



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

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INTERNATIONAL DIVISION

B-165629

MAY 17 1971

The Honorable  
The Secretary of Defense



Attention: Assistant Secretary of Defense  
(Installations and Logistics)

Dear Mr. Secretary:

We have made a limited review to see whether the United States would benefit from a cost and balance-of-payments standpoint by increasing ~~the~~ "in-house" laundry capabilities in Vietnam instead of relying so heavily on foreign contractors] who use mostly foreign-made laundry equipment. We also considered whether increased U.S. laundry capabilities might be needed to meet acceptable standards of cleanliness.

Our review showed that very substantial savings could be realized by increasing the Army's "in-house" capability and that, in the past, U.S. Army standards of cleanliness have not been achieved by contractors.

The details of our cost calculations, the Army's observations on hygienic conditions, our conclusions, and agency actions are presented in the following subsections.

Economic advantages of increasing the Army's "in-house" laundry capabilities

Throughout Vietnam, roughdry laundry service is provided by Army mobile laundry units which support tactical missions and base groups. The Army does not have the fixed "in-house" laundry capability to provide its forces with finished (pressed) laundry in Vietnam. The Air Force has one fixed installation in Vietnam which was not operating at capacity and, therefore, was the subject of a previous GAO report which suggested an interservice support agreement to make better use of its capacity (B-165629 dated March 15, 1971).

Since the Army lacks fixed laundry facilities, which are needed to do finished work, it relies on foreign contractors to provide these services. Contracts, indefinite as to quantities, are based on fixed prices for each item laundered and finished.

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Although troop strength in Vietnam is decreasing, the cost of the Army's contractual laundry services has been increasing. Army officials estimate the cost in recent years as follows:

|       |               |
|-------|---------------|
| FY 68 | \$4.9 million |
| FY 69 | 8.0 "         |
| FY 70 | 8.9 "         |
| FY 71 | 9.8 "         |

Army laundry branch specialists in Washington informed us that these contractual costs far exceeded the costs that would be experienced if such services were provided by Army-owned laundry facilities. The following statement, taken from a June 1968 report prepared by the Army Laundry and Services Branch, Washington, D.C., highlights the excessive costs involved.

\* \* \* \* \*

"\*\*\*On the basis of the workload processed by commercial contract during the period 1 January through 30 April, 1968 and the actual cost for these services, the U.S. Government is paying \$0.0913 for each piece of laundry processed. Taking into consideration the wage rates paid to local nationals in Vietnam (\$0.90 to \$1.15 per 10-hour day) and the other expendable supplies and utilities required in laundry operations, the workload for the above period could have been processed by Army-owned and operated facilities at a cost of approximately \$0.01 per piece."

\* \* \* \* \*

The report concludes that:

"\*\*\*The construction and operation of \*\*\* facilities by the Army \*\*\* would realize a savings of approximately 800 percent per year by the U.S. Government. Savings of this magnitude will permit the amortization of the facilities in less than three years."

The report recommended construction of fixed "in-house" laundry facilities by the Army and a consequent reduction in contract services.

We analyzed Army expenditures for laundry services provided by foreign contractors in Vietnam during fiscal year 1970. This analysis showed that, for three major areas of troop concentration in Vietnam, the Army paid approximately \$7.5 million to process about 100 million units--an average of .075 cents per unit of laundry. Calculations we

made with the assistance of Army specialists showed that an equivalent workload could have been handled at U.S. Government-owned facilities, if available in 1970, at an operating cost of approximately \$2.5 million, or .025 per piece (See appendix I).

In order to achieve operational cost reductions of about \$5.0 million in fiscal year 1970, as indicated by our study, it would have been necessary for the Army to invest in buildings and equipment. If new buildings and equipment were used, we estimate that total investment cost would have been about \$8.3 million--which means that the U.S. could have recouped its total capital outlay in about 1-1/2 years if it had performed laundry services "in-house". Actually, the investment and period of recovery would be less if existing buildings were utilized as troop strength decreased, since the cost of renovating and modifying these buildings would be less than the cost to construct new ones.

After the recoupment of initial investment costs, the U.S. would begin to realize substantial cost and balance-of-payments advantages because of reduced payments to foreign sources and because of the use of American rather than foreign laundry equipment.

We cannot project with certainty at this point how much might be saved in the future by establishing an Army "in-house" capability in Vietnam. The potential savings will depend on the best information available to the military on its troop strength and concentration in the future. If it appears that there will be a significant number of troops concentrated at specific locations, then the Army would need to consider whether the potential for recoupment of initial investment costs in a relatively short time would warrant an "in-house" capability.

As one indication of the savings which might be possible, even at a substantially reduced troop strength in Vietnam, we calculated that if 50,000 troops were to remain at three of four major locations the Army would save \$2.4 million per year by performing laundry services in a fixed Army installation. This would require an estimated initial investment outlay of \$3.7 million for new buildings and equipment. Thus, the initial outlay could be recouped in about 1-1/2 years (or less if existing buildings could be renovated and modified) and, after that period, recurring savings of \$2.4 million a year could be realized (See appendix II).

#### Potential hygienic advantages of increasing "in-house" laundry capabilities

Military officials, in the past, have expressed concern over the poor quality of work performed by foreign laundry contractors.

As tangible evidence of this concern, the Air Force constructed (and began operating in July 1970) a fixed laundry facility to provide service to 5,000 men at Cam Ranh, Vietnam, because Air Force officials were troubled over the prevailing unsanitary conditions existing in contractor facilities they were utilizing, which adversely affected the health and morale of Air Force personnel.

An Army study made during 1968 commented:

\* \* \* \* \*

"There are currently 22 commercial laundry contracts in existence throughout Vietnam. A considerable number of these facilities were visited \*\*\*. Of the contract facilities visited, it is considered that only one of the contractors is providing laundry service which will meet Army standards, particularly from a hygiene and sterilization standpoint.\*\*\*"

It was also reported that most of the contractors were not using the correct supplies for proper cleaning.

The report pointed out that complete sterilization of clothing was not being accomplished at contractor-operated facilities due to inadequate utilities, i.e., hot water and steam. The temperature of hot water being used was approximately 90 degrees Fahrenheit and the steam pressure ranged from 15 to 35 pounds per square inch. For proper soil removal and sterilization the report stated that it was essential that water temperatures be maintained at 160 degrees Fahrenheit and that steam pressures range from 100 to 125 pounds per square inch.

Representatives of the Office of the Surgeon General in Vietnam also found that at one contractor's facility finished clothing with mites was being returned to units. We were informed that this contract subsequently was terminated.

We were unable to determine from information available in Washington whether the sanitation conditions at contractor plants in Vietnam have improved enough since the 1968 study to meet military standards for cleanliness. Army officials in Washington, with whom we spoke during our review, believed there was enough doubt to make it worth their effort to investigate. Therefore, they agreed with our suggestion that representatives of the Office of the Surgeon General perform tests to see whether foreign contractors are complying with Army hygienic standards at this time.

## Conclusions and agency actions

Economic advantages would be realized by the U.S. if the Army could increase its "in-house" capabilities for performing laundry services in Vietnam, provided that sufficient troop strengths and concentrations in the future would permit the amortization of costs for constructing or renovating and equipping facilities for use as laundries so that future recurring savings then would be realized.

We understand that the Army considered constructing fixed laundry facilities in its 1969, 1970, and 1971 military construction program proposals for Vietnam but that these projects were deleted because higher priority projects took precedence. We recognize that construction of laundry facilities must compete with other priority needs for funds, and that there are many uncertainties about the U.S. presence in Vietnam which make it difficult to predict whether it would be in the best interest of the U.S. to construct fixed laundry facilities.

We discussed this matter with Army officials in Washington who believed it would not be feasible to construct laundry facilities in Vietnam at this time, in view of the long lead time required to establish facilities there and because of the uncertainty of U.S. troops remaining there over a significant length of time to allow costs to be recovered.

As shown in this report, however, there is a very wide variance in the estimated cost to provide laundry services "in-house" as compared with the cost to obtain the services from foreign contractors. While we have not attempted to evaluate the reasonableness of the contract costs, there may be possibilities for achieving savings through lower contract rates.

Army officials in Washington, with whom we discussed laundry costs, told us that they were aware of the large disparity between "in-house" and contractual costs, and the need to monitor the contractors' operations. During our review, these officials in Washington asked the Pacific Command to look into the possibility of negotiating lower laundry prices on fiscal year 1972 contracts. Later, they told us that allotted funds would be reduced for such services, thus forcing more stringent negotiations to take place so that lower rates might be achieved. They also agreed to inspect the contractors' operations from a hygienic standpoint.

GAO believes the actions proposed should be a significant step toward achieving economies on contracted operations.

A previous report entitled "Cost and Balance-Of-Payments Advantages Of Replacing Foreign-made Buses With American-made Buses Abroad" (B-163869 dated February 5, 1970) commented on a parallel situation involving the use of contract services. In that case, we found that

increasing the "in-house" capability of the military would result in significant savings. We were advised recently that the number of leased buses in Vietnam will be reduced drastically by supplying U.S.-manufactured buses.

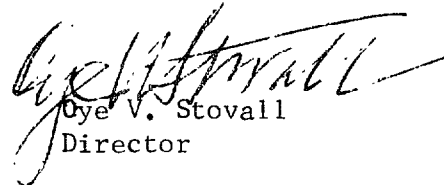
The two cost studies of contract operations we have made to date in Vietnam demonstrate a need for military forces to make analyses to assist them in evaluating the cost of contract operations compared with the cost of "in-house" operations. These analyses would be useful in negotiating reasonable contract rates and in considering alternatives to having the services performed by contract.

We therefore suggest that the Department of Defense direct that all major support services being performed under offshore procurement contracts in Vietnam be analyzed to determine whether costs can be reduced and balance-of-payments advantages can be realized.

Copies of this report are being sent to the Director, Office of Management and Budget; the House and Senate Committees on Government Operations; the Foreign Operations and Government Information Subcommittee, House Committee on Government Operations; the House and Senate Appropriations Committees; and the House and Senate Armed Services Committees.

We would like to acknowledge the outstanding cooperation and assistance provided by military representatives during the course of our review. We would appreciate being advised of the success of the actions taken.

Sincerely yours,



Gye V. Stovall  
Director

Enclosure

Cost and Balance-of-Payments Comparison  
of Laundry Services - Contractual  
Versus "In-House" Operations in Vietnam  
for FY 1970

|  | <u>In Million Dollars</u>           |
|--|-------------------------------------|
| <u>Contract Costs</u><br>(100 million units)                     | \$7.48                              |
| <u>Estimated "In-House" operations</u><br>(for equivalent units) |                                     |
| Labor  | \$2.05                              |
| Supplies and Parts   | .21                                 |
| Utilities  | <u>.22</u>                          |
| Total  | \$2.48 (for 101.7 million<br>units) |
| or .025 cost per unit  |                                     |
| 100 million units @ .025   | <u>2.50</u>                         |
| <br>Estimated Annual Cost and Balance-of-<br>Payments Savings    | <br><u>\$4.98</u>                   |

Estimated Investment Costs  
To Process 100 Million Units of Laundry  
In Vietnam  
(Assuming facilities are used for 2 shifts)

| <u>Building Costs</u>                      | <u>In Million Dollars</u> |
|--|---------------------------|
| Material - steelframe structure            | \$2.05                    |
| Labor - costs                              | 1.82                      |
| Transportation & port handling             | .32                       |
| Overhead                                   | <u>.42</u>                |
|  | \$4.61                    |
| <br><u>Equipment Costs</u>                 |                           |
| Production and support                     | \$2.49                    |
| Installation and overhead                  | .25                       |
| Transportation and port handling           | <u>.15</u>                |
|  | 2.89                      |
| <br><u>Cost of Funds (7% x 1-1/2 yrs.)</u> | <br><u>.79</u>            |
| Total Investment                           | <u>\$8.29</u>             |

NOTE: Our calculations are based on the best available information obtained from Department of Army sources.

Cost and Balance-of-Payments Comparison  
of Laundry Services Based on 50,000  
Troops for 3 Major Locations in Vietnam

|  | <u>In Million Dollars</u> |
|--|---------------------------|
| <u>Contract Costs</u>                          |                           |
| (48 million units at .075)                     | \$3.62                    |
| <br><u>Estimated "In-House" operations</u>     |                           |
| (for equivalent units)                         |                           |
| Labor  | \$1.04                    |
| Supplies and Parts                             | .09                       |
| Utilities                                      | <u>.10</u>                |
| Total  | <u>1.23</u>               |
| Estimated Cost and Balance-of-Payments Savings | <u>\$2.39</u>             |

Estimated Investment Costs  
To Support 50,000 Troops  
(2 Shift Basis)

|  | <u>In Million Dollars</u> |
|--|---------------------------|
| <u>Building Cost</u>                   |                           |
| Material-steel frame structure         | \$.92                     |
| Labor - costs                          | .82                       |
| Transportation and port handling       | .14                       |
| Overhead                               | <u>.20</u>                |
|  | \$2.08                    |
| <br><u>Equipment Cost</u>              |                           |
| Production and Support                 | \$1.14                    |
| Installation and overhead              | .11                       |
| Transportation and port handling       | <u>.06</u>                |
|  | 1.31                      |
| <u>Cost of funds (7% x 1-1/2 yrs.)</u> | <u>.35</u>                |
| Total Investment                       | <u>\$3.74</u>             |

NOTE: Our calculations are based on the best available information obtained from Department of Army sources.