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United States General Accounting Office
Washington, DC 20548

November 30, 2000

The Honorable Terry Everett
Chairman
Subcommittee on Oversight and Investigations
Committee on Veterans' Affairs
House of Representatives

Subject: Inadequate Oversight of Laundry Facility at the Department of Veterans Affairs
Albany, New York, Medical Center

Dear Mr. Chairman:

The Department of Veterans Affairs (VA) operates 67 laundries serving more than 36,000 inpatients a day. In fiscal year 1999, VA spent about \$52 million to process more than 166 million pounds of laundry. Most of these expenditures were for the cost of labor of approximately 1,100 employees who sort, wash, dry, fold, iron, and transport laundry. The VA has taken initiatives to reduce inpatient laundry service costs by (1) consolidating laundry workloads and (2) competitive sourcing (comparing the cost of VA-owned and -operated laundries with the cost of having private contractors perform the work).¹

During our review for you of VA initiatives that the Department used to enhance the efficiency of its laundry services, we developed information that the contractor operating the laundry facility at the Albany, New York, VA Medical Center's Textile Care Processing Facility may have billed VA for services that the contractor did not perform. After we briefed your office on the results of our investigation, you requested that we provide a report of our findings.

We conducted our investigation in June and July 2000 by observing the weighing and processing of laundry and determining whether the contractor, Universal Linen Service, was billing the VA for services not provided. We visited the VA Medical Center in Albany, New York, and observed Universal employees processing—sorting, weighing, washing, drying, and folding—laundry. We reviewed documents and interviewed several VA and contractor employees during that visit. We also visited Universal and interviewed its general manager. We conducted our investigation in accordance with investigative standards established by the President's Council on Integrity and Efficiency.

In summary, we found inadequate management and oversight of the contract for operating the laundry facility at the Albany, New York, VA Medical Center. Specifically, we determined that there was no separation of duties between the VA Contracting Officer's Technical Representative (COTR) and the VA Quality Assurance Evaluator, who permitted the contractor to deviate from the contract terms concerning the weighing of laundry. The COTR

¹ *VA Laundry Service: Consolidating and Competitive Sourcing Could Save Millions* (GAO-01-61, Nov. 30, 2000).

prepared and submitted the billing invoices for payment on behalf of the contractor on the basis of estimated weight contrary to contract provisions. As a result of poor management of the contract, it appears that the contractor was overpaid for the services provided. The contractor refused our request for documentary information. We have referred the information developed to VA's Office of Inspector General for further inquiry.

Background

The Textile Care Processing Facility at the Albany VA Medical Center is government-owned and contractor-operated. In December 1995, a 9-month contract with four annual renewal options was awarded to Universal to process laundry in VA's laundry facility. This indefinite delivery indefinite quantity contract was based on an estimated annual processing workload of approximately 1.9 million pounds, and payment was to be based on a fixed-price per pound for five categories of laundry. The estimate derived from a VA management study of the facility, which reported the volume of laundry processed by Universal between May 1, 1992, and April 30, 1993, to be 1.9 million pounds.²

The laundry facility uses five washing machines—three large ones of different capacities (200, 400, and 800 pounds) and two smaller ones with 65-pound capacities. Each large washer is equipped with a computer system called WashNet. WashNet tracks the number of laundry loads and allows the VA to estimate the total amount of laundry washed for each specific class of laundry item (e.g., sheets or towels) based on the washer's capacity—minus a 10-percent downward adjustment representing unused washer capacity. For example, four loads of flat sheets or towels processed in a 400-pound capacity washer equate to 1,600 total pounds minus 160 pounds (10 percent)—or 1,440 pounds. According to a VA quality assurance laundry specialist, VA laundries use the WashNet system to monitor chemical use, energy use, and hours of equipment operation. The specialist explained that while the WashNet system shows the capacity of washers, it should not be relied upon to calculate the weight of the laundry processed for billing purposes because washers are frequently not filled to capacity.

The two 65-pound capacity washing machines are not equipped with WashNet. The company that provides the chemical detergents used by the laundry facility tracks the number of loads processed monthly by the two small washers, based on chemical use, to estimate the weight of laundry processed by the washers.

The contract with Universal requires that the contractor weigh the laundry. That weight is to be used to determine how much the government should be billed. Accordingly, Universal billed the government on the basis of the estimated weights of the laundry washed from March 1, 1996, through March 31, 2000. See table 1.

² The Albany VA Medical Center's Textile Care Processing Facility underwent a \$2.5-million renovation in Oct. 1991 and was 100-percent operational in Apr. 1992. Between Oct. 1991 and Apr. 1992, Universal provided the laundry service for the Medical Center.

Table 1: Estimated Laundry Weights Billed to the Federal Government Before April 1, 2000

Period of weight estimation	Estimated weight in pounds
March 1, 1996 – September 30, 1996 (last 7 months of fiscal year 1996)	979,966
October 1, 1996 – September 30, 1997 (fiscal year 1997)	1,950,195
October 1, 1997 – September 30, 1998 (fiscal year 1998)	2,179,975
October 1, 1998 – September 30, 1999 (fiscal year 1999)	2,250,962
October 1, 1999 – March 31, 2000 (first 6 months of fiscal year 2000)	1,240,393

The Veterans Integrated Service Networks II, which has oversight responsibility for all VA laundry operations in its network, asked the Textile Care Quality Assurance Team to review laundry operations for the laundries it oversees, which include the Albany VA Medical Center laundry facility. The quality assurance team’s review, which was conducted between March 26 and March 30, 2000, determined that Universal was not weighing its laundry as required by the contract. Consequently, VA had no way of verifying the accuracy of the contractor’s billing invoices.

As a result of this review, the Albany facility manager who was also the COTR told Universal to begin weighing laundry. Universal employees attempted to weigh the facility’s laundry on April 13, 2000; but the available scale was broken. When a new scale was obtained on April 27, 2000, Universal employees began weighing the laundry and recording the information on log sheets. The log sheets for April 27, 2000, through June 22, 2000, showed the weights included in table 2.

Table 2: Actual Laundry Weights per Log Sheets

Period of laundry weighing	Actual weight in pounds for weighing period	Actual average daily weight in pounds^a
April 27 – April 30, 2000	21,712	7,237
May 1 – May 31, 2000	156,584	6,808
June 1 – June 22, 2000	83,762	4,927

^a The facility processes laundry 5 days a week—on Mondays, Tuesdays, Thursdays, Fridays, and Saturdays. It is closed on Wednesdays for preventive maintenance and on Sundays. Wednesday laundry is processed on Thursday, and Sunday laundry is processed on Monday.

The Albany VA Medical Center's average daily census—the average daily number of inpatients—has steadily decreased since the beginning of the contract with Universal; however, the reported amount of laundry processed has increased during the same period. The average daily census for fiscal year 1995 was 302, fiscal year 1996 was 260, fiscal year 1997 was 182, fiscal year 1998 was 149, fiscal year 1999 was 129, and fiscal year 2000 was 121.

Inadequate Management and Oversight of Laundry Contract

At the Albany VA Medical Center, one person served as facility manager, COTR, and Quality Assurance Evaluator. This individual allowed the contractor to deviate from contract provisions and prepared invoices using estimated weights on the contractor's behalf.

No Separation of Facility Manager/COTR and Quality Assurance Evaluator Duties

The facility manager/COTR also serves as the Quality Assurance Evaluator for the contract with Universal. A management study report of the Albany VA Textile Care Processing Facility's operations had recommended that, even though a commercial contractor would perform the laundry function, VA employees would still perform certain functions. However, the report further recommended that one VA employee be assigned as COTR and facility manager and another VA employee be assigned as Quality Assurance Evaluator. The report stated that the facility manager would continue to manage all in-house operations and, as COTR, would be responsible for administration of the contract. The individual would spend approximately 50 percent of his/her time on in-house activities as facility manager and 50 percent on contract administration as COTR.

The report explained that the Quality Assurance Evaluator would be responsible for verifying piece counts and poundage of soiled linen received. The Quality Assurance Evaluator would also be responsible for verifying piece counts and monitoring the quality of clean linen after processing. In addition, that individual would observe all contractor activities to ensure contract compliance. In other than routine matters, the Quality Assurance Evaluator would consult with the facility manager/COTR.

In actuality, the VA assigned one employee to perform all these duties.

Facility Manager/COTR Permitted Contract Deviation and Prepared Contractor's Bills Based on Estimated Weight

According to the facility manager/COTR and Universal's general manager, at a meeting in March 1996 the facility manager/COTR, the VA contracting officer,³ and Universal's general manager decided to use the WashNet system to determine the amount of laundry washed in the large washers instead of actual weight. Also at the meeting, the facility manager/COTR agreed to prepare the contractor's invoices⁴ based on the estimated weights derived from the WashNet system and submit these invoices on behalf of the contractor for payment. No written modifications were made to the contract to reflect these changes.

Therefore, laundry was not weighed from the very beginning of the contract. In fact, the laundry facility had no scale available at that time. Through March 2000, the WashNet system

³ The facility manager/COTR and general manager for the contractor agree that this meeting occurred and that certain decisions/agreements were made. However, the contracting officer told us that he did not recall the meeting.

⁴ Universal provided an invoice spreadsheet template, with the contractor's name and address printed on it, to the facility manager/COTR.

was used to estimate the pounds of laundry processed by the large washers. According to the facility manager/COTR, a representative of the chemical detergent company provided him information on the estimated weight of laundry washed in the small washers. He said he included this estimated weight in the total weight on which Universal's invoices were based.

Universal's general manager told us that he accepted the weights provided by the facility manager/COTR, based on the WashNet system, at the end of each month. The facility manager/COTR told us he has never received any gifts or gratuities from the contractor.

The facility manager/COTR of the Albany VA laundry facility told us that the annual processing workload estimate of 1.9 million pounds on which the contract was based was obtained from the WashNet system. According to the facility manager/COTR, the WashNet system has been part of the laundry facility since 1992. VA headquarters purchased the system, which is used at other VA laundry facilities besides Albany. The facility manager/COTR said he did not validate or verify the actual physical laundry weight but rather used weight estimates based on wash loads from the WashNet system. The facility manager/COTR told us he was aware of the Universal contract requirement to weigh laundry.⁵ He acknowledged being negligent.

The VA contracting officer has oversight responsibility for the Universal contract. He said that until April or early May 2000, he did not know that laundry had not been weighed from the beginning of the contract in March 1996. He assumed that laundry was being weighed. He did not recall any meeting and/or conversation during which it was decided that the WashNet system would be used. Further, he told us that he did not know that the laundry facility manager/COTR was preparing invoices for payment. He did, however, recall a meeting in June 2000 with Universal's general manager and the facility manager/COTR, in which it was decided that Universal would prepare the invoices and mail them directly to the Medical Center's finance and accounting office. In addition, the facility manager/COTR stated that currently, Universal is responsible for weighing everything and for preparing and submitting invoices for payment. He receives monthly summaries from Universal.

Contract Deviation May Have Inflated Laundry Weight and Contract Cost

When we met with Universal's general manager, we informed him that we had visited the Albany laundry facility to observe the weighing and processing of laundry from Monday, June 5, 2000, through Saturday, June 10, 2000, and observed the weighing of 21,310 pounds of laundry, an average of approximately 4,200 pounds per day.⁶ We also observed a total of six contract employees processing the laundry. In addition, we obtained the WashNet system's estimated laundry weight on each day of the period that we observed the laundry weighing. According to the WashNet system, the total estimated weight of laundry washed in the three large washers during that same period was 35,800 pounds, which was significantly more than the actual weight of the laundry (21,310 pounds) washed in all five washers during that period. It is apparent that the WashNet system does not provide an accurate measure of the weight of laundry washed. Further, this inaccurate estimated weight was used to support the billing invoices prepared by the facilities manager on behalf of Universal.

⁵ A senior program manager in the VA's Environmental Programs Service stated that it is VA's policy to weigh laundry for the purpose of verifying workloads. We note, however, that the *Veterans Health Services and Research Administration Manual M-1*, Part VII, Ch. 6, "Textile Care Facility Operations," Sec. 6.08 states that workloads can be verified through the use of either scales or counting devices.

⁶ According to the log sheets, during the following week—June 12, 2000, through June 17, 2000—the contractor weighed about 24,309 pounds of laundry, an average of approximately 4,800 pounds per day.

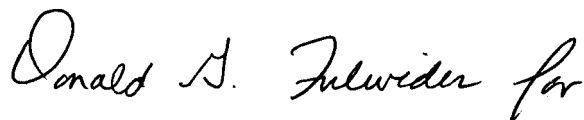
Universal's general manager stated that if the government makes a mistake, he has no responsibility to tell the government about the mistake. He added that Universal does not use the WashNet system to determine the quantity of laundry it washes, although it has the same type of washers that are used at the VA laundry facility. When we informed him that even though the average daily census has decreased since the beginning of the contract, the amount of daily laundry pounds processed has increased, the general manager said that the decrease in the VA facility's "population" is not important.

Universal's general manager further stated that he has been in the laundry business for 25 years and was involved when Universal provided laundry service for the Albany Medical Center in 1991 during renovation. He further stated that he knows everything about the business,⁷ including how much laundry can be done per employee per hour. He said that the industry standard for processing laundry is 100 pounds per employee per hour. We mentioned that only six contract employees worked at the laundry facility and that based on the industry standard, the maximum daily weight that could be washed at this facility based on an 8-hour day would be 4,800 pounds. Universal's general manager responded that he sometimes had more than six employees at the facility. However, the contractor refused our request for payroll records, and we were unable to determine the total number of contract employees at the facility through the course of the contract.

We are sending copies of this letter to interested congressional committees, the Secretary of Veterans Affairs, and other interested parties. This letter is also available on GAO's home page at <http://www.gao.gov>.

If you have any questions about this letter, please call me at (202) 512-7455 or John Ryan, Assistant Director, at (202) 512-6722. Norman Burrell and Woodrow Hunt made key contributions to this investigation and letter.

Sincerely yours,



Robert H. Hast
Managing Director
Office of Special Investigations

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⁷ Universal's general manager stated that this VA contract is an "O.K." contract and that "the laundry business is not a lucrative business." He added that he is very familiar with contracts and the rules and regulations pertaining to them. He also stated that he had never given any gifts or gratuities to any VA employee.