



Department of Veterans Affairs Office of Inspector General

Audit of VA Medical Center Management of Miscellaneous Supply Inventories

VA medical centers could reduce linen inventories by using automation and establishing a 3-day supply goal and could reduce all miscellaneous supply inventories by complying with the requirements of VHA's inventory management handbook.

Contents

	Page
Executive Summary	i
Results and Recommendations	1
VA Medical Centers Should Reduce Miscellaneous Supply Inventories	1
Conclusion	8
Recommendation	9
Appendixes	
A. Background	11
B. Objectives, Methodology, and Scope	15
C. Details of Audit	17
D. Monetary Benefits in Accordance with IG Act Amendments	21
E. Under Secretary for Health Comments	22
F. Report Distribution	23

Executive Summary

Introduction

The purpose of the audit was to evaluate the management of miscellaneous supply inventories at VA medical centers (VAMCs). This was the fifth in a series of audits that the Office of Inspector General (OIG) has performed to assess inventory management practices for various categories of supplies. There are four categories of miscellaneous supplies: operating supplies (mainly housekeeping and food service items), office supplies, employee uniforms, and linens. In Fiscal Year (FY) 2001, the Veterans Health Administration's (VHA's) miscellaneous supply purchases totaled \$236.1 million. At any given time, the total value of VAMC miscellaneous supply inventories was about \$68.9 million. Of this total, \$22.9 million (33.2 percent) was for linens, \$21.6 million (31.3 percent) was for operating supplies, \$16.5 million (24.0 percent) was for office supplies, and \$7.9 million (11.5 percent) was for employee uniforms.

VHA has overall operational responsibility for VAMC miscellaneous supply inventories, with each VAMC managing its own inventory. In response to earlier OIG audits, VHA issued an inventory management handbook in October 2000. For most categories of supplies, including all miscellaneous supplies, the handbook established a 30-day supply as the initial goal for inventory levels and required VAMCs to use VA's automated Generic Inventory Package (GIP) or other approved automated systems to manage inventories.

Audit Results

VAMC inventories for all four categories of miscellaneous supplies substantially exceeded current operating needs. Our audit of inventory practices at four representative VAMCs found that all four had operating, office, and uniform supply inventories that exceeded the 30-day level. The 30-day level is not applicable to linens because these items are reusable. We therefore used a 3-day supply level as the criterion for evaluating linen inventory management. A 3-day inventory of linens would meet a VAMC's current needs because the VAMC would typically have another 5–7 day supply of linens in circulation (in use, being laundered, or stored on the hospital wards). All four of the VAMCs audited had linen inventories that substantially exceeded the 3-day criterion.

The four VAMCs had miscellaneous supply inventories with a combined value of \$3.5 million. We estimated that about \$2.7 million (77.1 percent) of this inventory was excess. Of this total, \$1,808,334 (67.5 percent) was for linens, \$309,725 (11.6 percent) was for employee uniforms, \$295,005 (11.0 percent) was for operating supplies, and \$265,866 (9.9 percent) was for office supplies.¹

For the combined inventories at the four VAMCs, the overall weighted average days of stock on hand was 1,304 days for linens, 1,141 days for employee uniforms, 403 days for office supplies,

¹ The percentages are correct when the exact, unrounded inventory values are used.

and 234 days for operating supplies. To illustrate the magnitude of excess inventory, of 3,963 operating, office, and uniform supply items stocked at the 4 VAMCs, 3,248 items (82.0 percent) had stock levels exceeding 30 days. Of 166 linen items stocked, 154 (92.8 percent) had stock levels exceeding 3 days. For operating, office, and uniform supplies there were 1,125 items (28.4 percent) with stock levels exceeding a 1-year supply, and for linens there were 134 items (80.7 percent) with stock levels exceeding a 1-year supply.

We estimated that at any given time the value of VHA-wide excess miscellaneous supply inventory was \$49.0 million, which was 71.1 percent of the \$68.9 million total inventory value. Of the \$49.0 million in excess inventory, \$19.2 million (39.2 percent) was for linens, \$12.7 million (25.9 percent) was for office supplies, \$10.6 million (21.6 percent) was for operating supplies, and \$6.5 million (13.3 percent) was for uniforms.

The excess inventories occurred primarily because VAMC inventory managers did not effectively use GIP to control inventory levels. Of the 16 inventories reviewed (4 VAMCs × 4 miscellaneous supply categories = 16 inventories), 6 were managed with GIP and 10 were not. At the VAMCs where GIP was used, inventory managers had not taken full advantage of GIP's capabilities and, as a result, still had excess inventory on hand.

Inventory managers relied on informal methods and “cushions” of excess stock as substitutes for more structured inventory management. They had not systematically determined current inventory requirements, set normal stock levels and reorder points, or established safety stock requirements. In addition, they were not using any other standard inventory management controls. For example, they did not maintain inventory records to document quantities on hand and value, did not calculate days of stock on hand or turnover rates, and did not perform periodic physical inventories. These deficiencies were essentially the same as those found on earlier OIG audits of inventory management practices for other types of supplies.

To determine if the use of GIP at the 4 VAMCs was representative of VHA-wide use of GIP, we performed a telephone survey of 20 additional VAMCs. Of the 80 miscellaneous supply inventories at the 20 VAMCs (4 miscellaneous supply categories × 20 VAMCs = 80 inventories), 63 (78.8 percent) were not being managed with GIP. The survey results indicated that as of February 2002, most VAMCs were not using GIP to manage miscellaneous supply inventories.

Recommendation

VAMC compliance with the requirements of VHA's inventory management handbook will address the issue of using GIP to properly manage operating, office, and uniform supply inventories. Because of this, we did not make any recommendations to improve the management of inventories of these categories of supplies. However, VHA needs to take additional action to improve linen inventory management. As of April 2002, VHA was in the process of preparing draft guidance on the preparation of the Textile Care Management Report, which VAMCs are supposed to use to submit annual inventory cost information. This guidance includes policies on managing linen inventories. To improve linen inventory management, we recommended that VHA ensure that the Textile Care Management Report guidance: (a) requires VAMCs to use GIP

to manage linen inventories and (b) establishes goals for reducing linen inventory levels, with a 3-day level as the initial goal and a 1-day level as the ultimate goal.

The amounts of operating, office, and uniform supplies in inventory should not exceed 30-day levels, and the amount of linens in inventory should not exceed a 3-day level. More aggressive goals would be a 7-day level for operating, office, and uniform supplies and a 1-day level for linens. In our opinion, reasonable goals that could be achieved through better inventory management would be the midpoint between the 30-day and 7-day levels for operating, office, and uniform supplies and the midpoint between the 3-day and 1-day levels for linens. Achieving these goals would reduce VHA-wide miscellaneous supply inventories by \$53.7 million, which could then be used for other purposes.

Under Secretary for Health Comments

The Under Secretary for Health agreed with the findings and recommendations and provided acceptable implementation plans. We will follow up on the planned actions until they are completed.

(original signed by:)

MICHAEL SLACHTA, JR.

Assistant Inspector General for Auditing

Results and Recommendations

VA Medical Centers Should Reduce Miscellaneous Supply Inventories

Introduction

To determine if VAMCs were maintaining miscellaneous supply inventories in excess of current operating needs, we evaluated inventory management practices at four VAMCs, which are designated as VAMCs A, B, C, and D in this report. The four major categories of miscellaneous supplies are operating supplies, office supplies, employee uniforms, and linens. These four types of supplies represented the remaining supply categories with significant VAMC inventories that had not been reviewed in four recently completed OIG supply inventory audits. (See Appendix A, pages 13–14 for a summary of these audits.)

Operating supplies include housekeeping items such as trashcans, toilet tissue, and cleaning fluids and food service items such as dishes, silverware, and cooking utensils. Office supplies include items such as pens, paper, and envelopes used in day-to-day office operations. Employee uniforms include work clothing such as smocks, surgical scrubs, jackets, and aprons. Linens include pajamas, bathrobes, towels, sheets, and blankets.

Generally accepted modern inventory management principles emphasize that inventory levels should be consistent with current operating needs, which means that inventories should contain enough supplies to meet user needs and that purchases above these needs should be avoided so that funds are not tied up in excess inventory. Inventory managers should determine inventory levels for each item by analyzing demand, safety stock requirements, and replenishment cycles.

In response to earlier audits, in October 2000 VHA issued an inventory management handbook that applied to most categories of supplies, including the four types of miscellaneous supplies covered by this audit. The handbook required all VAMCs to eliminate excess supply inventories and established an initial inventory level goal of a 30-day supply. The handbook also required VAMCs to use GIP to manage supply inventories and to fully implement GIP by February 2002.

Miscellaneous Supply Inventories Exceeded Current Needs

VAMCs were not using GIP to effectively to manage miscellaneous supply inventories and were maintaining inventories that substantially exceeded current needs. At each of the four VAMCs audited, we reviewed judgment samples of 150 items, for a total of 600 items reviewed. The four VAMCs had miscellaneous supply inventories with a combined value of \$3.5 million. Based on our review of sampled items and on our evaluation of VAMC inventory practices, we estimated that \$2.7 million (77.1 percent) of the inventory was excess. Table 1 shows that the proportions

of excess inventory for the four categories of supplies ranged from 49.5 percent for operating supplies to 83.9 percent for linens:

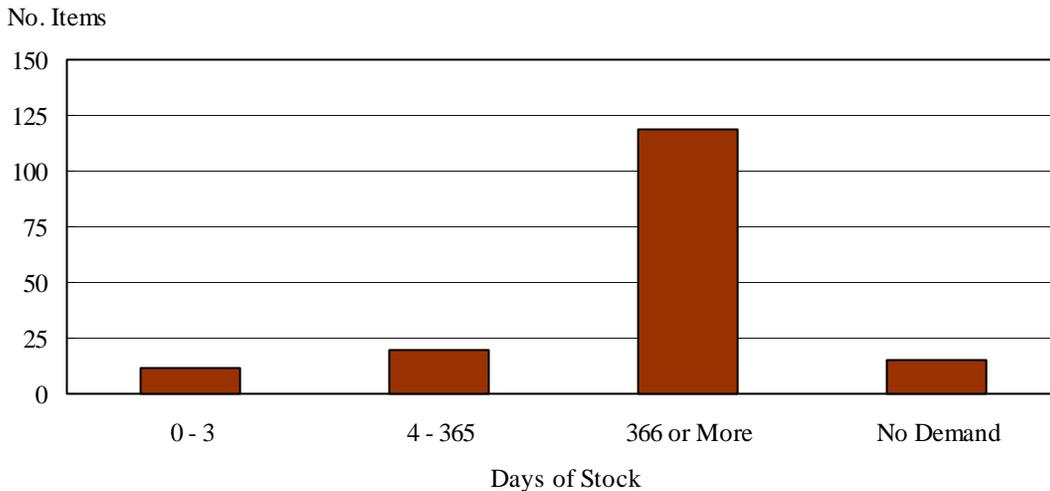
Table 1. On-Hand and Excess Inventory by Miscellaneous Supply Category

<u>Category</u>	<u>On-Hand Inventory Value</u>	<u>Excess Inventory Value</u>	<u>Percent Excess</u>
Linens	\$2,154,120	\$1,808,334	83.9%
Operating Supplies	595,936	295,005	49.5%
Uniforms	377,848	309,725	82.0%
Office Supplies	<u>346,049</u>	<u>265,866</u>	<u>76.8%</u>
Combined	\$3,473,953	\$2,678,930	77.1%

The \$3.5 million in inventory at the four VAMCs included 4,129 supply items. The stock on hand exceeded current needs for 3,402 items (82.4 percent) and was equal to or below current needs for only 727 items (17.6 percent).

Linens Inventories. The criterion that we used to evaluate linen inventory levels was a 1- to 3-day supply. This criterion is in line with the National Association of Institutional Linen Management’s “Laundry Operations Guidelines.” In addition, VHA Environmental Programs Service (EPS) managers agreed that this was a reasonable criterion. As shown in Figure 1 below, only 12 (7.2 percent) of the 166 linen item inventories at the four VAMCs met the 1- to 3-day criterion. Figure 1 shows the total number of linens in inventory at the four VAMCs stratified by days of stock on hand:

Figure 1. Results for VAMC Linens Stratified by Days of Stock on Hand

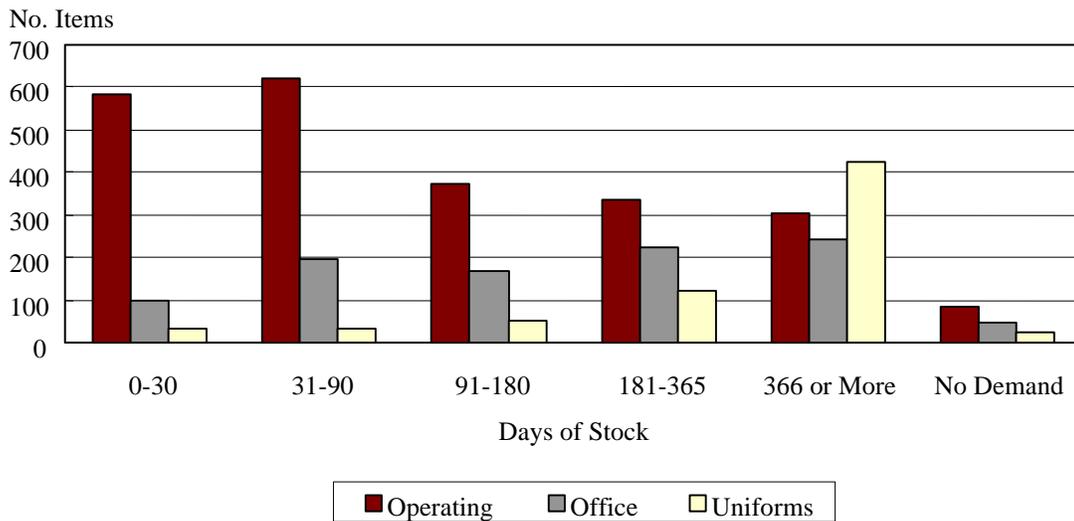


- The proportions of linens with more than a 3-day supply ranged from 75.0 percent at VAMC D to 100.0 percent at VAMCs A and C.
- For the sampled items, the overall average (item dollar value-weighted mean) days of stock on hand for linen items, excluding no demand items, was 1,304 days (3 years and 7 months).

For the four VAMCs individually, the combined average days of stock for linen items ranged from 749 days at VAMC B to 2,161 days at VAMC C.

Operating, Office, and Uniform Supply Inventories. The criterion that we used to evaluate operating, office, and uniform supply inventory levels was the 30-day supply goal established in VHA’s inventory management handbook. Figure 2 below shows the total number of operating, office, and uniform supply items in inventory at the four VAMCs stratified by days of stock on hand:

Figure 2. Results for VAMC Operating, Office, and Uniform Supply Items Stratified by Days of Stock on Hand



- The proportion of supply items with more than a 30-day supply varied significantly. For operating supplies, the proportion ranged from 64.4 percent at VAMC C to 80.1 percent at VAMC D. For office supplies, the proportion ranged from 87.5 percent at VAMC A and C to 100.0 percent at VAMC B. For uniforms, the proportion ranged from 88.6 percent at VAMC D to 100.0 percent at VAMCs A, B, and C.
- Of the 3,963 items, 1,125 (28.4 percent) had stock levels exceeding a 1-year supply. The value of this inventory was \$297,032 or 22.5 percent of the total inventory value.
- For the sampled items, the overall average (item dollar value-weighted mean) days of stock on hand, excluding no demand items, was 234 days for operating supplies, 403 days for office supplies, and 1,141 days for uniform supplies. For the four VAMCs individually, the operating supply combined average days of stock ranged from 139 days at VAMC C to 355 days at VAMC A, the office supply average days of stock ranged from 302 days at VAMC A to 532 days at VAMC B, and the uniform supply days of stock ranged from 439 days at VAMC D to 1,645 days at VAMC A.

Value of Excess Inventory. Based on the audit results at these four VAMCs, we estimated that at any given time in FY 2001, the value of excess miscellaneous supply inventory at all VAMCs

was about \$49.0 million. The estimated values of excess inventory for each of the four miscellaneous supply categories was \$19.2 million for linens, \$12.7 million for office supplies, \$10.6 million for operating supplies, and \$6.5 million for uniforms.

Causes of Excess VAMC Inventory

To identify the causes of excess inventory, we reviewed the inventory management and purchasing practices pertaining to 600 sampled items. There was excess stock for 504 (84.0 percent) of the 600 items. Table 2 shows that for all four categories of miscellaneous supplies the majority of sampled items had excess inventory on hand:

Table 2. Sample Items with Excess Inventory by Miscellaneous Supply Category

<u>Category</u>	<u>Items Sampled</u>	<u>Items with Excess Inventory</u>
Operating Supplies	260	194 (74.6%)
Office Supplies	145	129 (89.0%)
Linens	105	95 (90.5%)
Uniforms	<u>90</u>	<u>86 (95.6%)</u>
Totals	600	504 (84.0%)

The three major causes of excess inventory for miscellaneous supplies were (1) inadequate monitoring of inventory levels, (2) unnecessarily large purchases, and (3) ineffective management of reductions in item demand. These causes were the same as those identified by previous OIG audits of other types of supplies. Table 3 shows that the same practices caused excess inventories for all four categories of miscellaneous supplies:

Table 3. Causes of Excess Inventory by Miscellaneous Supply Category

<u>Category</u>	<u>Items Not Adequately Monitored</u>	<u>Items with Unnecessarily Large Purchases</u>	<u>Items with Reductions in Demand</u>	<u>Total Items with Excess Inventory</u>
Operating Supplies	138	37	19	194
Office Supplies	61	51	17	129
Linens	72	14	9	95
Uniforms	<u>35</u>	<u>45</u>	<u>6</u>	<u>86</u>
Totals	306	147	51	504

Inadequate Monitoring. Inadequate monitoring of stock on hand was the cause of excess inventory for 306 (60.7 percent) of the 504 items with excess stock. Inadequate monitoring consisted of two closely related problems: not setting normal stock levels and setting normal stock levels too high. (The normal stock level represents the maximum quantity of an item that should be stocked to meet expected demand and to provide adequate safety stock.)

Stock Levels Not Set. At all four VAMCs, inventory managers had not set normal stock levels or reorder points for some items. (The reorder point represents the minimum quantity on hand that should trigger an order to bring inventory back to the desired normal stock level.) Because

normal stock levels and reorder points had not been determined for each item, inventory managers relied on their experience, making intuitive judgments about the quantities that should be stocked and when and how much to order. The following examples illustrate how excess inventory can result from not setting normal stock levels:

Sheets. VAMC D purchased and processed linen for eight VA medical facilities and a state veterans home. At the time of our review in February 2002, VAMC D had 100,266 sheets in inventory (value = \$730,939), which was about a 1,369-day supply, or almost a 4-year supply for all nine facilities. Based on demand, a 3-day supply (the criterion for reusable linen items) would have been 8,511 sheets, which meant that 91,755 sheets (value = \$668,894) were excess. This excess occurred because inventory managers had not used available historical usage data to set reasonable stock levels and reorder points. VAMC management agreed that the excess inventory was significant and stated that they would explore the feasibility of transferring the excess inventory to other VAMCs.

Laundry Worker Pants. At the time of our review in June 2001, VAMC B had 1,402 laundry pants in stock (value = \$20,259). Based on demand, a 30-day supply would have been 24 pants, which meant that 1,378 pants were excess (value = \$19,912). Inventory managers had not set a normal stock level or a reorder point and therefore had no standard on how many pants represented a reasonable inventory or when additional pants should be ordered. Because a normal stock level and reorder point had not been set, the VAMC purchased 140 pants in March 2001 when 1,334 pants, more than a 4½-year supply, was already on hand.

Stock Levels Set Too High. At all four VAMCs, some of the inventory items were managed with GIP. However, inventory managers had set GIP normal stock levels too high for many of these items. With GIP, the normal stock level can be set automatically based on an item's average daily usage and the desired days of stock to be maintained. A common reason for setting stock levels too high was that inventory managers wanted to keep "cushions" of stock in order to avoid shortages. Setting the stock level higher than necessary means that, by definition, there will always be excess inventory. (For example, keeping 90 days of stock when demand can be met by 30 days of stock will result in 60 days of excess inventory.) The following example illustrates how setting the stock level too high causes excess inventory:

Envelopes. At VAMC C, the GIP normal stock level for this item was set at 100 cases of envelopes, which was almost a 5-month supply. Based on the item's demand, a 30-day supply would have been 21 cases. There were 95 cases of envelopes on hand, which was 74 more than needed (value = \$4,407). The inventory manager could not explain why the normal stock level had been set so high.

Large Quantities Purchased Unnecessarily. Purchasing unnecessarily large quantities was the cause of excess inventory for 147 (29.2 percent) of the 504 items with excess stock. Large quantity purchases are, in effect, irregular replenishments that override established stock levels and reorder points and increase inventory to excessive levels. Unnecessarily large purchases tie

up funds in inventory that could be used to meet more urgent VHA needs. The following example illustrates how a large purchase can result in excess inventory:

Dust Mops. At the time of our review in June 2001, VAMC B had 57 boxes of dust mops in stock (value = \$5,843). Based on demand, a 30-day supply would have been 3 boxes, which meant that 54 boxes were excess (value = \$5,535). In March 2001, when there were 16 boxes on hand (about a 5-month supply), the VAMC made a large purchase of 50 boxes of dust mops (value = \$5,125), which increased the inventory to 66 boxes, or about a 22-month supply. The housekeeping supervisor could not explain why the unnecessarily large purchase was made.

Some of the large purchases were made at the end of the fiscal year to use up unspent funds. Unnecessary year-end spending, inappropriately ties up funds in unneeded inventory, increases the risk of loss from damage or pilferage, and conflicts with the modern inventory management principle of maintaining minimal inventories. Large year-end purchases have the additional adverse effect of artificially increasing expenditures that will be used as the basis for future year budgets. In other words, these purchases can give the false impression that a VAMC requires more funds for miscellaneous supplies than it truly needs. The following example illustrates the problem of unnecessary year-end purchases:

Blue Print Shop Paper. VAMC C had 17,000 sheets of blue print shop paper in stock (value = \$3,400). Based on demand, a 30-day supply would have been 500 sheets, which meant that 16,500 sheets were excess (value = \$3,300). According to inventory managers, a large quantity of paper had been purchased several years ago at the end of a fiscal year. Inventory managers could not remember how many sheets of paper had been purchased, but agreed that it must have been significantly more than the current supply, which was almost a 3-year supply. This means that the VAMC spent at least \$3,300 on paper that was not needed.

Reductions in Demand Not Effectively Monitored. Ineffective monitoring of reductions in demand was the cause of excess inventory for 51 (10.1 percent) of the 504 items with excess stock. Reductions in demand can significantly affect an item's inventory requirements. Item demand may be reduced or eliminated for reasons such as workload or staff reductions or the introduction of new products. When this occurs, inventory managers should take steps to manage the change in inventory requirements caused by the change in demand. Such steps include developing a plan to phase out the old item and phase in the new one, negotiating credits or exchanges with the vendor, or offering the inventory to other VAMCs. The following examples illustrate how a change in demand can result in excess inventory:

Copy Machine Developer. VAMC C had 50 bottles of copy machine developer in stock (value = \$7,475). GIP data showed that four bottles had been purchased in March 1999 and that as of September 2001, or 2½ years later, none of the developer had been used. Inventory managers stated that the developer was for copy machines that had been replaced and that all the stock on hand was excess because the new copy machines used a different type of developer.

GIP Not Effectively Used to Manage Inventories

Many of the problems discussed above could have been avoided or minimized if VAMCs had used GIP more effectively. With inventories of hundreds of items in multiple storage locations and with frequent deliveries to and distributions from any or all storage locations, an automated inventory system such as GIP is the only effective way to track receipts, quantities on hand, demand, and distribution. At the 4 VAMCs, none of the 16 inventories of miscellaneous supplies (4 VAMCs × 4 miscellaneous supply categories = 16 inventories) were effectively managed with GIP – that is, managed to keep stock levels consistent with current needs and to avoid excess inventory. Table 4 below shows the extent to which the four VAMCs used GIP. Of the 16 inventories, 6 were partially managed with GIP and 10 were not managed with GIP at all:

Table 4. Audited VAMC Use of GIP by Miscellaneous Supply Category

<u>Category</u>	<u>VAMC A</u>	<u>VAMC B</u>	<u>VAMC C</u>	<u>VAMC D</u>	<u>GIP</u>	
					<u>GIP Used</u>	<u>Not Used</u>
Operating Supplies	Yes	Yes	Yes	No	3	1
Office Supplies	Yes	No	Yes	Yes	3	1
Uniforms	No	No	No	No	0	4
Linens	No	No	No	No	<u>0</u>	<u>4</u>
Totals					6	10

The VAMCs used GIP to manage six of the eight (75.0 percent) operating and office supply inventories but did not use GIP for any of the eight linen and uniform inventories. At the VAMCs where GIP was used, inventory managers did not use the available GIP information to effectively manage inventories. GIP has the capability of producing numerous reports with information that can be used to manage the overall inventory, individual inventory points, and individual inventory items. For example, the Days of Stock on Hand report contains a complete list of items for each inventory point, showing stock on hand, value, usage, and days of stock on hand. This report can be used for evaluating normal stock levels and reorder points and for identifying items with potentially out-of-line stock levels. Similarly, the Inactive Item Report can be used to identify items with low or no demand. At the four VAMCs audited, inventory managers were not using these GIP reports to systematically manage their miscellaneous supply inventories.

To determine if the use of GIP at the 4 audited VAMCs was representative of the use VHA-wide, we performed a telephone survey of 20 additional VAMCs. Of the 80 inventories at the 20 VAMCs (20 VAMCs × 4 miscellaneous supply categories = 80 inventories), 63 were not managed by GIP or any other automated inventory system. Of the 40 operating and office supply inventories, 16 (40.0 percent) were being managed with GIP. Of the 40 linen and uniform inventories, 1 (2.5 percent) was being managed with GIP. This means that the 20 VAMCs surveyed used GIP to a lesser extent than the 4 audited VAMCs to manage operating and office supply inventories (40.0 percent for surveyed VAMCs compared to 75.0 percent for audited VAMCs) and to about the same extent for uniform and linen supply inventories (2.5 percent for surveyed VAMCs compared to none for audited VAMCs).

Since much of the excess inventory found at the four VAMCs audited can be attributed to not using GIP or using GIP ineffectively, it is probable that the 20 VAMCs surveyed had excess miscellaneous supply inventories and that this condition was widespread among all VAMCs.

Conclusion – Better Management Could Further Reduce Inventories

Our prior audits of VAMC medical, prosthetic, pharmacy, and engineering supply inventories recommended that VHA issue guidance aimed at helping VAMCs reduce excess inventories and increase the use of GIP or other approved automated inventory system. These audits also recommended that inventory staff receive training on inventory management principles and techniques and on the use of GIP for inventory management. VHA's October 2000 inventory management handbook established requirements that addressed these recommendations, requiring VAMCs to use GIP to manage most supply inventories, including miscellaneous supply inventories, and to fully implement GIP by February 2002. However, we found that all 4 of the audited VAMCs and most of the 20 surveyed VAMCs had not met this deadline and were not using GIP to manage miscellaneous supply inventories.

As of April 2002, VHA was in the process of establishing new GIP implementation deadlines. Each Veterans Integrated Service Network (VISN) was required to submit a GIP implementation plan to the VHA Logistics Office. Once the Logistics Office approves a VISN implementation plan, the VISN will have 12 months from the date of approval to implement its plan.

VAMC compliance with the handbook requirements will address the issue of using GIP to properly manage operating, office, and uniform supply inventories. Because of this, we did not make any recommendations pertaining to these categories of supplies. The handbook's 30-day supply goal will help VAMCs significantly reduce operating, office, and uniform supply inventories. In response to earlier inventory audits, VHA management agreed that inventories could be reduced below the 30-day level if VAMCs used GIP to aggressively manage inventories.

VHA needs to place special emphasis on the reduction of excess linen inventories. As of April 2002, VHA was developing guidance on preparing the Textile Care Management Report, which VAMCs are supposed to use to submit annual inventory cost information. This guidance includes policies on VAMC management of linen inventories. There are two ways that this guidance can be strengthened. First, the handbook should require all VAMCs to use GIP to manage linen inventories. This would be consistent with the inventory management handbook which requires inventories of most types of supplies to be managed with GIP. Second, the handbook should establish goals for reducing linen inventory levels, with a 3-day level as the initial goal and a 1-day level as the ultimate goal. The draft guidance implies that VAMCs should maintain a 1-day supply of linens but does not state this explicitly. Considering the amount of excess linen at VAMCs, EPS managers agreed that a 3-day supply would be a reasonable initial goal.

By complying with the requirements on the use of GIP and by improving linen inventory management, VAMCs could significantly reduce miscellaneous supply inventories. At any given time during FY 2001, the estimated value of these inventories at all VAMCs was \$68.9 million (\$22.9 million for linens, \$21.6 million for operating supplies, \$16.5 million for office supplies, and \$7.9 million for uniforms). Of the total \$68.9 million inventory value, \$49.0 million (71.1 percent) was excess inventory (\$19.2 million for linens, \$12.7 million for office supplies, \$10.6 million for operating supplies, and \$6.5 million for uniforms).

If VAMCs could achieve the goals of 30-day stock levels for operating, office, and uniform supplies and a 3-day stock level for linens, then miscellaneous supply inventories could be reduced by \$49.0 million. If VAMCs improved their inventory management practices further by effectively using GIP they might be able to achieve the more aggressive goals of 7-day stock levels for operating, office, and uniform supplies and a 1-day stock level for linens. Achieving these more aggressive goals would reduce miscellaneous supply inventories by \$58.4 million (\$37.0 million for operating, office, and uniform supplies and \$21.4 million for linens).

In our opinion, a reasonable goal that could be achieved through better inventory management would be the midpoint between the 30-day and 7-day goals for operating, office, and uniform supply inventories and the midpoint between the 3-day and 1-day goals for linen inventories. This would reduce VHA-wide inventories by \$53.7 million (\$33.4 million for operating, office, and uniform supplies and \$20.3 million for linens). The \$53.7 million saved by reducing inventories could then be used for other purposes.

For More Information

- Miscellaneous supply costs, VAMC inventory processes, previous OIG audits of inventory practices, and other background information are discussed in Appendix A, pages 11–14.
- The audit objectives, methodology, and scope are discussed in Appendix B, pages 15–16.
- More detailed information on our estimate of VHA-wide excess inventories is provided in Appendix C, pages 17–20.

Recommendation 1

We recommended that the Under Secretary for Health ensure that the Textile Care Management Report guidance: (a) requires VAMCs to use GIP to manage linen inventories and (b) establishes goals for reducing linen inventory levels, with a 3-day level as the initial goal and a 1-day level as the ultimate goal.

The monetary benefit associated with this recommendation is shown in Appendix D, page 21.

Under Secretary for Health Comments

The Under Secretary for Health agreed with the findings and recommendations. (See Appendix E, page 22, for the full text of the Under Secretary's comments and implementation plan.)

Implementation Plan

The VHA Environmental Programs Service will incorporate the recommended changes into the Textile Care Management Report guidance. The target date for completing this action is May 2002.

Office of Inspector General Comments

The implementation plan is acceptable. We will follow up on the planned actions until they are completed.

Background

Introduction

VHA Miscellaneous Supply Costs. For the purposes of this audit we categorized linens (VA Budget Object Code [BOC] 2665), employee uniforms (BOC 2666), operating supplies (BOC 2660), and office supplies (BOC 2620) as miscellaneous supplies. In FY 2001, VHA's miscellaneous supply costs totaled \$236.1 million, which was about 5.7 percent of VHA's total supplies and materials costs of \$4.1 billion. Over the past 5 years, the costs for linens and operating supplies decreased by averages of 6.6 percent and 2.6 percent a year respectively, while office supply and uniform costs increased by averages of 4.9 percent and 1.6 percent a year respectively. Table 5 below shows the trends in costs for miscellaneous supplies:

Table 5. Miscellaneous Supply Costs – FYs 1997-2001 (In Thousands)

<u>Fiscal Year</u>	<u>Linens</u>		<u>Operating Supplies</u>		<u>Office Supplies</u>		<u>Employee Uniforms</u>	
	<u>Costs</u>	<u>Percent Change</u>	<u>Costs</u>	<u>Percent Change</u>	<u>Costs</u>	<u>Percent Change</u>	<u>Costs</u>	<u>Percent Change</u>
1997	\$17,472	–	\$194,161	–	\$34,377	–	\$6,812	–
1998	16,584	-5.1%	194,062	-0.1%	35,646	3.7%	6,444	-5.4%
1999	15,564	-6.2%	175,201	-9.7%	36,263	1.7%	5,948	-7.7%
2000	14,142	-9.1%	179,944	2.7%	38,839	7.1%	6,550	10.1%
2001	13,288	-6.0%	173,970	-3.3%	41,628	7.2%	7,168	9.4%
5-Year Change	(\$4,184)	-23.9%	(\$20,191)	-10.4%	\$7,251	21.1%	\$357	5.2%
Average Annual Change		-6.6%		-2.6%		4.9%		1.6%

Source: VA Financial Management System

VA Inventory Management Responsibilities. The Office of Acquisition and Materiel Management (OA&MM), an element of VA's Office of Financial Management, has overall responsibility for formulating VA policies on logistics issues, including inventory management. OA&MM develops inventory management policy and provides VAMC staff training in inventory management theory and techniques. OA&MM also developed and is responsible for maintaining the GIP system.

VHA has overall operational responsibility for VAMC miscellaneous supply inventories. In December 1997, VHA established a Logistics Office to provide greater operational accountability and responsibility within VHA, to better address headquarters and field level logistics issues, and to expand VHA's role in Department-level logistics policy and management.

Generic Inventory Package. GIP is the automated supply inventory management module of VA's Integrated Funds Distribution, Control Point Activity, Accounting, and Procurement (IFCAP) system. GIP provides automated inventory control capabilities for managing the receipt, storage, and distribution of supplies. GIP can automatically generate replenishment and

purchase orders, maintain perpetual inventory balances and item usage history, and provide a variety of inventory management reports. As of February 2002, VHA planned to replace IFCAP with a new data management system called the core Financial and Logistics System.

VAMC Operating, Office, and Uniform Supply Inventory Management. At the VAMC level, Material Management Service typically manages operating and office supply inventories. Operating and office supplies are usually stocked in the VAMC warehouse and in numerous storage areas throughout the VAMC. Some VAMCs have begun purchasing office supplies from prime vendors that provide “desktop” deliveries directly to employee work areas. In theory, this eliminates the need to maintain inventories of office supplies. However, at the one audited VAMC that was using a prime vendor we still found significant inventories of office supplies. Environmental Management Service (EMS) is typically responsible for the inventory management functions of ordering, receiving, storing, and issuing uniforms to VAMC personnel. Uniforms are usually stocked in storage rooms within or near the laundry processing facility and in one room in the main hospital building where the uniforms are issued to individual employees.

VAMC Linen Inventory Management. At the VAMC level, EMS is responsible for managing linen inventories. All VAMCs perform the linen inventory management tasks of ordering, storing, and distributing linens. Some VAMCs have their linen processed (washed, dried, ironed, folded, and mended) offsite by other VAMCs or by contractors, while other VAMCs process their own linen at onsite laundries. VAMC personnel operate most onsite laundries, but some are operated by contractors. Many VAMCs with laundries process linens for other VAMCs and/or other government and non-government hospitals.

Unlike most categories of supplies, linens are reusable. For this reason, VAMC linen “inventory” reports include linen that is in inventory and linen that is in circulation. VHA’s draft textile management report handbook implies, but does not explicitly state, that hospitals should normally maintain an 8-day supply of linen (a 7-day supply of linen in circulation and a 1-day supply in inventory). The draft handbook does not require VAMCs to reduce inventory or establish the 1-day supply level as a VHA goal.

Although linens and uniforms are both reusable supplies, the consumption or “final use” of the two types of supplies are different. A linen item is considered to be consumed when it is no longer usable due to fair wear and tear, whereas a uniform is considered to be consumed when it is issued to an employee. Since the consumption of uniforms is similar to the consumption of most other categories of supplies, we used the 30-day criterion to evaluate the uniform inventory levels required to meet VAMC current needs.

Previous OIG Audits of Inventory Practices

In FY 1998, the OIG began a series of audits to evaluate VAMC management of different categories of supplies. For all the categories of supplies, the audits found that supply inventories substantially exceeded current operating needs. As of April 2002, four reports had been issued:

Appendix A

- Audit of VA Medical Center Management of Medical Supply Inventories. At five VAMCs, \$4.3 million of \$7.0 (61.4 percent) million in combined medical supply inventories was excess. We estimated that stronger inventory management could reduce medical supply inventories by \$75.6 million. (Report No. 9R8-E04-052, March 1999)
- Audit of Management of Prosthetic Supply Inventories at VA Medical Centers and the Denver Distribution Center. At five VAMCs with combined prosthetics inventories valued at \$2.7 million, \$1.3 million (48.1 percent) was excess. At the Denver Distribution Center (DDC), \$528,000 (48.0 percent) of an inventory valued at \$1.1 million was excess. We estimated that better management could reduce VAMC and DDC prosthetic inventories by \$31.4 million. (Report No. 99-00188-13, November 1999)
- Audit of VA Medical Center Management of Pharmaceutical Inventories. At four VAMCs with combined pharmaceutical inventories valued at \$1.7 million, about \$820,000 (48.2 percent) was excess. We estimated that stronger management controls could reduce pharmaceutical inventories by \$24.5 million. (Report No. 99-00186-86, June 2000)
- Audit of VA Medical Center Management of Engineering Supply Inventories. At five VAMCs, with combined engineering inventories valued at \$5.4 million, \$3.6 million (66.7 percent) was excess. We estimated that better management controls could reduce engineering inventories by \$168.4 million. (Report No. 99-00192-65, April 2001)

The first three audits recommended that VHA issue policy guidance requiring VAMCs to reduce inventories of the categories of supplies covered by the audits, use automation to manage these inventories, and train staff on the use of automated controls. The fourth audit did not make the same recommendations because in October 2000 VHA issued an inventory management handbook that, if followed, would solve the problems found in all four audits. However, the fourth audit did recommend that VHA encourage VAMCs to avoid making unnecessarily large quantity purchases and to consolidate supply storage locations.

The first two audits also recommended that OA&MM help VHA develop the recommended policy guidance. The Assistant Secretary for Financial Management concurred with this and agreed that VAMCs could significantly reduce inventories and improve inventory management by implementing the audit recommendations.

VHA's October 2000 inventory management handbook established the following requirements for all VAMCs:

- Excess supply inventories must be eliminated. VAMCs should establish procedures for monitoring their progress in meeting the initial inventory level goal of a 30-day supply.
- By February 2002, VAMC inventories of all categories of supplies should be managed with GIP, its successor system, or other approved automated system.

Appendix A

- Inventory managers and other GIP users should receive training that includes instruction on inventory management principles and techniques and on the effective use of automated inventory controls.

Objectives, Methodology, and Scope

Objectives

The purpose of the audit was to evaluate VAMC management of miscellaneous supply inventories. The audit objectives were to determine if: (a) miscellaneous supply inventories exceeded current needs and (b) VAMCs were effectively using GIP to manage these inventories.

Methodology

To accomplish the audit objectives, we reviewed VA inventory management policies and OIG and General Accounting Office audit reports pertaining to supply inventory management issues. We reviewed technical guidance for the GIP system and discussed inventory management practices and recent and planned initiatives with responsible VA Central Office and VAMC officials. We also analyzed comparative miscellaneous supply cost and workload data for all VAMCs.

Based on our cost and workload analysis and discussions with VA Central Office officials, we selected four VAMCs for onsite audits. The four audited VAMCs are designated as VAMCs A, B, C, and D in this report. To obtain an overview of VAMC inventory management practices VHA-wide, we conducted a telephone survey of materiel management officials at an additional 20 VAMCs.

Auditing the four VAMCs allowed us to evaluate inventory management practices and controls in the context of a varied range of relevant operational characteristics. The four VAMCs ranged from small facilities with just a few buildings to large multi-division facilities with many buildings. The audited VAMCs were also representative of the different linen processing arrangements throughout VHA. Three of the four VAMCs processed their own linens and the fourth VAMC delivered its linens to another VAMC for processing. The three VAMCs that processed their own linens also processed linens for other VHA and non-VHA medical care facilities. The four VAMCs also included GIP users and non-users and VAMCs with high and low expenditures for miscellaneous supplies. The four VAMCs were located in four different VISNs around the Nation.

At each VAMC we held discussions with inventory management officials and staff, inspected supply storage areas, observed inventory practices, and reviewed selected supply items to verify stock levels, demand, and costs. In our opinion, the work performed at these 4 VAMCs, along with our telephone survey of 20 other VAMCs and our analysis of VHA supply data, provided a reasonable basis for assessing miscellaneous supply inventory management controls VHA-wide.

Scope

Appendix B

The audit covered miscellaneous inventory management operations for the 10-month period May 2001 through February 2002. To meet the audit objectives, we used supply expenditure data from VA's Automated Financial Management System and inventory data from VAMC GIP systems. We conducted tests to assess the reliability of this data. When data was reliable, we used it to meet the audit objectives. When data was not available or not reliable, we used alternative auditing techniques. We performed the audit in accordance with generally accepted government auditing standards.

Details of Audit

Estimate of Excess VAMC Miscellaneous Supply Inventories

VHA did not maintain data on the VHA-wide inventory value of any of the categories of miscellaneous supplies. In addition, none of the 4 VAMCs audited and none of the 20 VAMCs contacted in our telephone survey had inventory data for all four categories of miscellaneous supplies. To estimate the values of total inventory and excess inventory VHA-wide, we extrapolated the results from our audits at VAMCs A, B, C, and D to all VAMCs. Using this approach, we estimated that at any given time during FY 2001 the total value of miscellaneous supply inventories at all VAMCs was about \$68.8 million and the value of excess inventory was \$49.0 million. We used a five-step process to reach these estimates:

1. At the four VAMCs, we audited 16 inventories (4 VAMCs \times 4 categories of supplies = 16 inventories). The audited VAMCs did not have complete inventory data for any of the 16 inventories. Before our onsite audits, we asked inventory managers at each of the VAMCs to prepare inventory data that provided the quantity on hand, the unit cost, and the inventory value for every item stocked.
2. At each of the four VAMCs, we selected judgment samples of 150 items from the inventory. Each judgment sample represented a reasonable cross-section of supply items from the four categories of miscellaneous supplies. For each of the 150 sampled items, we: (a) physically counted the quantity on hand, (b) multiplied this quantity by the item's unit cost, and (c) summed the value of the item's inventory. We then computed an inventory value error rate for the sampled items by dividing the reported inventory values by the actual values. The error rate was then applied to the reported inventory value for the non-sampled items. This approach yielded inventory values at the four VAMCs of \$2,154,120 for linens, \$377,848 for employee uniforms, \$595,936 for operating supplies, and \$346,049 for office supplies.
3. For the four VAMCs, we determined the amount of on-hand inventory that was excess. First, we determined the excess inventory for each of the sampled items. For operating, office, and employee uniform supplies we did this by: (a) using GIP reports, purchase histories, and/or inventory managers estimates to determine daily usage rates; (b) calculating a 30-day supply by multiplying the daily usage rate times 30 days; (c) determining the value of the 30-day inventory by multiplying the 30-day quantity by the unit cost; and (d) calculating the excess inventory value by subtracting the value of a 30-day supply from the value of the inventory on hand. When determining excess inventories for individual items, we made exceptions to the days of supply criterion if the item required a delivery time exceeding 30 days, had a large minimum order quantity, or was used irregularly or infrequently.

For the linen items sampled, we used a different method to determine excess inventory for two reasons. First, instead of a 30-day supply, a 3-day supply of linens will meet a VAMC's current needs. In our opinion, a 3-day supply is reasonable because linens are reusable and

VAMCs typically have a 5–7 day supply of linens in circulation (linen that is soiled, being washed and sorted, on a cart or shelf, and being used on the hospital bed). Second, VAMC linen inventory data was different than the data for other categories of supplies because it included linen that was in inventory and circulation. To calculate excess linen inventory for each sample item we: (a) used daily usage data and healthcare industry standards to determine reasonable VAMC-wide quantities (circulation plus inventory) and (b) calculated excess inventory by subtracting what would be reasonable VAMC-wide quantities from the total quantities on hand.

Second, for each of the four categories of miscellaneous supplies we then applied the proportion of the sampled item inventory that was excess to the inventory value of the non-sampled items. This approach yielded excess inventory values at the four VAMCs of \$1,808,334 for linens, \$309,725 for employee uniforms, \$295,005 for operating supplies, and \$265,866 for office supplies. At the four VAMCs, the proportion of excess inventory versus on-hand inventory was 83.9 percent for linens, 82.0 percent for employee uniforms, 49.5 percent for operating supplies, and 76.8 percent for office supplies.

4. To estimate the value of inventories VHA-wide for each category of miscellaneous supplies, we applied the proportion of stock on hand versus FY 2001 purchase costs at the four VAMCs to the FY 2001 purchase costs at all VAMCs. (For our estimate of inventory value, we used purchase cost data for FY 2001 because this was the most current cost data in relation to the inventory data at the time we performed our onsite audits.) At the four VAMCs, the proportion of stock on hand versus FY 2001 purchase costs was 172.0 percent for linens, 110.2 percent for employee uniforms, 12.4 percent for operating supplies, and 39.7 percent for office supplies. VHA-wide the FY 2001 purchase costs were \$13,288,344 for linens, \$7,168,307 for employee uniforms, \$173,969,925 for operating supplies, and \$41,628,450 for office supplies. Applying the proportions for the four VAMCs to the VHA-wide FY 2001 purchases yielded estimated VHA-wide inventory values of \$22,855,952 for linens, \$7,899,474 for employee uniforms, \$21,572,271 for operating supplies, and \$16,526,495 for office supplies. Table 6 below shows the calculation of the estimated value of VHA-wide stock on hand for each category of supplies:

Table 6. Calculation of Estimated Value of VHA-Wide Stock on Hand

<u>Category</u>	<u>Four Audited VAMCs</u>			<u>VHA-Wide</u>	
	<u>Stock on Hand</u>	<u>FY 2001 Purchases</u>	<u>Proportion of Stock on Hand to Purchases</u>	<u>FY 2001 Purchases</u>	<u>Stock on Hand</u>
Linens	\$2,154,120	\$1,252,566	172.0%	\$13,288,344	\$22,855,952
Employee Uniforms	377,848	342,853	110.2%	7,168,307	7,899,474
Operating Supplies	595,936	4,808,879	12.4%	173,969,925	21,572,271
Office Supplies	346,049	871,902	39.7%	41,628,450	16,526,495
Totals	\$3,473,953	\$7,276,200	47.7%	\$236,055,026	\$68,854,192

5. As noted in step 3, the proportion of excess inventory versus on-hand inventory at the four VAMCs was 83.9 percent for linens, 82.0 percent for employee uniforms, 49.5 percent for operating supplies, and 76.8 percent for office supplies. Applying these proportions to the estimated VHA-wide stock on hand for each category of supplies yielded estimated excess inventory values of \$19,176,144 for linens, \$6,477,569 for employee uniforms, \$10,678,274 for operating supplies, and \$12,692,348 for office supplies. Adding the estimated VHA-wide stock on hand and excess inventory values for all four categories of miscellaneous supplies yielded an estimated VHA-wide miscellaneous supplies stock on hand value of \$68,854,192 (\$22,855,952 for linens and \$45,998,240 for employee uniform, operating, and office supplies) and an estimated VHA-wide excess inventory value of \$49,024,335 or 71.2 percent of stock on hand (\$19,176,144 [84.0 percent] for linens and \$29,848,191 [64.9 percent] for employee uniform, operating, and office supplies). Table 7 below shows the calculation of the estimated value of VHA-wide excess inventory:

Table 7. Calculation of Estimated Value of VHA-Wide Excess Inventory

<u>Category</u>	<u>Four Audited VAMCs</u>			<u>VHA-Wide</u>	
	<u>Excess Inventory</u>	<u>Stock on Hand</u>	<u>Proportion of Excess to Stock on Hand</u>	<u>Stock on Hand</u>	<u>Excess Inventory</u>
Linens	\$1,808,334	\$2,154,120	83.9%	\$22,855,952	\$19,176,144
Employee Uniforms	309,725	377,848	82.0%	7,899,474	6,477,569
Operating Supplies	295,005	595,936	49.5%	21,572,271	10,678,274
Office Supplies	<u>265,866</u>	<u>346,049</u>	76.8%	<u>16,526,495</u>	<u>12,692,348</u>
Totals	\$2,678,930	\$3,473,953	77.1%	\$68,854,192	\$49,024,335

Using the same process, we calculated the values of inventory that could be eliminated based on achieving different possible days of supply goals. For operating, office, and employee uniform supplies, the possible days of supply goals ranged from the minimum goal of a 30-day inventory level to an aggressive goal of a 7-day level. For linens, the days of supply goals ranged from the minimum goal of a 3-day inventory level to an aggressive goal of a 1-day level. Table 8 shows the potential inventory cost reductions for the different days of supply goals:

Table 8. Estimated VHA-Wide Inventory Cost Reductions Using Different Possible Goals

<u>Employee Uniform, Operating, and Office Supplies</u>		<u>Linens</u>	
<u>Goal (Days of Supply)</u>	<u>Potential Inventory Cost Reductions (in Millions)</u>	<u>Goal (Days of Supply)</u>	<u>Potential Inventory Cost Reductions (in Millions)</u>
30	\$29.8 (64.9%)	3	\$19.2 (83.9%)
21	\$32.8 (71.4%)	2 (Midpoint)	\$20.3 (88.8%)
19 (Midpoint)	\$33.4 (72.6%)	1	\$21.4 (93.5%)
14	\$35.0 (76.1%)		
7	\$37.0 (80.4%)		

Appendix C

In our opinion, for employee uniform, operating, and office supplies the midpoint between the 30- and 7-day goals is a reasonable goal that could be achieved by more effectively using GIP to manage inventories. Reaching the midpoint goal would reduce employee uniform, operating, and office supply inventory levels to about a 19-day supply and would decrease excess inventories VHA-wide by \$33.4 million. For linens, the midpoint between the 3- and 1-day goals is a reasonable goal that could be achieved by using GIP to reduce inventories closer to the industry standard of a 1-day supply. Reaching the midpoint goal would reduce linen inventory levels to a 2-day supply and would decrease excess inventories VHA-wide by \$20.3 million. Reaching the midpoint goal for all four categories of miscellaneous supplies would decrease the excess inventories VHA-wide by \$53.7 million (\$33.4 million for employee uniform, operating, and office supplies + \$20.3 million for linens = \$53.7 million). These funds could be used to meet other VHA needs instead of being tied up in excess inventory.

Monetary Benefits in Accordance with IG Act Amendments

Report Title: Audit of VA Medical Center Management of Miscellaneous Supply Inventories

Report Number: 00-01089-91

<u>Recommendation</u>	<u>Explanation of Benefit</u>	<u>Better Use of Funds</u>
1	Better use of funds by reducing excess miscellaneous supply inventories and encouraging VAMCs to use GIP to manage inventories.	\$53.7 million

Under Secretary for Health Comments

Department of
Veterans Affairs

Memorandum

Date: April 22, 2002

From: Under Secretary for Health (10/105E)

Subj: OIG Draft Report: *Audit of VA Medical Center Management of Miscellaneous Supply Inventories* (EDMS #171455)

To: Assistant Inspector General for Auditing (52)

1. VHA program officials have reviewed the referenced report and there is overall agreement with your findings, conclusions, and estimate of monetary benefits. We also concur in your recommendations to require the use of the Generic Inventory Package (GIP) to manage linen supply inventories and to establish goals for reducing linen inventory levels, with a 3-day level as the initial goal and a 1-day level as the ultimate level. While we have doubts that the 1-day goal is feasible in many facilities, the GIP analysis will measure "use rate," and provide a reasonable guide for determining workable inventory levels. It is also important to clarify some issues that were not addressed in the report or reflected in the recommendations.

2. The GIP is limited in its ability to manage linen inventories since it can only be applied in monitoring stored warehouse or laundry-level inventory. It does not track the significant levels of linen that are in circulation. As you report, VHA's Environmental Programs Service is in the process of completing field guidance on the preparation of the Textile Care Management Report (TMR), which includes annual inventory information for each facility. Included in this document are policy guides for the management of in-circulation linen inventories. Although this draft guidance focuses on manual inventory methods, facilities are strongly encouraged to use a supplemental inventory software package that is capable of tracking circulating linens. The coordinated use of both the GIP and the TMR guidance will more accurately reflect total linen inventory supply levels. It is anticipated that the TMR guidance will be issued in May 2002. VHA continues to evaluate appropriate software systems that are capable of tracking all linen inventories, and that are also compatible with existing VA systems.

3. Your findings reflect the same issues that were identified in earlier inventory management audits for other types of supplies. As reflected in requirements established in our inventory management handbook, VHA is committed to systematically implementing the Generic Inventory Package in all of our facilities. We have noted steadily growing acceptance and utilization of this automated process. Ongoing efforts to assure compliance with the handbook requirements will continue in all areas, including linen inventory management. We appreciate OIG's assistance in helping to identify opportunities for improvement. If additional information is required, please contact Margaret M. Seleski, Director, Management Review and Administration Service (105E), Office of Policy and Planning (105), at 273-8360.

(Original signed by Dennis H. Smith for:)
Robert H. Roswell, M.D.

Report Distribution

VA Distribution

Secretary (00)
Deputy Secretary (001)
Under Secretary for Health (105E)
Chief of Staff (00A)
Executive Secretariat (001B)
Assistant Secretary for Public and Intergovernmental Affairs (002)
Acting Assistant Secretary for Management (004)
Assistant Secretary for Information and Technology (005)
Assistant Secretary for Policy and Planning (008)
General Counsel (02)
Deputy Assistant Secretary for Congressional Affairs (009C)
Deputy Assistant Secretary for Acquisition and Materiel Management (049)
Deputy Assistant Secretary for Public Affairs (80)
Director, Office of Management and Financial Reports Service (047GB2)
Medical Inspector (10MI)
Assistant Deputy Under Secretary for Health (10N)
Veterans Integrated Service Network Directors (10N1-22)
VHA Chief Information Officer (19)

Non-VA Distribution

Office of Management and Budget
General Accounting Office
Congressional Committees (Chairmen and Ranking Members):
 Committee on Governmental Affairs, U.S. Senate
 Committee on Veterans' Affairs, U.S. Senate
 Subcommittee on VA, HUD, and Independent Agencies, Committee on Appropriations,
 U.S. Senate
 Committee on Veterans' Affairs, U.S. House of Representatives
 Subcommittee on Oversight and Investigations, Committee on Veterans' Affairs,
 U.S. House of Representatives
 Subcommittee on Health, Committee on Veterans' Affairs, U.S. House of Representatives
 Subcommittee on Benefits, Committee on Veterans' Affairs, U.S. House of Representatives
 Subcommittee on VA, HUD, and Independent Agencies, Committee on Appropriations,
 U.S. House of Representatives
Staff Director, Committee on Veterans' Affairs, U.S. House of Representatives
Staff Director, Subcommittee on Oversight and Investigations, Committee on Veterans' Affairs,
U.S. House of Representatives

This report will be available in the near future on the VA Office of Audit Web site at <http://www.va.gov/oig/52/reports/mainlist.htm>, *List of Available Reports*. This report will remain on the OIG Web site for 2 fiscal years after it is issued.