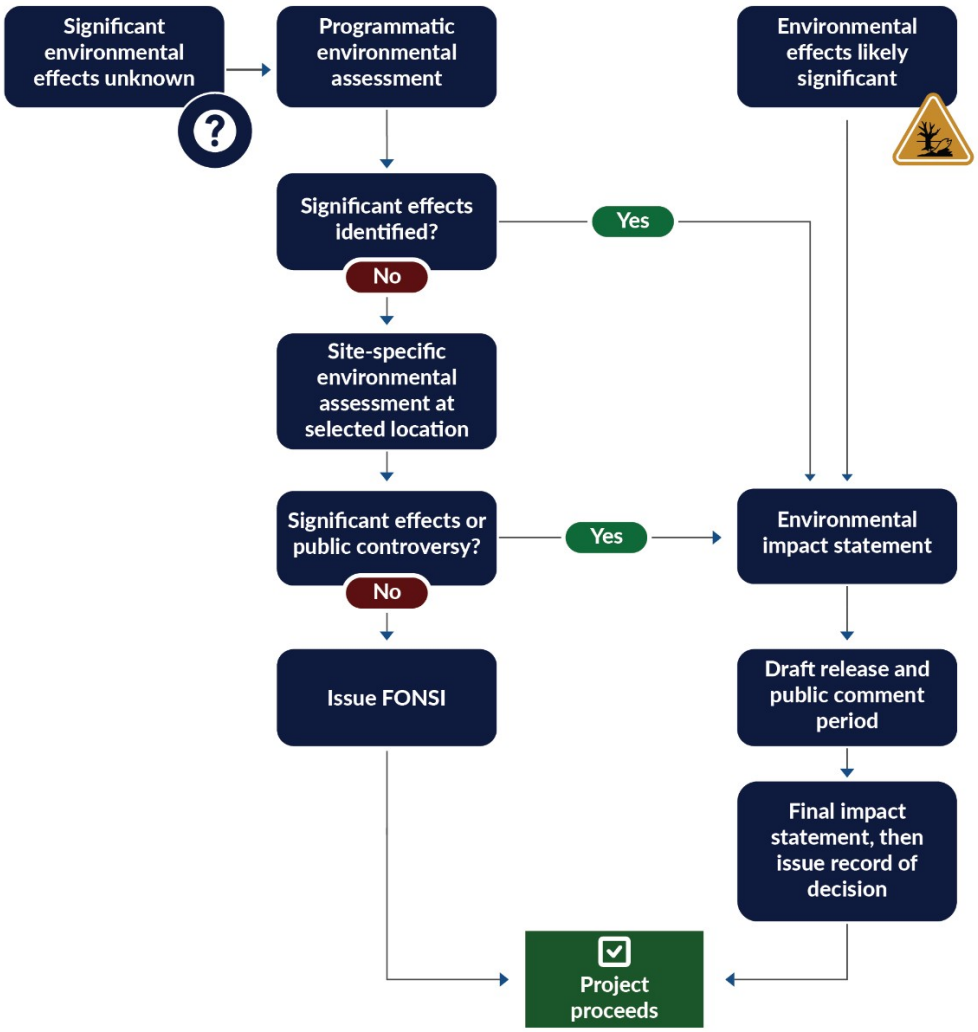

Figure 2. *NEPA process diagram.*

Source: VA OIG analysis of CFM's NEPA Interim Guidance for Projects (September 30, 2010); the Council on Environmental Quality's memorandum on the "Effective Use of Programmatic NEPA Reviews" (December 18, 2014); and 40 C.F.R. §§ 1501.3(c), 1501.6, and 1501.11(b)(1)(2).

To inform this decision, a February 2011 briefing brought together CFM's Real Property Service group, representatives from VA's Office of General Counsel, and a CFM environmental engineer. During this discussion, Real Property Service and the environmental engineer—who

also chaired VA's NEPA Implementing Regulations Steering Committee at the time—expressed different views. Real Property Service stated that an environmental assessment could save time, avoid millions of dollars in costs, and was expected to result in no significant impacts, while the engineer recommended preparing an environmental impact statement.

According to the February 2011 briefing notes, an environmental impact statement was viewed as potentially adding significant project delay and jeopardizing the Secretary's ability to meet the September 2011 site selection milestone, identified in VA's FY 2011 congressional budget request. The environmental engineer raised concerns that an environmental assessment would limit public engagement and noted that an environmental impact statement, concluding with a record of decision, would incorporate "the overall public process," which is consistent with federal NEPA regulations requiring broader public involvement and formal disclosure (40 C.F.R. §§ 1501.9, 1502.17, 1503.1(a), and 1503.4).

Ultimately, the acting director of CFM chose to proceed with a phased environmental assessment approach. The following sections describe the outcomes of this approach during the NEPA review process.

NEPA Assessments and Mitigation Measures

In June 2012, VA issued a final programmatic assessment identifying a site about five miles from the Robley Rex VA Medical Center as the preferred location for the new facility. Concurrently, VA issued a mitigated FONSI, which relied on mitigation actions outside their control, such as roadway improvements, to be completed by non-VA federal, state, and local regulatory agencies. The Council on Environmental Quality advises that when a FONSI relies on such mitigation, those measures must be enforceable, and agencies should not commit to mitigation measures if they cannot reasonably ensure resources to carry them out.[35]

Before the environmental assessments were complete, VA purchased its preferred site in July 2012. One year later, VA began a site-specific environmental assessment. In March 2015, the contractor performing the assessment determined that a FONSI was not supportable, citing factors such as public concerns, outdated traffic studies, and uncertainty regarding whether mitigation measures would be implemented. The contractor cautioned that proceeding with a FONSI under these conditions would leave VA vulnerable to litigation.

Environmental Impact Statement

After the contractor for the site-specific environmental assessment determined that a FONSI was not supportable, VA awarded a contract in August 2015 to prepare an environmental impact statement. The process concluded with a record of decision in May 2017. During the

[35] Executive Office of the President Council on Environmental Quality Chair Nancy H. Sutley, "Appropriate Use of Mitigation and Monitoring and Clarifying the Appropriate Use of Mitigated Findings of No Significant Impact," memorandum for heads of federal departments and agencies, January 14, 2011.

environmental impact statement process, prior traffic studies were updated and supplemented to account for outdated assumptions and analysis. Across the NEPA review process, including during the preparation of the environmental impact statement, VA spent time and resources to address growing public concern—including allegations that it had predetermined the outcome before completing an adequate environmental analysis.

In March 2018, the city of Crossgate, a small residential community near the preferred site, sued VA to stop construction of the new medical center.[36] Although the US District Court for the Western District of Kentucky determined in March 2021 that VA fulfilled its obligations under NEPA, the pending litigation delayed design completion and construction by about three years.

Growing public concern, VA's reliance on unverified mitigation measures, and VA's delay in initiating a NEPA review until later in project planning resulted in significant project disruption. VA ultimately took over six years to complete the NEPA review process, measured from initiation of the programmatic environmental assessment through issuance of the record of decision. Critical activities—including finalizing project design documents and soliciting or awarding the project construction contract—could not advance until the required environmental impact statement was finalized.

The OIG recommends the director of the Office of Asset Enterprise Management establish controls to ensure the CFM director is fulfilling the responsibilities in VA Directive 0067 to incorporate NEPA analysis early on in all land acquisition, planning, design, and construction projects.

Congressional Reporting of Project Changes

After Congress authorizes a major construction project, 38 U.S.C. § 312A(c)(A) requires that VA assign responsibility for design and construction execution to the director of CFM. Scope, schedule, or cost changes identified during execution are still subject to VA's change management controls—including business case updates and, when required, reauthorization from Congress. However, for the new Louisville medical center project, the OIG found that CFM did not consistently use the change management process to ensure project changes were properly approved, nor did it submit or update its OMB-required business case or consistently seek congressional reauthorization when scope changes required it. Several changes VA reported in budget prospectuses, such as reductions in property size, demolition activities, and substantial increases in construction and clinical capacity, were not supported with corresponding change management process requests.

VA's internal change management process requires the project manager to obtain approval from VA officials, including senior executives from the Office of Management, the Veterans Health

[36] *City of Crossgate v. United States Department of Veterans Affairs et al*.

Administration, the Veterans Benefits Administration, and the Office of Acquisition, Logistics and Construction, in coordination with CFM, before modifying a project's scope, schedule, or total estimated cost.[37] When these changes exceed 10 percent of the project's performance goals, VA's internal policy requires review and approval of the change request by the VA Secretary and the Construction Review Council, which was established in April 2012 to provide oversight for the planning, budgeting, and delivery of VA's major construction projects.[38] Guidance from OMB also requires agencies to update business cases and notify OMB.[39] VA's budget request for FY 2025 states that proposed changes to previously authorized projects—including project scope, square footage, and cost of programs—must receive additional congressional authorization before moving forward, even if funding is already available.[40]

The OIG identified several significant scope changes that exceeded the 10 percent threshold that were made without approved change requests and business case updates. Significant changes included functional design refinements, removal of Veterans Benefits Administration space, and additions of a utility plant and laundry buildings. Additionally, CFM officials acknowledged that schedule delays attributed to NEPA litigation, inflation, and supply chain disruption also required approval through VA's internal change management process. According to the former project manager, who became the director of project delivery in 2021, CFM leaders applied inconsistent approaches to executing major scope changes. In addition, the executive director of the Office of Asset Enterprise Management said VA did not submit updated business cases when requesting additional funding for significant scope changes because OMB had not requested any support documentation beyond the submitted prospectuses for this project.

In accordance with its internal change management process, two of the five change management requests required review and approval by the VA Secretary or the Construction Review Council based on information presented in the requests. The OIG team also identified one additional change management request of the five that should have been submitted for VA Secretary and Construction Review Council approval. Two of the three changes that required approval by the VA Secretary or the Construction Review Council were not approved, and four of five were missing at least one required approval signature. CFM obtained VA Secretary approval for two change management requests that, under VA policy, did not require such approval. Consistent with OMB Circular A-11, all the changes warranted updated business case submissions to

[37] Principal executive director, Office of Acquisition, Logistics, and Construction, "VA-Wide Capital Program Requirements Management Process (CPRMP)," memorandum; VA Directive 0011, *Strategic Capital Investment Planning Process*, October 11, 2024.

[38] Principal executive director, Office of Acquisition, Logistics, and Construction, "VA-Wide Capital Program Requirements Management Process (CPRMP)," memorandum; VA, *The VA Construction Review Council Activity Report*, November 2012.

[39] OMB Circular A-11, June 2008, pp. 583, 599, 600; OMB Circular A-11, July 2024, pp. 1001, 1002, 1018; OMB, "Capital Programming Guide," ver. 3.1, August 2025; OMB, "Capital Programming Guide," ver. 2, June 2006.

[40] VA, *FY 2025 Budget Submission*, vol. 4, *Construction Long-Range Capital Plan and Appendix*.

OMB.[41] However, as confirmed by the executive director of the Office of Asset Enterprise Management, no business case was ever submitted. The changes from the performance goals in the draft business case are shown in table 2.

Table 2. Summary of Approved Change Management Process Requests

Fiscal year	Changes	Changes to performance goals
2015	**Scope:** Increase medical center square footage, and add new utility plant and laundry buildings	$506 million (rounded) increase to project costs; and 534,000 square foot increase to project scope
2019	**Scope:** Remove Veterans Benefits Administration office space and parking, remove demolition plans, and add mechanical space	$65 million decrease in project costs
2021	**Scope:** Add mechanical and pharmacy space, and revise contract structure	$93 million increase to project costs
2022	**Cost:** Adjust for inflation and supply chain disruptions	$60 million increase in project costs

Source: VA OIG analysis of change management process request submissions for the Louisville medical center project. VA's FY 2009 initial draft project business case, FY 2015 VA Strategic Capital Investment Planning Process business case, and other documentation provided by CFM such as cost estimates and project schedules.

When officials bypass change management processes, VA risks affecting cost and scope outcomes and further delaying the project. Example 1 illustrates an unapproved project change that resulted in significant timeline impacts.

Example 1

On May 9, 2013, CFM rejected the initial project design concept and required revisions, including combining a Veterans Benefits Administration regional office building with the medical center into a single structure. The CFM contracting officer accepted architect-engineer revisions on June 26, 2013. However, on August 2, CFM leaders halted active design work and required the architect-engineer to analyze a new CFM-provided atrium concept design for the campus and evaluate several design concepts. None of these changes resulted in an updated project business case or congressional approval. The project contracting officer at the time officially suspended work on October 16 to accommodate the revised design. An official authorization to resume work was released on February 20, 2014. In total, these actions resulted in 288 days of

[41] OMB Circular A-11, June 2008, p. 583; OMB, "Capital Programming Guide," supplement to OMB Circular A-11, *Part 7*: *Planning, Budgeting, and Acquisition of Capital Assets*, ver. 3.1, August 2025.

delay: 50 days for revising the concepts and 238 days for reevaluating concepts and completing revisions.

The OIG recommends CFM's executive director perform periodic reviews to verify that business cases comply with OMB Circular A-11 requirements by being updated throughout a project's life cycle to reflect changes in scope, schedule, and cost—and if changes exceed 10 percent of the initially approved business case, they are reported to OMB.

Review of Project Obligations, Total Estimated Cost, and Budget Authorization

Federal agencies must follow government-wide federal financial accounting standards and the Government Performance and Results Act of 1993 to ensure the full costs of programs and activities are accurately and consistently recorded, monitored, and reported.[42]

The OIG determined that, as of January 2026, VA had obligated about $120 million above the project's congressionally approved cost ceiling of just over $1 billion. Of this amount, about $43.4 million was charged to advance planning, $76.6 million to Army Corps of Engineers management fees, and $4,000 to legal claims that were charged to other funding lines within the major construction appropriation. The OIG also identified $40 million in funding for user-requested changes (requested by CFM and the medical center) that were not reported in the project's total estimated cost. Collectively, the total estimated cost was understated by nearly $160 million—more than 10 percent of the reported total project cost.

Once a project exceeds its authorized cost ceiling by 10 percent, the Federal Acquisition Streamlining Act of 1994, the Government Performance and Results Act of 1993, and OMB Circular A-11 consider the increase significant and require agencies to report the increase to Congress because the previously approved budget authority may no longer be sufficient to cover the total project cost.[43]

Furthermore, federal budget requirements in 31 U.S.C. § 1105(a) require agencies to support their annual budget request with detailed cost estimates. These estimates inform Congress of the resources needed to carry out each project. Under OMB Circular A-11, federal financial

[42] FASAB, *SFFAS 4: Managerial Cost Accounting Standards and Concepts*; Government Performance and Results Act of 1993, Pub. L. No. 103-62, 107 Stat. 287 § 1115.

[43] Federal Acquisition Streamlining Act; Government Performance and Results Act of 1993, Pub. L. No. 103-62, 107 Stat. 287 § 1115; OMB Circular A-11, June 2008, pp. 548–582; OMB Circular A-11, July 2024, p. 1002, 1018; OMB, "Capital Programming Guide," ver. 3.1, August 2025; OMB, "Capital Programming Guide," ver. 2, June 2006.

accounting standards, and VA policy and guidance, VA construction projects are approved based on the full cost of delivering a usable facility.[44]

Additionally, as required by 38 U.S.C. § 8120, VA must submit a quarterly report to Congress on the actual versus planned project cost of each construction project exceeding $100 million. However, as of June 2025, VA understated these costs in its congressionally mandated reports.

As of March 2026, the OIG confirmed that the Office of Asset Enterprise Management also did not submit the required congressionally mandated reports for quarters three and four of FY 2025. When the full cost of a project and significant project updates are not reported, VA increases the risk of incurring obligations beyond available funding for the major construction project.

CFM could not adequately explain why all funding line charges within the same appropriation, supporting the same major construction project, would not add up to the project's cost ceiling in accordance with federal financial accounting standards.[45] By not consistently reporting all project costs, VA limited Congress's and senior VA leaders' ability to oversee project performance and understand the full cost to design and build the facility. Table 3 summarizes these variances and illustrates how actual project obligations and funding for user-requested changes exceeded the approved cost ceiling.

Table 3. Project Approved Cost vs. Obligation and Total Estimated Cost

Funding description	Cost
FY 2023 congressionally approved total estimated cost	$1,013,000,000
Obligated costs exceeding approved total estimated cost, as of January 2026	$119,892,283
Project obligations, as of January 2026	**$1,132,892,283**
Unobligated funding for user-requested changes	$40,000,000
OIG calculated total estimated project costs*	**$1,172,892,283**
Calculated costs exceeding the congressionally approved total estimated cost	**$159,892,283**

Source: VA OIG analysis of general ledger records in the Financial Management System, the Integrated Financial and Acquisition Management System, and the FY 2026 annual budget request, with analysis of user-requested changes provided by CFM.

** VA OIG analysis of project obligations and estimated user-requested changes.*

[44] OMB Circular A-11, June 2008, p. 104; OMB Circular A-11, August 2025, p. 119; OMB, "Capital Programming Guide," ver. 3.1, August 2025; FASAB, *SFFAS 4: Managerial Cost Accounting Standards and Concepts*; VA Financial Policy, "Cost Accounting," in vol. 13, *Managerial Cost Accounting* (April 2024), chap. 3; CFM Cost Estimating Service*, Cost Estimating Requirements for Veterans Affairs Facilities*.

[45] FASAB, *SFFAS 4: Managerial Cost Accounting Standards and Concepts*.

The Federal Acquisition Streamlining Act of 1994 specifies that federal agencies establish schedule and performance goals within approved cost estimates and report progress against those goals; therefore, it is critical that those estimates are realistic and complete.[46] CFM's internal cost estimating service group says it follows the best practices identified in the Government Accountability Office's cost estimating and assessment guide, which the Government Accountability Office reported is endorsed by OMB, to develop the initial cost estimates to justify a project business case.[47] The initial cost estimate includes all direct and indirect costs, from initial planning and design through construction completion.[48] However, the CFM executive director did not ensure that the reported project's total estimated costs in the annual budget request's *Construction, Long-Range Capital Plan* consistently applied the Government Accountability Office methodology. By not applying a methodology that reports comprehensive, realistic, complete cost estimates, VA risks further project delays and needing to make additional funding requests.

The OIG recommends the executive director of the Office of Asset Enterprise Management conduct a comprehensive review of major construction project obligations to ensure all costs related to each project, including those recorded in separate funding lines, are included in the total estimated project cost reported to Congress, consistent with 38 U.S.C. § 8120, 31 U.S.C. § 1105, OMB Circular A-11, and volume 8 of the VA Financial Policy.

Review of User-Requested Changes Necessary to Open the Hospital

The OIG identified about $32 million in user-requested changes necessary to meet VA design requirements that are different from when the construction contract was awarded. This $32 million estimate is based on provisional estimates between the Army Corps of Engineers and the project's general contractor to perform the additional work, with about $28.9 million being costs to compensate for delays caused by design requirement changes (shown in table 4 as indirect costs). These changes must be made before the new Louisville hospital can open—which as of September 2026 was scheduled for November 2027.

In November 2024, the Army Corps of Engineers performed a cost and schedule risk analysis and found that the project did not have enough funds to cover all proposed changes. That same month, leaders from VA and the Army Corps of Engineers agreed to modify the contract to implement two user-requested changes related to cast iron removal and urology. For the other

[46] Federal Acquisition Streamlining Act.

[47] GAO, *Cost Estimating and Assessment Guide: Best Practices for Developing and Managing Program Costs*, GAO-20-195G, March 2020; GAO, *VA Construction: VA Is Working to Improve Initial Project Cost Estimates, but Should Analyze Cost and Schedule Risks*, GAO-10-189, December 2009.

[48] FASAB, *SFFAS 4: Managerial Cost Accounting Standards and Concepts*; CFM Cost Estimating Service, *Cost Estimating Requirements for Veterans Affairs Facilities*; GAO, *Cost Estimating and Assessment Guide: Best Practices for Developing and Managing Program Costs*, GAO-20-195G, March 2020.

three changes—sterile processing, interventional radiology and operating rooms, and mental health—VA and Army Corps of Engineers leaders approved the design work but decided to pursue separate construction contracts due to the risk of high costs and schedule delays.

Table 4 illustrates the estimated cost and funding status of the required design changes that must be executed before the new Louisville hospital can open.

Table 4. User-Requested Project Changes

Change	Estimated direct cost	Estimated indirect cost	Total estimated cost impact
Sterile processing service	$100,000	$7,100,000	$7,200,000
Cast iron removal	$1,800,000	$0	$1,800,000
Urology/endourology	$41,000	$0	$41,000
Interventional radiology/operating room	$1,000,000*	$16,400,000	$17,400,000
Mental health	$200,000	$5,400,000	$5,600,000
Totals	**$3,141,000**	**$28,900,000**	**$32,041,000**

Source: Memorandum signed by the CFM executive director in November 2024.

** The estimated direct cost was listed as $1–5 million. The OIG used the lower number in this range for a conservative approach.*

In May 2025, the Secretary approved $40 million to fund design of these user-requested changes, which included contingency funds for unexpected costs. In July 2025, CFM authorized the Army Corps of Engineers to negotiate and award construction of user-requested changes related to sterile processing and mental health. In August 2025, CFM also authorized the Army Corps of Engineers to award construction for the interventional radiology and operating room changes. The OIG obtained April 2026 construction contract modification documentation showing the construction contract was extended by about a year to accommodate additional changes, including these user-requested changes. However, in separate documentation, the primary construction contractor, also in April 2026, asserted the changes instead resulted in a 457-day extension. The construction contract modification includes a closing statement that there was a failure to reach an agreement on cost and time. Because these changes must be made before the hospital can open, not executing them in a timely manner could further delay VA's estimated November 2027 hospital opening date.

The OIG recommends the CFM executive director verify that milestones for the Louisville new medical center project are updated to incorporate critical user-requested changes and that these changes are completed in a timely manner to prevent further delays, while keeping the project within its authorized scope, cost, and schedule.

Conclusion

The new Louisville medical center likely will not be complete until at least 13 years later than originally planned, at a cost of more than $1.1 billion—nearly triple the initial estimate of $418.8 million from the 2007 draft business case that was prepared for the FY 2009 budget cycle. In addition, by January 2026, the existing facility was operating 34 years beyond its original expected 40-year lifespan and had about $72 million in deferred maintenance costs.

CFM did not effectively use advance planning funds or submit an approved business case to make sure the new medical center was properly scoped or justified before authorization. Furthermore, CFM did not implement an acquisition governance framework to provide the oversight necessary to manage project performance, including scope, cost, and schedule changes. In addition, the delayed initiation of NEPA reviews and reliance on unverified mitigation measures contributed to significant project disruptions that affected final design completion and prevented the construction award from proceeding as planned.

Additionally, though overall project changes increased the total cost to over $1.1 billion, VA did not consistently apply capital management and change control processes, update the project business case, or consistently seek congressional reauthorization when project scope, cost, and schedule significantly changed. This reduced transparency and increased the risk of further delay and cost escalation.

Last, VA did not consistently report accurate total estimated costs, which limited Congress's ability to exercise oversight of approved budgets, and CFM has not yet made critical user-requested changes that are required before the hospital can open. By addressing these issues, VA can improve planning and execution on future major construction projects, strengthen congressional and OMB oversight, reduce the risk of cost and schedule overruns, and increase the likelihood that future projects are aligned with approved budget, scope, and performance expectations.

Recommendations 1–7

The OIG made three recommendations to the executive director of the Office of Construction and Facilities Management:

1. Establish mechanisms to make sure business cases are developed, promptly reviewed, and approved as required by the Office of Management and Budget Circular A-11 and VA Directive 0011.
2. Perform periodic reviews to verify that business cases comply with Office of Management and Budget Circular A-11 requirements by being updated throughout a project's life cycle to reflect changes in scope, schedule, and cost, and to verify that if changes exceed 10 percent of the initially approved business case, they are reported to the Office of Management and Budget.

3. Verify that milestones for the Louisville new medical center project are updated to incorporate critical user-requested changes and that these changes are completed in a timely manner to prevent further delays, while keeping the project within its authorized scope, cost, and schedule.

The OIG made three recommendations to the executive director of the Office of Asset Enterprise Management:

4. Establish controls to ensure the executive director of the Office of Construction and Facilities Management fulfills the responsibilities in VA Directive 0067 to incorporate National Environmental Policy Act analysis early on in all land acquisition, planning, design, and construction projects.
5. Conduct a comprehensive review of major construction project obligations to ensure all costs related to each project, including those recorded in separate funding lines, are included in the total estimated project costs reported to Congress, consistent with 38 U.S.C. § 8120, 31 U.S.C. § 1105, Office of Management and Budget Circular A-11, and volume 8 of *VA Financial Policy*.
6. Update the responsibilities section of VA Directive 0067 to reflect the expectation that, before budget authorization, major construction projects must proactively identify advance planning fund requirements to support the initiation of NEPA environmental reviews during project development.

The OIG made one recommendation to the principal executive director of the Office of Acquisition, Logistics, and Construction:

7. Provide the VA Office of Inspector General with an implementation schedule for an acquisition framework to enable monitoring of major construction project performance.

VA Management Comments

The assistant secretary for management, who also serves as the chief financial officer, concurred with all seven recommendations. He stated that CFM is implementing a six-phase Project Lifecycle Process to ensure compliance with OMB Circular A-11 and VA Directive 0011 and to ensure that business cases are complete, validated, and periodically reviewed throughout the project life cycle. VA will use the new process with its existing Capital Program Requirements Management Process, which identifies specific required actions when changes in scope, schedule, or cost exceed 10 percent. VA will also obtain an updated construction completion schedule from the Army Corps of Engineers that incorporates user-requested changes.

Additionally, VA issued an interim final rule addressing NEPA requirements and is revising VA Directive 0067 to clarify responsibilities for addressing those requirements early in construction

planning and to establish expectations for proactively planning, programming, and executing environmental reviews. The Office of Management, in coordination with CFM, will review major construction obligations and ensure required reports include all project funding. The Office of Acquisition, Logistics, and Construction will also provide the OIG with an implementation schedule for the Acquisition Lifecycle Framework.[49]

While concurring, the assistant secretary for management stated that VA did not finalize the draft business case because Louisville funding was not included in the FY 2009 budget request and, therefore, VA determined that a business case was not required. VA also stated that responsibility for construction execution and schedule management has rested with the Army Corps of Engineers since 2015 and that related delays and issues were outside VA's control. Finally, the assistant secretary noted that VA is working with the Army Corps of Engineers to ensure the project is completed as soon as possible. The full management response is available in appendix E.

OIG Response

VA's planned actions are responsive to the recommendations. The OIG considered VA's comments regarding the business case and the Army Corps of Engineers' role in project execution; however, these comments did not alter the report's findings and conclusions.

VA's explanation that the business case was not finalized because the project was excluded from the FY 2009 budget request does not relieve VA of its responsibility to maintain a supportable basis for project decisions. In subsequent budget submissions, VA did not provide OMB with a business case containing complete construction cost estimates and project schedules. VA's inability to provide accurate and updated business cases to OMB impeded congressional oversight, limiting visibility into the project's cost, schedule, and performance goals.

The OIG acknowledges that the Army Corps of Engineers assumed responsibility for managing construction activities. However, the OIG team found significant issues related to environmental reviews, acquisition governance, change management, and cost and congressional reporting. Notably, the project planning issues—including delayed environmental reviews and not submitting a business case to document the project's cost, schedule, and performance goals to OMB—originated before the start of the interagency agreement with the Army Corps of Engineers in 2015. Furthermore, the mandated construction management services provided by the Army Corps of Engineers does not absolve VA of its responsibilities to approve and report significant changes and accurately account for and report total project costs.

[49] As of September 2026, the Office of Acquisition, Logistics, and Construction was developing the Acquisition Lifecycle Framework to replace the existing acquisition framework.

The OIG will close the recommendations once VA provides sufficient documentation demonstrating that the planned actions have been fully implemented and have addressed the issues identified in this report.

Appendix A: Timeline for Louisville Major Construction Project

Table A.1 provides a timeline of significant events, milestones, and decisions associated with the Louisville project, providing context for how scope, schedule, and cost evolved over time.

Table A.1. Important Dates and Events Related to Planning, Construction, and Delays

Date	Description
May 2004	The Capital Asset Realignment for Enhanced Services Commission and the VA Secretary recommend a study to determine the need to replace the medical center in Louisville, Kentucky
June 2006	Secretary announces plans to construct a replacement medical center in Louisville
November 2008	Initial appropriation of $75 million approved
June 2009	Architect-engineer contract, including the National Environmental Policy Act (NEPA) analysis, awarded
October 2009	Feasibility study completed
May 2010	Initial authorized project ceiling set at $75 million
March 2011	NEPA process begins with programmatic environmental assessment
November 2011	Secretary announces preferred site selection
June 2012	Programmatic environmental assessment completed and VA issues mitigated Finding of No Significant Impact (FONSI) Secretary announces preferred site for the replacement medical facility Design scope modified to add a Veterans Benefits Administration co-location
July 2012	VA purchases 34-acre preferred site for $12.9 million
July 2013	NEPA site-specific environmental assessment begins
August 2013	Architect-engineer stops work for revised design program
February 2014	Architect-engineer resumes work on design
March 2015	Site-specific environmental assessment contractor determines a FONSI is not supportable
June 2015	Stop work order issued for site-specific environmental assessment
July 2015	VA–Army Corps of Engineers interagency agreement established for the corps' project support services
August 2015	NEPA environmental impact statement begins
December 2015	Appropriation of $75 million approved
September 2016	Project authorized for $150 million
October 2016	Architect-engineer management transitioned from VA to the Army Corps of Engineers

Date	Description
April 2017	Final environmental impact statement issued
May 2017	Record of decision prepared summarizing NEPA review process
October 2017	VA Secretary signs record of decision for the environmental impact statement
December 2017	Design revised to remove the co-location of Veterans Benefits Administration
March 2018	City of Crossgate files lawsuit to prohibit VA from building new medical center
September 2018	Appropriation of $300 million approved
December 2018	Authorized project ceiling rises to $450 million
December 2019	Appropriation of $410 million approved
June 2020	Authorized project ceiling rises to $860 million
March 2021	The city of Crossgate's lawsuit against VA is dismissed
August 2021	Construction contract awarded for $840 million
November 2021	Construction begins
March 2022	Appropriation of $93 million approved
October 2022	Authorized project ceiling rises to $953 million
July 2023	Authorized project ceiling rises to $1,013,000,000
May 2025	Allocation of $40 million from fiscal year 2025 continuing resolution approved to fund user-requested changes

Source: VA OIG analysis of comprehensive documentation provided by VA's Office of Construction and Facilities Management, representing the extensive body of evidence reviewed throughout the VA OIG review.

Appendix B: Scope and Methodology

Scope

The VA Office of Inspector General (OIG) team conducted its work from March 2025 through June 2026. The team reviewed VA's New VA Medical Center Major Construction Project No. 603-320 in Louisville, Kentucky, from initial project planning through January 2026.

Methodology

To accomplish the review objective, the OIG team performed the following steps:

- Reviewed relevant laws, regulations, policies, procedures, and guidance that govern major construction projects
- Visited the sites of both the existing medical center campus and the new one under construction to verify the demolition and construction of project buildings
- Interviewed facility staff, project officials, and Army Corps of Engineers contracting officials to gather information on project scope changes, cost increases, and schedule delays
- Reviewed specific contract modifications to identify the reasons behind scope changes, cost increases, and schedule delays
- Examined and analyzed project documentation and requested clarifications or more information when necessary

Internal Controls

This review of the Louisville major construction project was performed using the Council of the Inspectors General on Integrity and Efficiency's standards, which did not require an initial assessment of internal controls. However, during the review, the team found that the Louisville major construction project did not implement an acquisition framework that would have provided an effective governance structure, as VA Handbook 7402 required.[50]

Therefore, the team assessed internal controls to determine whether they were significant to the review's objective. This included consideration of the five internal control components: control environment, risk assessment, control activities, information and communication, and monitoring.[51] In addition, the team reviewed the principles of internal controls as associated with

[50] VA Handbook 7402, *VA Acquisition Program Management Framework (APMF) Procedures,* June 2, 2017.

[51] Government Accountability Office, *Standards for Internal Control in the Federal Government*, GAO-25-107721, May 2025.

the objective and identified four components and five principles as significant. Because the review was limited to the internal control components and underlying principles identified, it may not have disclosed all internal control deficiencies that could have existed at the time of this review. The team identified internal control deficiencies during this review and proposed recommendations to address those listed in table B.1.

Table B.1. VA OIG Analysis of Internal Control Components and Principles Identified as Significant

Component	Principle	Deficiency identified by this review
Control environment	2. The oversight body should oversee the entity's internal control system.	VA did not implement an Acquisition Program Management Framework to provide better oversight of Louisville's major construction project.
	5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.	VA did not enforce accountability by ensuring all the required documentation was complete and accurate, that it was appropriately approved, and that it fully supported day-to-day decision-making.
Risk assessment	7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.	VA officials did not assess and appropriately respond to risks associated with the project.
Information and communication	13. Management should obtain or generate relevant, quality information and use it to support the functioning of the internal control system.	VA officials did not ensure appropriate documentation was obtained and that it fully supported the agency's objectives.
Monitoring	16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.	VA officials did not implement their existing policies to provide adequate governance of the major construction program to ensure performance goals were established.

Source: VA OIG analysis of internal control components and principles. The principles listed are consistent with the Government Accountability Office's Standards for Internal Control in the Federal Government.

Data Reliability

The OIG team tested the reliability and the accuracy of the data systems used to obtain both project financial and schedule information. To verify the financial performance and determine the reliability of VA's reported project costs, the team reconciled the amounts obtained from general ledger records in VA's accounting systems of record—the Financial Management System and the Integrated Financial and Acquisition Management System—to actual amounts reported in VA's performance measurement dashboard application, contract reporting to the Office of Management and Budget extracted from USASpending.gov, the VA–Army Corps of

Engineers interagency agreement, and contractor invoices. No material discrepancies were identified. Therefore, the OIG team determined the financial data obtained from VA's performance measurement dashboard, external reporting to the Office of Management and Budget, and the interagency agreement were sufficiently reliable to meet the review's objective.

Schedule data provided to the OIG team by VA was determined to be insufficiently reliable due to incomplete or inaccurate data. Therefore, the OIG team did not rely on schedule data to support the review's objective and instead obtained source documentation from VA's electronic contract management system as evidence to sufficiently meet the review's objective.

Government Standards

The OIG conducted this review in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*.[52]

[52] Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation*, December 2020.

Appendix C: VA Offices Responsible for Major Construction

This appendix provides more detail for major construction project governance.

VA Secretary

Under 38 U.S.C. § 8102(a), the Secretary is responsible for providing medical facilities for veterans entitled to medical care. To carry out this responsibility, the Secretary has the legal authority under 38 U.S.C. § 8103(a)(1) to "construct or alter any medical facility … as the Secretary considers necessary." All proposed project changes, including for space and cost, greater than 10 percent require the Secretary and the Construction Review Council's approval.

Office of Acquisition, Logistics, and Construction

The principal executive director of the Office of Acquisition, Logistics, and Construction serves as VA's chief acquisition officer. According to VA Directive 4085, this office oversees VA's major construction program, serves as the primary adviser on construction-related items, and manages the progress of specific construction projects, fulfilling statutory responsibilities under 41 U.S.C. § 1702, which requires chief acquisition officers to monitor the performance of acquisition activities and programs.[53]

Office of Asset Enterprise Management

The Office of Asset Enterprise Management is responsible for providing oversight and advice for VA's capital assets, ensuring all viable capital asset investment and divestment options are considered. The office serves as the principal adviser to the assistant secretary for management and the Secretary on capital investments, sustainability, real property leases, and real property asset disposal.[54] The executive director of the Office of Asset Enterprise Management produces VA's long-range action plan and congressional budget requests.

Together, the executive directors of the Office of Asset Enterprise Management and the Office of Construction and Facilities Management (CFM) co-chair the Strategic Capital Investment Planning Board—overseeing VA's Strategic Capital Investment Planning process, identifying resources and requirements, and communicating those needs to VA leaders. The board consists of eight senior executives including one individual from each of the following VA organizations: the Office of Management; the Office of Enterprise Integration; the Veterans Health Administration; the Veterans Benefits Administration; the National Cemetery Administration; the Office of Information and Technology; the Office of Human Resources and

[53] VA Directive 4085, *Capital Asset Management*, December 2, 2020.

[54] VA Functional Organization Manual, ver. 8, vol. 2, *Staff Offices*, 2023.

Administration/Operations; and the Office of Acquisition, Logistics, and Construction. The board provides final recommendations on major criteria and project selections for the Secretary's approval.

Office of Construction and Facilities Management

CFM, led by the executive director established by 38 U.S.C. § 312A, oversees the planning, design, construction, and operation of VA facilities and infrastructure, including major and minor construction projects. According to 38 U.S.C. § 312A, the executive director is responsible for ensuring legal compliance for these projects, managing procurement and acquisition for construction and facility operations, and developing and updating VA's capital investment strategies and plans.

Within CFM, regional directors supervise all projects in their designated regions. The director of project delivery oversees the division activities of the senior general engineers accountable for providing individual project supervision, contract administration, and oversight. Project managers are responsible for developing project business cases, ensuring accurate cost estimates in budget prospectuses, establishing realistic project schedules, and tracking project costs and schedules.

Appendix D: Monetary Benefits in Accordance with Inspector General Act Amendments

Recommendations	Explanation of Benefits	Better Use of Funds	Questioned Costs[55]
1–3	Project costs not supported by an Office of Management and Budget capital asset business case	$0	$1,172,892,283
	Total	**$0**	**$1,172,892,283**

[55] The VA Office of Inspector General (OIG) questions costs when VA action or inaction (such as spending or failing to fully compensate eligible beneficiaries) is determined by the OIG to violate a provision of law, regulation, contract, grant, cooperative agreement, or other agreement; when costs are not supported by adequate documentation; or when they are expended for purposes that are unnecessary or unreasonable under governing authorities. Within questioned costs, the OIG must, as required by section 405 of the Inspector General Act, report unsupported costs. Unsupported costs are those the OIG determined lacked adequate documentation at the time of the review. In this review, unsupported costs totaled about $1.2 billion and included about $1.1 billion in project obligations, as well as $40 million in additional funding approved by the VA Secretary for user-requested changes. The OIG identified these costs as unsupported because VA could not provide evidence that approved business cases existed to support its fiscal years 2010, 2016, 2020, 2022, and 2023 budget requests or the use of fiscal year 2025 continuing resolution funds for user-requested changes.

Appendix E: VA Management Comments

Department of Veterans Affairs Memorandum

Date: September 2, 2026

From: Assistant Secretary for Management and Chief Financial Officer (004)

Subj: Office of Inspector General's Review of the Major Construction Project for the New Department of Veterans Affairs Medical Center in Louisville, Kentucky (VIEWS 14924670)

To: Inspector General (50)

1. The Office of Management (OM) concurs with the report's findings and recommendations and submits the attached action plan.

2. While OM concurs with the report findings, the Department of Veterans Affairs (VA) created the fiscal year (FY) 2007 draft business case during the FY 2009 budget formulation process. Because funding for Louisville was not included in the FY 2009 budget request, a business case was not required, and VA never finalized the draft business case.

3. Per 38 U.S.C. § 8103(e), the U.S. Army Corps of Engineers (USACE) manages all VA construction projects that cost over $100 million. Consequently, since 2015, VA's only role in the construction process for projects over this dollar amount has been to pay for them. Accordingly, any delays and issues since 2015 regarding the USACE-managed construction of the replacement Louisville VAMC are outside of VA's control.

4. As noted above, per Federal law, complete responsibility for construction execution, contractor performance, contract administration, and management of the construction schedule for this project rests with USACE and is outside VA's control. While VA does not control the construction contract, contractor performance, or construction schedule for this project, VA is working with USACE to ensure this project is completed as soon as possible.

The OIG removed point of contact information prior to publication.

(Original signed by)

Richard F. Topping

Attachment

Attachment

Department of Veterans Affairs (VA)

Action Plan

OIG Draft Report: Review of the Major Construction Project for the New VA Medical Center in Louisville, Kentucky
(Draft Report: 2025-01782-AE-0074)

Recommendation 1. Establish mechanisms to make sure business cases are developed, promptly reviewed, and approved as required by the Office of Management and Budget Circular A-11 and VA Directive 0011.

VA Response: Concur. The Office of Construction and Facilities Management (CFM) is in the process of refining and implementing a new, six-phase Project Lifecycle Process (PLP). The PLP is designed, in part, to ensure that VA meets Office of Management and Budget (OMB) Circular A-11 and VA Directive 0011 requirements. This deliberate process will ensure business cases are complete and validated and provide guidance on how to adapt when a project falls outside the standard process.

Status: In process Target Completion Date: May 31, 2027

Recommendation 2. Perform periodic reviews to verify that business cases comply with Office of Management and Budget Circular A-11 requirements by being updated throughout a project's life cycle to reflect changes in scope, schedule, and cost, and if changes exceed 10 percent of the initially approved business case, they are reported to the Office of Management and Budget.

VA Response: Concur. The current Capital Program Requirements Management Process (CPRMP) is applied any time a change in an approved scope or budget is requested. It identifies specific actions that must take place when a change in scope, schedule or cost is more than 10%. The CFM will also use the PLP identified above to periodically review appropriate Decision Events throughout the project lifecycle to provide necessary updates or validations to business cases. The combination of PLP implementation (estimated May 2027 completion) and CPRMP will be leveraged to satisfy all OMB reporting requirements.

Status: In process Target Completion Date: May 31, 2027

Recommendation 3. Verify that milestones for the Louisville new medical center project are updated to incorporate critical user-requested changes and that these changes are completed in a timely manner to prevent further delays, while keeping the project within its authorized scope, cost, and schedule.

VA Response: Concur. The CFM will require an updated construction completion schedule that includes user-requested changes from our construction agent, U.S. Army Corps of Engineers.

Status: In process Target Completion Date: October 31, 2026

Recommendation 4. Establish controls to ensure the executive director of the Office of Construction and Facilities Management fulfills the responsibilities in VA Directive 0067 to incorporate National Environmental Policy Act analysis early on in all land acquisition, planning, design, and construction projects.

VA Response: Concur. On June 15, 2026, VA issued an interim final rule, Implementing Regulation for National Environmental Policy Act (NEPA): Environmental Effects of the Department of Veterans Affairs Actions. VA is also revising VA Directive 0067 to strengthen the language within the document, including

identifying the role and responsibilities for the Executive Director, CFM, and the Office of Management (OM), as it relates to NEPA requirements early in the construction planning process.

Status: In process Target Completion Date: April 30, 2027

Recommendation 5. Conduct a comprehensive review of major construction project obligations to ensure all costs related to each project, including those recorded in separate funding lines, are included in the total estimated project cost reported to Congress, consistent with 38 U.S.C. § 8120, 31 U.S.C. § 1105, Office of Management and Budget Circular A-11, and volume 8 of VA Financial Policy.

VA Response: Concur. In coordination with CFM, OM will conduct a review of major construction project obligations and ensure all annual and quarterly reporting includes a breakout of funds for each project, consistent with 38 U.S.C. § 8120, 31 U.S.C. § 1105, OMB Circular A-11, and volume 8 of VA Financial Policy.

Status: In process Target Completion Date: January 2027

Recommendation 6. Update the responsibilities section of VA Directive 0067 to reflect the expectation that, before budget authorization, major construction projects must proactively identify advance planning fund requirements to support the initiation of NEPA environmental reviews during project development.

VA Response: Concur. VA has begun revising VA Directive 0067 to strengthen the language within the document and set expectations about proactivity in planning, programming, and execution of NEPA reviews.

Status: In process Target Completion Date: April 30, 2027

Recommendation 7. Provide the VA OIG with an implementation schedule for an Acquisition Framework to enable monitoring of major construction project performance.

VA Response: Concur. The Office of Acquisition, Logistics, and Construction will provide the VA OIG with an implementation schedule for the Acquisition Lifecycle Framework (ALF). The schedule will include phased milestones, reporting intervals, and an initial baseline established by the end of September 2026. These elements will support a coordinated rollout, the timely integration of major construction projects, and strengthened oversight, consistent with the Government Accountability Office high-risk findings and the ALF.

Status: In process Target Completion Date: October 30, 2026

The text of VA's management comments is reprinted verbatim as received from the department. For accessibility, the original format of this appendix has been modified to comply with section 508 of the Rehabilitation Act of 1973, as amended.

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Pursuant to Pub. L. No. 117-263 § 5274, codified at 5 U.S.C. § 405(g)(6), nongovernmental organizations, and business entities identified in this report have the opportunity to submit a written response for the purpose of clarifying or providing additional context to any specific reference to the organization or entity. Comments received consistent with the statute will be posted on the summary page for this report on the VA OIG website.

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