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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D C 20548

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Dear Senator McIntyre:

Reference is made to your letter dated March 18, 1970, and the enclosure from a constituent who requested an audit by the General Accounting Office to ascertain the validity of his arguments relative to the cancellation of a laundry contract between the constituent's firm and the White River Junction, Vermont, Veterans Administration (VA) hospital. The constituent raised certain questions regarding the appropriateness of the VA decision which resulted in laundry services for the White River Junction VA Hospital being supplied by the Manchester, New Hampshire, VA hospital laundry.

As agreed with your Office, we examined into two of the constituent's questions. (1) was the consolidation of laundry services at the Manchester VA Hospital based upon accurate cost information? and (2) was the consolidation made in accordance with Government regulations? It was agreed that we would obtain cost data from the VA records on the cost of providing laundry services under the present arrangement.

Our review was conducted at the VA hospitals in White River Junction, Vermont, and Manchester, New Hampshire, and at the VA Central Office in Washington, D.C.

CHRONOLOGY OF EVENTS LEADING TO THE CONSOLIDATION

An official of the Manchester VA Hospital informed us that, while studying ways to improve Manchester's laundry operations and reduce costs, he noted that the White River Junction VA Hospital's contract laundry costs appeared to be high. He informed us that he had made a cost study in December 1964 of the feasibility of combining the Manchester and White River Junction hospital's laundry operations at the Manchester VA Hospital. He stated that the study showed a potential savings from such a consolidation and that a report on the study was submitted to the VA Central Office early in 1965.

VA Central Office officials informed us that the VA Central Office also had made a cost study to determine whether a consolidation of the White River Junction hospital's laundry services with those at

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the Manchester hospital was feasible. This study was part of a VA-wide study on consolidation of its laundries. The VA cost study showed a potential savings from such a consolidation. VA Central Office records showed that VA also made a cost study relating to the feasibility of constructing laundry facilities at the White River Junction hospital.

A Manchester hospital official informed us that VA decided in 1965 to consolidate the laundry services of the White River Junction hospital at the Manchester hospital. The consolidation was not accomplished until July 1968 because of delays in obtaining the necessary approvals for alterations and improvements at the Manchester Hospital's laundry facility.

VA COST STUDY

The VA Central Office in 1965 made a comparison of the cost of commercial laundry services at the White River Junction hospital with the costs of (1) constructing and operating laundry facilities at the hospital and (2) having laundry services for the hospital supplied by the Manchester VA Hospital. The study showed that VA could save about \$14,000 annually by constructing laundry facilities at the White River Junction hospital or about \$22,000 annually by consolidating laundry operations of the White River Junction hospital and the Manchester hospital.

We could not validate certain methodologies and cost estimates used by VA in its cost study because certain information supporting the study had been destroyed. Manchester hospital officials informed us that their cost study files were destroyed after 2 years, in accordance with the Department of Medicine and Surgery Records Control Schedule. Our review of the study showed that, if the methodologies and cost estimates were accurate, savings were possible from consolidation of the laundry services.

GOVERNMENT POLICY REGARDING THE CONSOLIDATION

The Government policy regarding the use of in-house operations versus the use of commercial operations is set forth in Bureau of the Budget (BOB) (now Office of Management and Budget) directives. BOB

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Bulletin No. 60-2, dated September 21, 1959, was the policy directive in effect at the time of the 1965 decision to consolidate the White River Junction hospital's laundry service with the laundry services at the Manchester hospital.

This bulletin provided that the Government not start, or carry on any commercial-industrial activity to provide a service or product for its own use if the service or product could be procured from private enterprise through ordinary business channels, except when contracting for such products or services would jeopardize national security, would result in relatively large and disproportionately higher costs, or would be clearly unfeasible. The VA Central Office cost study on consolidation of the White River Junction hospital laundry services with those at the Manchester hospital indicated that a substantial savings to the Government could be achieved from such a consolidation.

On March 3, 1966, BOB Bulletin No. 60-2, was superseded by BOB Circular No. A-76 which was subsequently revised on August 30, 1967. This circular contained basically the same provisions as the previous BOB directives and was in effect at the time contract laundry services at the White River Junction hospital were discontinued. This circular specifies in relation to cost comparison studies, that:

"*** A Government activity should not be authorized on the basis of such a comparison study, however, unless reasonable efforts to obtain satisfactory prices from existing commercial sources or to develop other commercial sources are unsuccessful."

The president of Kleen Laundry and Drycleaning Services, Inc., in a letter to you dated February 20, 1970, stated that the above-quoted provision of the BOB circular required that he be contacted before the laundry services at the White River Junction hospital were consolidated with those at the Manchester hospital.

Our review showed that, during fiscal years 1966-68, laundry services were provided to the White River Junction hospital by Kleen Laundry and Drycleaning Services, Inc., under contracts awarded through formal advertising procedures. VA's records showed that Kleen Laundry and Drycleaning Services, Inc., was the only bidder for the laundry services contract in fiscal years 1967 and 1968.

A White River Junction hospital official informed us that Kleen Laundry and Drycleaning Services, Inc., had been informed of the planned consolidation of the laundry operations of the two hospitals before the expiration of its contract in June 1968. He stated, however, that the Kleen Laundry and Drycleaning Services, Inc., was not contacted to determine whether it would reduce its price after VA made its cost study because contracts for the laundry services had been awarded through formal advertising procedures.

VA Central Office officials also informed us that they had not contacted the contractor because he was aware of VA's plans to consolidate laundry operations of the two hospitals at the Manchester hospital and had not offered a lower contract price. They informed us also that the on-going contract price had been used as the contract cost in making the comparison between the cost of using Government facilities and the cost of using commercial sources.

We believe that VA should have made a formal proposal to the existing contractor for price reductions for his services at the White River Junction VA Hospital before reaching a decision to establish a consolidated activity.

OPERATING COSTS DURING FISCAL YEAR 1969

We estimated, on the basis of VA records, that the cost of operating the laundry services for the two hospitals at the Manchester VA Hospital during fiscal year 1969 was about \$107,000 and that, of this amount \$37,200 was the incremental cost of the laundry services being provided to the White River Junction hospital, as shown in the following tabulation.

	Estimated consolidated costs at Manchester VA Hospital	Estimated incremen- tal costs relating to White River Junction VA Hospital
Salaries of laundry workers, maintenance and repair personnel and truck driver	\$69,200	\$23,100
Rental of truck	4,300	4,300
Supplies and utilities	7,800	3,400
Other operating costs	900	400
Depreciation of building and equipment	7,300	1,100
Overhead for labor, service, and administration	8,000	3,000
Interest on investment in laundry equipment and buildings	6,300	900
Provision for loss of Federal income tax	800	800
Real estate tax	2,100	200
Insurance on building and equipment	300	-
Total	<u>\$107,000</u>	<u>\$37,200</u>

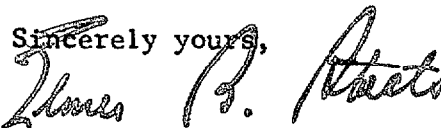
We estimated, on the basis of VA records, that the cost to the White River Junction VA Hospital of using the commercially operated laundry service in fiscal year 1968 was about \$50,900, as shown below.

Payment to contractor	\$40,749
Salaries of VA employees counting and sorting	7,400
Administrative overhead	1,800
Interest on investment in build- ing and equipment	400
Depreciation of building and equipment	300
Real estate tax	200
Supplies, utilities, and repairs	100
Total	<u>\$50,949</u>

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A draft of this letter was presented to VA for its review and comment. The Deputy Administrator of VA, by letter dated October 19, 1970 (see enc.), agreed with the facts presented in the letter. He advised us that the contractor was well aware of VA's plans to obtain more economical laundry service and was given an opportunity to bid competitively. He agreed, however, that a formal proposal would have been more effective generally and more closely in keeping with current provisions of the BOB circular.

We trust that the information contained in this letter will fulfill the purpose of your inquiry.

Sincerely yours,


Comptroller General
of the United States

Enclosure

The Honorable Thomas J. McIntyre
United States Senate



VETERANS ADMINISTRATION
OFFICE OF THE ADMINISTRATOR OF VETERANS AFFAIRS
WASHINGTON, D.C. 20420
OCTOBER 13 1970

Mr. Max Hirschhorn
Associate Director, Civil Division
U. S. General Accounting Office (801)
Room 137, Lafayette Building
811 Vermont Avenue, N. W.
Washington, D. C. 20420

Dear Mr. Hirschhorn:

Thank you for the opportunity to review and comment on your draft letter report to Senator Thomas J. McIntyre concerning laundry services for the VA Hospital, White River Junction, Vermont.

We are in general agreement with the facts cited in the report. As you have noted, the decision to provide laundry service from another VA hospital in lieu of the commercial source was based on a carefully detailed systems analysis. The analysis showed that the consolidated operation would save as much as \$22,000 annually.

Your analysis on page 6 of the report similarly shows substantial savings under the consolidated laundry operation. It also shows that the related contract cost would have been over one-third in excess of the consolidated cost. This variance was our reason for discontinuing the commercial source on the basis of disproportionately higher costs.

With respect to our dealings with the contractor, he was well aware of VA plans to obtain more economical laundry service and was given the opportunity to bid competitively. We agree that a formal proposal would have been more effective generally and more closely in keeping with current provisions of the Bureau of the Budget Circular.

Sincerely,

FRED B. RHODES
Deputy Administrator