JOINT LEGISLATIVE AUDIT AND REVIEW COMMISSION
OF THE VIRGINIA GENERAL ASSEMBLY

# Review of the Virginia Distribution Center

House Document No. 34

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# Preface

Item 20 of the 2000 Appropriation Act directed the Joint Legislative Audit and Review Commission (JLARC) to study the distribution of food and housekeeping products from the Virginia Distribution Center (VDC) to State and local government agencies. VDC's mission is to purchase high volume, standardized items for resale to State agencies and localities. Its primary customers are prisons, mental health and mental retardation facilities, and universities – agencies with substantial food and janitorial supply requirements. The Department of General Services is responsible for administering VDC, which had sales of $38.1 million in FY 2000.

JLARC's review of VDC and agencies' processes for procuring food and housekeeping products found that there are important differences across agencies in terms of their product and service needs. These differences, in turn, affect the determination of which product delivery system best meets the needs of each agency. VDC's products and services currently appear to meet the food and housekeeping product requirements of institutional organizations such as the Department of Corrections and the Department of Mental Health, Mental Retardation and Substance Abuse Services in a cost-effective manner.

However, the review found that VDC faces some operational and financial challenges that it needs to address to remain viable. In particular, VDC's sales have been flat during the past few years, while its expenses have increased. With the additional commitment to pay for a new warehouse out of VDC earnings, a rate adjustment, additional sales, and control of expenses appear needed.

Further, VDC does not appear to adequately meet the food product requirements of retail-oriented customers such as the State's public universities. VDC does not stock the range of food products needed by universities, nor does it provide the delivery frequency needed. These agencies may be better served through the use of a single wholesale distributor that can provide the majority of their product needs.

On behalf of the JLARC staff, I would like to thank the staff of the Department of General Services and the other State and local government agencies that assisted in our review.

Philip A. Leone
Director

January 9, 2001

# JLARC Report Summary

**REVIEW OF THE VIRGINIA DISTRIBUTION CENTER**

**January 2001**

**Joint Legislative Audit and Review Commission**

Item 20 of the 2000 Appropriation Act directed the Joint Legislative Audit and Review Commission (JLARC) to study the distribution of food and housekeeping products from the Virginia Distribution Center (VDC) to State and local government agencies (Appendix A). The review included an examination of VDC's current operations and financing, the adequacy of VDC's services and products, the appropriateness of VDC as a mandated source of food and housekeeping products, and the impact of this mandate on State agencies. The review also examined alternative approaches for the distribution of food and housekeeping products for State and local government agencies and the feasibility of either privatizing VDC's services or expanding its services to local government agencies and nonprofit organizations.

VDC, which is located in Richmond, was created in 1960. Since its establishment, VDC's mission has been to purchase high volume, standardized items for resale to State agencies and localities. It currently offers more than 900 products, most of which are food and food-related items, janitorial supplies, and paper products. It does not stock perishable foods such as produce. While available to all State agencies and local governments, VDC's primary customers are prisons, mental health and mental retardation facilities, and universities – agencies with substantial food and janitorial supply requirements. It is a mandatory source of food and housekeeping products for State agencies and an optional source of supplies for local government agencies.

The Department of General Services (DGS) has statutory authority over VDC and is responsible for administering it. VDC operates as an internal service fund, covering its expenses with an eight percent markup on all goods sold.

The JLARC staff's review of the VDC and of agencies' processes for procuring food and housekeeping products resulted in the following findings:

- There are important differences across State agencies in terms of their food and housekeeping product and service needs. These differences, in turn, affect the determination of which product delivery system best meets the needs of each agency.

- VDC's products and services currently appear to meet the food and housekeeping product requirements of institutional organizations such as the Department of Corrections (DOC) and Department of Mental Health, Mental Retardation and Substance Abuse Services (DMHMRSAS) in a cost-effective manner.

- However, VDC faces some operational and financial challenges that it needs to address to remain viable. In particular, VDC's sales have been flat during the past few years while its expenses have increased. With the additional commitment to pay for a new warehouse out of VDC earnings, a rate adjustment, additional sales, and control of expenses appear needed.

- VDC does not appear to adequately meet the food product requirements of retail-oriented customers such as the State's public four-year universities. Instead, these agencies may be better served by use of a prime vendor (a single wholesale distributor that provides the majority of an agency's product needs).

## Framework for Assessing Food and Housekeeping Product Procurement Approaches

There were three primary questions that guided the JLARC assessment of food and housekeeping product procurement approaches:

- Which approach provides the level of product quality needed?

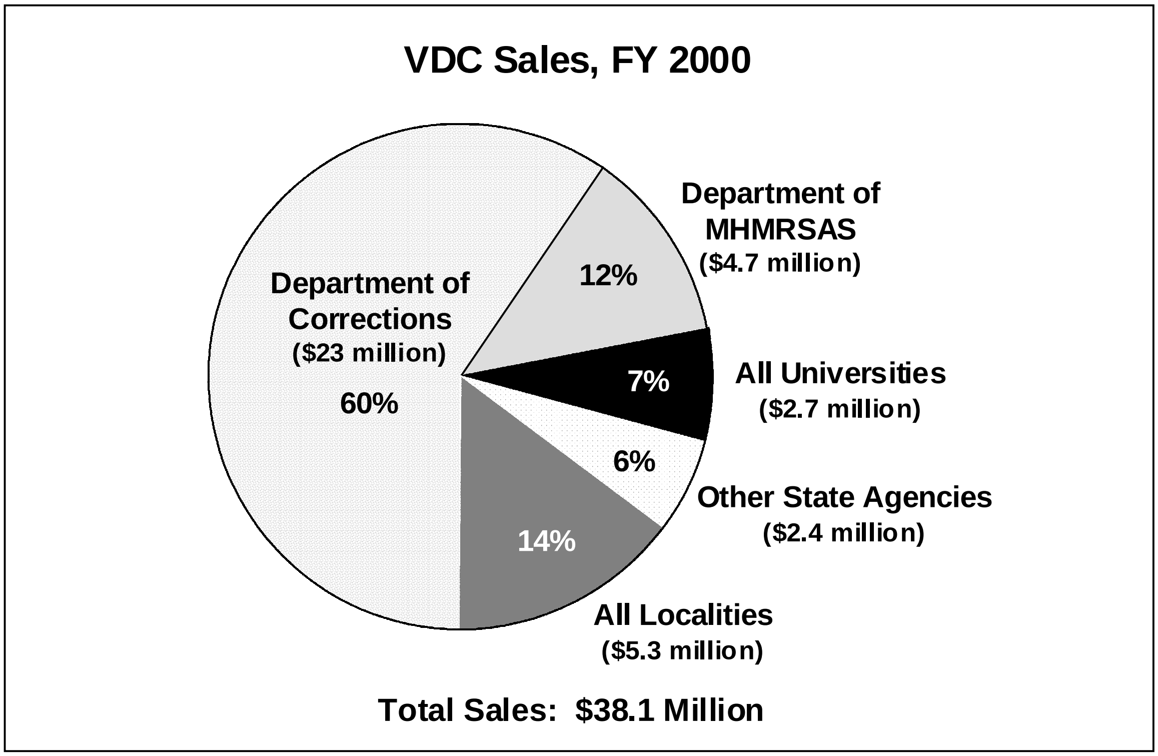
- Which approach provides the level of service needed?

- Which approach is the least costly, given the set of quality and service requirements?

JLARC staff found that the food and housekeeping product and service needs of agency users vary by the type of agency. DOC and DMHMRSAS operate institutions that provide meals daily to more than 38,000 persons who are either incarcerated or hospitalized. Together, these two large State agencies accounted for 72 percent of VDC's sales in FY 2000 (see figure on next page). These agencies purchase the majority of their food and housekeeping products from the VDC.

VDC's major institutional customers (DOC and DMHMRSAS) serve populations with requirements quite different from those of the other major category of purchaser – the institutions of higher education. Universities have food service operations that more nearly mirror retail food establishments. Currently, Radford University, Christopher Newport University (CNU) and Virginia Tech are the only three public universities that operate their own dining facilities. The other 12 public four-year colleges and universities contract with managed food service providers that handle all aspects of their food service programs, including food procurement.

Meeting the nutritional needs of an incarcerated or hospitalized population that is totally dependent upon the institution for basic sustenance diverges from meeting the needs of college students who expect to have many food options. The types of food services provided by these State agencies with widely varying missions in turn drive their food product and inventory requirements. For example, due security concerns, staff at DOC facilities prefer to minimize the number of vendors and deliveries. They also have taken steps to reduce the number of food products used. In contrast, universities have complex food service operations that use an extensive range of food products and require frequent deliveries. Based on these differing product and service needs, it does not appear that a "one size




fits all" approach is appropriate for Virginia's government agencies.

### VDC Generally Meets the Food and Housekeeping Procurement Needs of Institutional Users

It appears that VDC adequately meets the food and housekeeping procurement requirements of the State's institutional users and does so in a cost-effective manner. The figure on the next page displays the JLARC staff assessment of the extent to which the VDC meets the needs of its primary customers. Although it carries a much smaller number of products than a typical private sector prime vendor, VDC's strength is its ability to provide the basic food and housekeeping products primarily used by State institutions, at low cost. For example, purchases from VDC account for about 90 percent of DOC facilities' food expenditures outside of its own agribusiness operation. Further, review of comparative pricing data showed that VDC is generally able to provide products to agencies at lower cost than private sector vendors. Therefore, it appears reasonable to continue operation of the VDC at this time.

### Universities May Be Better Served by the Use of a Prime Vendor

While the VDC adequately meets the needs of institutional users, it does not adequately address the needs of the State's retail-oriented food service operations, which are typical at universities. As previously stated, CNU, Radford University, and Virginia Tech operate retail-oriented food service programs that require access to a variety of brand name products within specific time frames. VDC does not stock the range of food products needed by these universities, nor does it provide the delivery frequency needed.

In contrast, prime vendors offer a wide assortment of products, including "branded" products and those of various grades. This allows customers to buy the majority of their

## Assessment of VDC's Ability to Meet Agencies' Food and Housekeeping Product Needs

**KEY:** ✔ Meets Criterion Well | ✓ Meets Criterion with Some Reservations | ✗ Does Not Meet Criterion | ? Unknown

| | DOC | DMHMRSAS | Universities |
|---|---|---|---|
| **FOOD PRODUCTS** | | | |
| Provides Products Needed | ✔ | ✓ | ✗ |
| Provides Level of Service Needed | ✔ | ✔ | ✗ |
| Provides Lowest Total Cost | ✔ | ✔ | ✗ * |
| **HOUSEKEEPING PRODUCTS** | | | |
| Provides Products Needed | ✔ | ✔ | ✔ |
| Provides Level of Service Needed | ✔ | ✔ | ✔ |
| Provides Lowest Total Cost | ✔ | ✔ | ? |

* VDC product prices are typically lower than those of prime vendors. Universities have been able to reduce their total cost of operations through the use of prime vendors, primarily due to warehouse personnel reductions achievable with that approach.

products from one source, saving on procurement effort. Prime vendors also typically provide frequent deliveries, which is critical for customers with limited storage capacity. Since 1995, Virginia Tech has contracted with a prime vendor to supply the majority of its food needs, and has reported success with its use of this arrangement. It appears that use of a prime vendor would better serve the needs of the other universities' food service operations as well.

To enable CNU and Radford University to pursue a prime vendor arrangement, the Department of General Services needs to amend its mandatory source rule to allow agencies with retail-oriented (non-general funded) operations, such as at universities, to obtain their food products in a manner that allows for the least overall cost to the agency.

A prime vendor approach may also be appropriate for housekeeping products in certain circumstances. In particular, if use of a prime vendor enables an agency to eliminate its warehouse space, and therefore reduce personnel and operating costs, it may be a cost-effective approach. It does not appear that such cost savings are possible at DOC and DMHMRSAS facilities; however, cost savings may be possible at universities that currently use warehouses to store their janitorial supplies. Therefore, universities should analyze their total housekeeping procurement costs, including the cost of any warehouses used for storage, to identify the procurement approach that best meets their needs at the lowest total cost.

### VDC Operational Issues Need to Be Addressed

In addition to examining the overall State system for procuring food and housekeeping products, JLARC staff also examined in detail the operations of the VDC. This examination included a review of VDC's processes for product procurement, inventory management, and distribution. JLARC staff reviewed bid files, quality control lab results, customer complaint files, various VDC reports, written procedures, and financial data, and interviewed numerous VDC staff. In addition, material on "best practices" in warehouse management was reviewed.

JLARC staff found that VDC maintains an adequate operation. VDC appears to follow, or is in the process of instituting, a number of warehouse management best practices. For example, VDC has instituted cycle-based inventory counting, which enables the VDC to remain open year-round rather than have to periodically close to take inventory of its stock. Further, JLARC staff found that VDC seeks feedback from its customers on a periodic basis through the use of two advisory committees. A JLARC staff survey of VDC customers found that most customers are satisfied with VDC's performance.

However, there are still a number of areas that VDC needs to address to increase its efficiency and improve customer service. One deficiency with the VDC is its lack of adequate management reports readily available for decision-making purposes. One of the reasons the reports are not available stems from problems associated with documentation of VDC's new warehouse management system computer software. While the system appears to have many strengths, VDC has encountered numerous problems in its implementation, including dealing with the bankruptcy of the software vendor. This has hindered VDC being able to take full advantage of the system. VDC should make it a priority to develop reports that enable staff to better track product and agency usage.

Additional operational problems pertain to VDC's processing of customer orders. VDC works with customers on a periodic basis through the use of the advisory committees; however, VDC staff do not always communicate well with customers regarding individual orders. While VDC reported staffing limitations as the main reason why customers are not always called when they should be (such as when a product substitution is needed), VDC should take measures to ensure that notifications to customers take priority. For example, it should implement the advanced shipping notice feature of its warehouse management system. In addition, VDC should explore options to reduce the amount of time necessary to fill orders.

### VDC Needs to Takes Steps to Address Recent Operating Losses

VDC operates as an internal service fund. Virginia has several of these self-supporting funds, which operate by selling goods or services to other governmental units. To cover its expenses, VDC charges an eight percent mark-up on all goods sold. The mark-up must cover VDC's direct and indirect expenses, including the cost to deliver goods to agencies throughout the State.

Over the last five years, VDC has generated small profits in three years and small losses in two years. This pattern is fairly consistent with the idea of a program intended only to cover its costs and not generate significant earnings. However, sales have been flat and expenses continue to increase. Most of the increase in VDC operating expenses over the last five years has resulted from increases in freight costs, employee compensation, and computer-related initiatives. While expenses may not continue to rise as quickly in the next several years (since the computer system is now in place), clearly some expenses may continue to increase. Against this background of rising expenses, VDC also proposes to pay for the construction of a new warehouse (for which it is using a State Treasury loan).

Because the State looks to VDC to cover its expenses and expects it to pay for the construction of the new $12.5 million warehouse, raising the mark-up charged by the VDC may need to be considered. In addition to adjusting its mark-up rate, the VDC needs to focus attention on increasing sales by expanding its customer base and increasing its product offerings. Currently, the VDC conducts very little marketing to promote increased use of the VDC. In order to remain viable in the future, it appears that the VDC will need to begin more aggressively marketing its services.

There appear to be two main targets that the VDC should explore. First, based on the survey of local government and non-profit organizations, it appears that local and regional jails maintain the type of operation that can be adequately met by the VDC. The second avenue for possible increased sales is State agencies that contract with private firms for janitorial and/or food service. State procurement rules allow a private firm to purchase supplies from the VDC as long as those supplies are used on behalf of a State agency. In particular, DGS should ensure that agencies with janitorial service provider contracts know that their providers can purchase products from the VDC for use on behalf of State or local agencies.

Further, the new warehouse should enable the VDC to increase its product offerings. In particular, there are a number of products that DMHMRSAS facilities have reported they want the VDC to carry.

DGS staff reported that they are currently reviewing options for addressing VDC's recent operating losses. Since the VDC will be moving into a new warehouse in March 2001, it may be appropriate to make an interim rate adjustment, with a possible need for additional adjustments after it determines the full impact (both positive and negative) that the new warehouse will have on its expenses and sales.

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# I. Introduction

Item 20 of the 2000 Appropriation Act directed the Joint Legislative Audit and Review Commission (JLARC) to study the distribution of food and housekeeping products from the Virginia Distribution Center (VDC) to State and local government agencies (Appendix A). As part of this review, JLARC was requested to examine the following:

(1) the current operations and financing of VDC;

(2) the adequacy of VDC's services and products;

(3) the applicability of industry best practices to VDC's operations;

(4) the appropriateness of VDC as a mandated source of food and housekeeping products and the impact of this requirement on State agencies;

(5) alternatives for the distribution of food and housekeeping products to State and local government agencies, including the feasibility of privatizing distribution services; and

(6) the feasibility of expanding VDC's services to local government agencies and nonprofit organizations in the State.

The Appropriation Act directed JLARC to complete its study prior to the 2001 Session of the General Assembly.

## Procurement of Food and Housekeeping Products

State agencies purchase food and housekeeping supplies from a variety of sources. State agencies are required to purchase supplies from VDC, but it is an optional source of supplies for local government agencies. If VDC is unable to provide the needed supplies, State government agencies are free to use term contracts and spot purchases to obtain food and housekeeping products from wholesale distributors and retail stores. Term contracts are long-term contracts (usually one to three years) with vendors for specified products such as milk and bread. The Department of General Services' Division of Purchases and Supply (DGS/DPS) develops and administers statewide term contracts for products typically needed by many agencies. State agencies may place orders against term contracts rather than developing their own contracts when they need those particular products. State agencies also use spot purchases for one-time buys of products from distributors or retail stores. In addition, the Department of Corrections (DOC) requires its facilities to purchase meat, milk, and fresh produce from DOC's agribusiness operation.

In addition to these purchasing options, State and local government agencies sometimes contract with one food and/or housekeeping distributor for the procurement of a majority of their supplies. Under this "prime vendor" arrangement, agencies purchase the majority of their food or housekeeping supplies from a specific distributor. Agencies supplement these purchases by procuring supplies from other sources such as VDC, wholesale distributors, DPS statewide contracts, and retail stores. Virginia Tech is an example of a State agency that has both food and housekeeping contracts with prime vendors.

## State Agency Expenditures for Food and Housekeeping Products

State agencies spent approximately $68.1 million on food and housekeeping products during FY 2000. Of this total, State agencies spent about $20.9 million on food and food-related products, $7.3 million on janitorial products, and $1.2 million on laundry products from private sector vendors. State agencies also purchased approximately $32.8 million of these products from the VDC. In addition, DOC facilities purchased approximately $5.9 million in meat, dairy, and fresh produce from DOC's agribusiness operation.

## Overview of VDC

VDC's mission is to purchase high volume, standardized items for resale to State agencies and localities. While available to all State agencies and local governments, VDC's primary customers are prisons, mental health and mental retardation facilities, and universities – agencies with substantial food and janitorial supply requirements.

***VDC Products.*** VDC's current product catalog lists 918 products available for purchase. Most of these products are food and food-related items, paper products, and janitorial supplies. VDC does not stock any perishable foods, such as produce. Exhibit 1 lists examples of the products offered by the VDC.

VDC maintains information on its web site about available products and their current prices, and it distributes a product catalog every six months, with updates issued at three-month intervals. VDC recently implemented on-line order capabilities through the internet.

To cover its expenses, VDC charges an eight percent mark-up on all goods sold. This mark-up covers all of VDC's direct and indirect expenses, including the cost to transport the goods to agency facilities throughout the State. The percentage mark-up has varied over time, ranging from five percent in years prior to 1984 to 11 percent in 1988 through 1990. It has been set at eight percent since FY 1996.

VDC sells its products to any public entity for the same price, regardless of location. Therefore, although it may cost more to distribute goods to Red Onion Cor-

**Exhibit 1**

**Examples of Products Sold by the VDC**

| | |
|---|---|
| coffee | various juices |
| cake mixes | spaghetti and other sauces |
| canned fruits | canned, frozen, and dried vegetables |
| meats, poultry, and seafood | various soups |
| spices and seasonings | jams and jellies |
| stainless steel flatware | disposable cutlery |
| paper towels and toilet tissue | paper napkins, cups, plates |
| floor care products | brooms and cleaning brushes |
| bleach and other cleaners | dishwashing and laundry detergents |
| soaps and shampoo | waste receptacles and pails |
| sheets and pillowcases | towels and washcloths |
| paints and paint brushes/rollers | U.S. and Virginia flags |
| interoffice mail envelopes | DGS and DOA forms |

Source: VDC Product Catalog for July 1 through December 31, 2000.

rectional Center in Wise County compared to an agency located in Richmond, the customers are not charged different rates. The varying distribution costs are incorporated into the eight percent mark-up and, therefore, spread across all customers.

***VDC Staffing.*** VDC is one section within DGS' Division of Purchases and Supply. VDC operates with a staff of 27 full-time employees. About half the staff are warehouse workers. The remaining staff are responsible for procurement, quality control, and other administrative duties. In addition, two wage staff work in the warehouse and one wage staff person works in the main office. Since 1987, VDC has used a private-sector trucking firm to deliver orders to its customers.

***VDC Customers.*** VDC serves both State and local government agencies. VDC is a mandatory source for State agencies and an optional source for localities. In FY 2000, VDC served 134 State agencies and 98 localities. (The number of localities under-represents the number of actual VDC customers since there could be several different entities within one locality – for example, public schools and local government administrative offices – that may independently decide to use the VDC.)

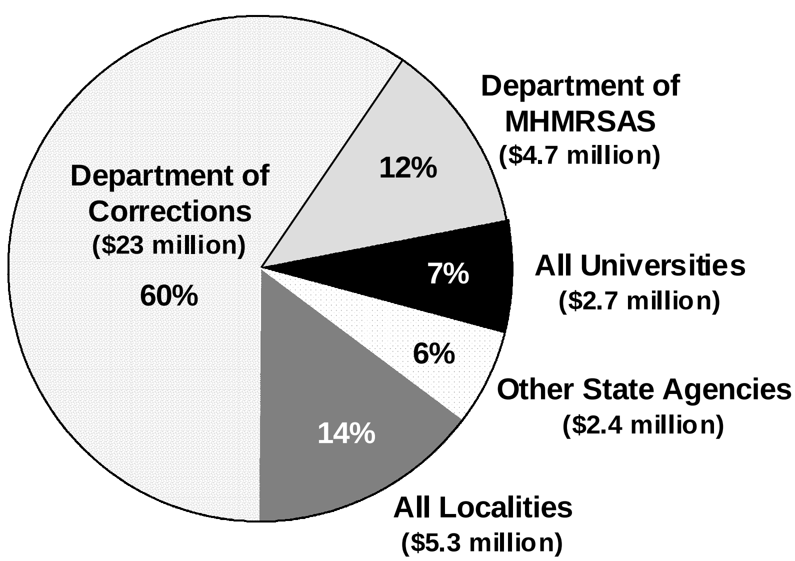
By far the primary VDC user is the Department of Corrections, which operates 55 correctional facilities statewide. These State correctional facilities accounted for about 60 percent of VDC's sales in FY 2000 (Figure 1). The other major VDC customer is the Department of Mental Health, Mental Retardation and Substance Abuse Services (DMHMRSAS), which maintains food service operations at seven mental health facilities and five mental retardation facilities across the State. DMHMRSAS accounted for 12 percent of VDC sales in FY 2000. As a group, universities also purchase a substantial amount of products from VDC, accounting for seven percent of VDC's FY 2000 sales. Localities comprise 14 percent of VDC sales. Customers at the local level tend to be jail facilities and schools.

The majority of agencies and localities that buy from VDC purchase relatively few items and/or in small quantities. Sixty of the 284 State agency facilities and localities that purchased from the VDC in FY 2000 bought less than $1,000 worth of goods (see Appendix B). In addition, 71 entities purchased between $1,000 and $10,000 worth of goods.

***VDC's Current Warehouse Facility.*** VDC's current warehouse is a set of five buildings joined together by bridgeways. The buildings were constructed in the

**Figure 1**

**VDC Sales, FY 2000**




**Total Sales: $38.1 Million**

Source: VDC sales data.

1940s and 1950s, and were designed for long-term storage rather than to serve as a distribution facility. In total, the building complex contains 155,000 square feet.

The buildings are dilapidated and have required substantial repairs in recent years. For example, in some places the roof was separating from the side walls and had to be shored up with braces. In other places the floors are uneven, creating a potential safety hazard. One of the buildings does not have usable docks for loading and unloading products. There are also height restrictions in some of the buildings.

The General Assembly agreed in 1997 to fund a new warehouse using a Treasury loan. Consequently, VDC is in the process of constructing a new warehouse facility in eastern Henrico County. The new facility will be 128,000 square feet and reportedly will enable VDC to take advantage of more modern distribution center practices. DGS management expects the new facility to be completed by March 2001 at a cost of about $12.5 million.

## Previous Studies Affecting the VDC

Various aspects of the State's centralized distribution system for food and other products have been studied in recent years. JLARC periodically reviews the VDC as part of its oversight responsibility for internal service funds. In addition, the system has received particular scrutiny since the VDC requested funds to build a new warehouse in 1997. Three studies have examined the feasibility and appropriateness of continuing VDC's operations in a new facility, including a study by a private consultant, a study by the College of William and Mary's Compete Center, and a task force study at the behest of the 1999 General Assembly. This section briefly discusses the findings of these studies.

***JLARC Study of Internal Service Funds.*** In 1987, JLARC staff conducted a study of the five DGS internal service funds, including the central warehouse (later renamed the Virginia Distribution Center). This study found that the central warehouse operation had experienced financial difficulties since the previous JLARC study in 1982. The warehouse's overhead mark-up was not covering the full cost of its operation, resulting in a steady reduction of its cash resources. At the time, it applied a 5.8 percent mark-up on all products. JLARC staff recommended an increase in the markup charged by the central warehouse, and it was subsequently increased to 11 percent.

The JLARC study also found that the central warehouse had improved its efficiency in several areas, including: the establishment of item reorder points, an increase in the order fill rate, a decrease in the inventory error rate, and a decrease in the delivery time required for small orders. The study also found that the majority of customer agencies were satisfied with the goods and services offered by the warehouse. However, JLARC staff found that the warehouse still needed to improve its accuracy in filling orders and the quality of its inventory controls.

***1997 Consultant Study.*** In 1997, DGS hired a private sector consultant to review VDC's conclusions concerning the financial feasibility and appropriateness of constructing a new facility. The consultant report noted that:

> Regardless of space considerations, the [current] facility is not ideal for the type of use it is subjected to. This results in unnecessarily high operating costs and the requirement to lease additional cold storage space from a private contractor. These restrictions are retarding the potential for further growth in services.

The consultant concluded that while some of VDC's assumptions and analyses concerning the cost-effectiveness of its operations were inaccurate, construction of a new warehouse was economically justifiable.

The report also found that the additional cost of a new facility could be accommodated without the need to increase VDC's mark-up since it was already recovering in excess of its actual costs. This conclusion was based on expected annual sales growth of six percent. While not quantified, the consultant report concluded that a new facility would also result in substantial productivity gains that would help reduce VDC's operating expenses.

While the report did not conduct a detailed assessment of this issue, it suggested that the VDC provided a high level of service at low cost, thus justifying the decision to proceed with construction of a new warehouse. In particular, the consultant found through a customer survey that agencies were satisfied with VDC's level of service. Although recommending construction of a new facility, it did state that VDC operations should not be "business as usual," but rather VDC needed to expand its services and explore operational changes to increase efficiency and cost-effectiveness.

***1998 Study by the College of William and Mary's Compete Center.*** The Department of Planning and Budget contracted with staff from the Compete Center of the College of William and Mary's Business School to conduct a study of Virginia's central warehouse system, with a particular emphasis on the study of distribution alternatives. They issued a report, titled *Analysis of Product Distribution System for Virginia Correctional Facilities and Mental Health/Mental Retardation and Substance Abuse Agencies,* on January 14, 1998.

As part of the review, the Center surveyed 69 DOC and DMHMRSAS facilities, obtaining responses from 34 facilities. The survey found that the respondent facilities have a significant amount of on-site storage space, much of which is used for goods purchased from the VDC. However, the study did not examine the feasibility or consequences of eliminating that warehouse space.

The study also conducted a market basket survey, comparing VDC's prices for a sample of food products to those of a private sector food distributor. Based on the volume of agency usage for those products, the study found that the vendor's prices were 17 percent higher than VDC's prices for the products quoted.

Three alternative models for the distribution of products supplied by VDC were identified:

- the elimination of the central warehouse by outsourcing to one or more food service companies,

- an extension that provides just-in-time delivery to the point-of-use [for example, a facility's kitchen rather than the warehouse], and

- a further extension that centralizes meal preparation by means of a cook-chill system.

The study did not quantify the costs and benefits of these alternatives. Rather, it cited the feasibility of these options and recommended a comprehensive study to assess the economic and service characteristics of each alternative.

***1999 Food Delivery Task Force Study.*** In response to a legislative study resolution, a task force was formed in 1999 to examine the food delivery system for prisons and mental health hospitals, which are the VDC's biggest customers. The task force membership included, among others, the directors of the affected agencies and members of the Commonwealth Competition Council. Staff support for the task force was provided by the Commonwealth Competition Council.

At various task force meetings the members heard presentations on the prime vendor programs of the military, New York, and Virginia Tech. The task force also heard presentations by two prime vendors and by DOC, DMHMRSAS, and VDC. In addition, the Commonwealth Competition Council staff conducted surveys of DOC and DMHMRSAS facilities and the correctional departments of the other 49 states, the results of which were included in its report. The focus of the task force was on food and food-related products. Other types of products provided by VDC (for example, housekeeping supplies) were not a subject of review.

The study cited significant indirect or overhead costs associated with the food delivery system stemming from multiple procurement systems, administrative/management overhead, food warehouse and storage space, staff associated with all warehouse operations, and food and food-related inventory in the warehouses and facilities. The report had four principle conclusions: that there was too much warehouse space at the facilities; the facilities maintain too much inventory; the VDC does not deliver to the facilities frequently enough; and facilities receive better service from private sector vendors.

The report recommended piloting for up to one year the use of a prime vendor for a group of prison and mental health facilities. It further recommended the use of "just-in-time" deliveries to reduce agencies' food inventories, regardless of whether the State chooses to use the VDC or a prime vendor for food distribution. ("Just-in-time" refers to synchronizing delivery with planned usage whereby a customer receives deliveries for products it plans to use in the next day or next few days, thus reducing the amount of inventory maintained at any one time.) As will be discussed in the next chapter, the budgets for DOC and DMHMRSAS facilities were subsequently reduced to effect a reduction in their food inventory levels.

## JLARC Review

In order to address the study mandate, JLARC staff developed several issue areas that focus on the adequacy and effectiveness of the State's process of obtaining food and housekeeping products, and VDC specifically. In particular, JLARC staff developed study issues that address:

- whether VDC operates in an efficient and cost-effective manner;
- whether VDC provides quality products and services to its customers;
- whether the State's commodity procurement and distribution system is efficient and effective;
- whether an alternative system would result in a more cost-effective and efficient system; and
- whether it is feasible to expand VDC's services to other entities.

JLARC staff undertook a variety of research activities to address the study mandate and to arrive at the study's findings and recommendations. Research activities included structured interviews, site visits to agency facilities, mail surveys of current VDC customers and non-VDC users of food and housekeeping products, a price comparison between VDC and prime vendors currently used by governmental agencies, and reviews of various VDC data to assess its performance and financial status. In addition, JLARC staff conducted telephone interviews with procurement officials in other states to determine their procurement systems. JLARC staff also reviewed various documents and web sites related to warehouse management and procurement. These research activities assisted JLARC staff in collecting and analyzing data about VDC's structure, products, and services and the procurement requirements of its customers.

***Structured Interviews.*** Structured interviews were conducted with representatives of DGS (primarily staff of the Division of Purchases and Supply and VDC), State agencies and localities (both customers and non-customers), federal agencies involved in distribution services, other states such as New York and South Carolina, and private sector food distributors.

***Document and Data Reviews.*** As part of the research process, JLARC staff reviewed several types of data. For example, performance indicators such as VDC's order fill rates and the length of time taken to fill orders were examined to measure VDC's performance. JLARC staff also reviewed financial data to assess VDC's financial condition. In addition, staff examined VDC's bid files and customer complaint files to determine if there was appropriate competition for bids and to identify VDC's actions regarding customer complaints. Finally, JLARC staff compared prices from prime vendors and the VDC for a sample of products used most by DOC and DMHMRSAS facilities.

***Site Visits.*** JLARC staff conducted numerous site visits to augment information collected through interviews and document reviews. Site visits were conducted at eight DOC facilities, six DMHMRSAS facilities, four universities, two local government agencies, and two private sector food distributors.

***Mail Surveys.*** Surveys were conducted of two groups: current VDC customers and non-VDC customers. JLARC mailed surveys to a sample of VDC customers that included both State and local government agencies. All DOC and DMHMRSAS facilities and all public four-year colleges and universities were included in this survey.

In addition, JLARC staff grouped VDC's remaining FY 2000 customers into five categories based on their organization type. State agencies were grouped into a "State agency" category, and local government agencies were grouped into "local schools," "local jails," "local government administrative offices," and "regional jails" categories. Once the organizations were grouped into the five categories, they were rank ordered according to their total VDC product expenditures, and the top 20 percent from each category were selected for the survey sample.

Since different staff within these agencies are responsible for purchasing food and janitorial supplies, JLARC staff developed two survey instruments (Appendix C). One instrument consisted of questions related to food products and the other instrument contained questions related to housekeeping products. JLARC staff mailed these surveys to 144 State and local government agencies; 135 agencies (94 percent) responded, including all DOC and DMHMRSAS facilities and all universities.

The non-VDC customer survey was sent to a sample of local government and nonprofit agencies to identify these organizations' procurement requirements and to determine the feasibility of expanding VDC's customer base (Appendix C). A total of 426 surveys were mailed to a sample of non-VDC customers; JLARC received 197 responses (46 percent).

## Report Organization

This report is organized into four chapters. This chapter presented an overview of the State's procurement of food and housekeeping products and VDC's role therein. The food and housekeeping product requirements of VDC's major customers are discussed in Chapter II. Chapter III examines the State's current food and housekeeping procurement system and assesses the feasibility of alternative systems. Finally, Chapter IV addresses VDC operational issues.

# II. State and Local Government Food and Housekeeping Product Requirements

While numerous State agencies purchase some food and housekeeping products, the primary purchasers of food and housekeeping products at the State level can be divided into three categories: correctional facilities, mental health and mental retardation facilities, and universities. The Department of Corrections (DOC) and Department of Mental Health, Mental Retardation and Substance Abuse Services (DMHMRSAS) operate institutions that provide meals daily to more than 38,000 persons who are either incarcerated or mentally disabled. Together, these two large State agencies accounted for 72 percent of the Virginia Distribution Center's (VDC) sales in FY 2000.

VDC's major institutional customers (DOC and DMHMRSAS) serve populations with requirements quite different from those of the other major category of purchaser – the 15 public four-year colleges and universities. Universities have food service operations that more nearly mirror retail food establishments. Meeting the nutritional needs of an incarcerated or mentally disabled population that is totally dependent upon the institution for basic sustenance differs substantially from meeting the needs of college students who have many food options. The types of food services provided by these State agencies with widely varying missions in turn drive their food product and inventory requirements.

As a first step in assessing the most appropriate food and housekeeping product procurement system for the State, it is important to fully understand the needs of the various State users of these products. This chapter overviews Virginia's governmental users of food and housekeeping products, noting differences between the populations they serve and the trends that impact their food service operations, inventory management, and purchasing requirements.

## CORRECTIONAL FACILITIES

The Department of Corrections is VDC's largest customer. In FY 2000, DOC purchases accounted for 60 percent of VDC's total sales. Through its statewide system of 40 institutions and 15 community programs, DOC provides meals to about 34,000 inmates and staff each day. Most of the food purchased by DOC comes from VDC (68 percent), with DOC's own agribusiness operation serving as the agency's second largest food supplier.

DOC is an institutional food service provider with needs that are unique in State government. The key distinction is DOC's overriding concern for ensuring a safe and secure operating environment. Court decisions and the legal structure within which the agency operates require that DOC meet the basic nutritional needs of each inmate.

The agency is also under budgetary pressure to keep food costs low, which it does in part through the extensive use of inmate labor in food preparation and service. DOC employs approximately 3,900 inmates in food service. Another 1,500 inmates work in agribusiness operations, which include a dairy operation, two meat plants, and a farmers' market for produce. Many inmates also carry out basic housekeeping operations, such as cleaning and polishing floors, laundry, and sanitizing kitchen equipment. Inmates earn between 25 and 45 cents per hour at these tasks.

Of the 40 DOC institutions, DOC provides food service operations at 37, with private sector food service operations at two (Sussex I, which is piloting privatized food service at a DOC-operated prison, and Lawrenceville, which is totally operated by the private sector). One prison, at Marion, receives meals prepared at nearby Southwestern Virginia Mental Health Institute, a DMHMRSAS facility. A range of special diets is also provided at many DOC locations, in compliance with religious, medical, and legal requirements.

DOC facilities spent $27.9 million on food and housekeeping products in FY 2000. Excluding food supplied from DOC's own agribusiness, on average, 95 percent of a facility's food is purchased from VDC and State contracts, based on the JLARC survey. On average, 94 percent of a correctional facility's housekeeping products are purchased from VDC.

## Facilities Emphasize Basic Food at Low Cost

The routine delivery of adequate meals to prison inmates is a major concern in the department. DOC takes a "no frills" approach to food that reflects an emphasis on security and minimizing costs.

***DOC's Master Menu Provides for Basic Meals.*** The master menu used by DOC is intended to ensure the nutritional adequacy of the meals while at the same time permitting economies through bulk ordering. The menu provides a 28-day cycle of basic meals, prepared by DOC's dietician to comply with the USDA recommended daily allowances (RDAs) and "food pyramid" guidelines. The menu is based in turn on a set of master recipes. These recipes are important in controlling the types and quantities of raw food purchased by the department.

At most major institutions, inmates typically move through a cafeteria line, receive their meal on a tray, and eat communally in a dining hall. Serving lines at most institutions have been modified so that the servers cannot see who they are serving, and the inmates moving through the line cannot see the individual food items, as at a traditional cafeteria. When facilities are "locked down" for security purposes, inmate movement is curtailed and DOC staff generally bring the meals to the housing units, where inmates eat in small groups or individually in their cells.

In keeping with the security concerns and "no frills" approach of the department, some food items are prepared to avoid or minimize the potential for abuse by inmates. The appearance of the food on the plate, DOC staff have noted, is sometimes less important than guarding against other consequences.

> *Peanut butter and jelly sandwiches, served for one meal on the 28-day master menu, are prepared using sugar-free jelly pre-mixed with the peanut butter. The result is a chocolate-colored goo. Sugar-free jelly reduces its potential for use in making homebrew, often a problem in a prison setting. By pre-mixing the jelly with the peanut butter, it cannot be separated out.*

* * *

> *Food service employees at several locations emphasized that all inmates in a facility must be served identical meals, so each facility must have enough supply of each menu item to accomplish this. "Everybody gets one chicken leg, and we can't allow some inmates to get two chicken legs or allow someone to get extra meat," JLARC staff were told at one facility. At a minimum this would lead to an increase in food-related grievances from inmates, which take significant staff time to address. DOC staff also noted that inmates could start a disturbance over the perceived slight of being denied as much chicken as someone else.*

*Lowered Food Costs.* In a FY 1995 audit, the Auditor of Public Accounts noted wide variations in food costs across DOC facilities. The audit identified a statewide average cost of $3.53 per day, with a range from $2.65 to $4.41. These costs included only the costs of food, and did not include the cost of labor or equipment used in preparing and serving the meals.

In response to the audit, the department took a number of steps which resulted in lower food costs. Currently, DOC budgets $2.50 per inmate per day across all facilities for the cost of food. Some facilities spend even less than the budgeted amount.

At the time of the FY 1995 audit, DOC had already standardized menus and recipes across all facilities. Additional steps were taken to improve compliance with these measures, as regional food operations managers as well as facility staff began focusing on facility food cost data. One example was the expansion of the DOC farmers' market program to supply an increased quantity of fresh produce at little or no cost to the receiving facilities. Another example is the adoption of a standardized order form for about 300 food items pre-approved for purchase, and that dovetails with DOC's standard menu. This approach reduces the time required to develop an order, and encourages facilities to primarily use these 300 items.

VDC staff have also worked with DOC staff to identify additional economies in individual items used in meals:

> *VDC staff worked with a DOC food study task force to achieve savings in food items. This group reviewed and changed the specifications for*

> *frozen chicken. Facilities had previously ordered a range of chicken products. By identifying the cheapest type of product, and consolidating all chicken purchases into the same product, DOC was able to reduce its costs. In addition, a change from an individually quick-frozen packaging to a frozen bulk pack for chicken leg quarters resulted in a 46 percent price reduction. At DOC's anticipated usage of 40,000 cases per year, this should result in annual savings of $450,000 for DOC.*

It should be noted that in this example, the savings experienced by DOC will also reduce sales and revenues to VDC.

***Privatized Food Service.*** DOC is piloting the use of a private sector food service provider at Sussex I Correctional Center. Although the department has not yet completed its evaluation of the initiative, the contract requires the vendor to provide meals in a cost-competitive fashion. Under the contract, this vendor is required to provide the same menu as all other DOC facilities, although the vendor may use its own suppliers and recipes. Both the Sussex I food service vendor and the operator of the fully privatized prison (Lawrenceville Correctional Center) purchase some products from the VDC.

## Security Is a Primary Concern

Security is the basic concern at all correctional facilities. This concern affects food service and warehouse and supply operations in several important ways. Often the efficiency of the food service and supply operation is less important to DOC than ensuring the security of the facility and its perimeter.

DOC routinely takes additional steps in the handling of inventory that non-secure facilities are not concerned with. These extra efforts include inspections and tight control of movement as goods enter and leave through the secure perimeter fence, as well as the agency's preference for keeping extra supplies on hand in the event of prison disturbances and weather emergencies.

Due to the extra steps required in handling inventory in a secure environment, DOC facilities try to minimize and carefully control the amount of food and supply shipments delivered through the secure perimeter fence into the facility. While this is less important at facilities with warehouses located outside the secure perimeter, most DOC employees interviewed for this report said they preferred to minimize shipments as a way of enhancing overall security. The JLARC survey of VDC customers confirmed that DOC facilities receive, on average, fewer deliveries per month than VDC's other types of customers.

The decision about how often and for what reason a prison's secure perimeter fence may be opened illustrates how the concern for security impacts delivery and storage of commodities. The food service operation at almost all DOC facilities is located inside the fence, which means that raw food must frequently be brought through the fence to the kitchen. Extra steps are taken to ensure security each time a gate in a secure perimeter is opened, as illustrated in the following cases.

> *Cold Springs Correctional Unit has about 110 inmates. The facility lacks a warehouse, so all deliveries must be made inside the perimeter to the kitchen storeroom. This requires a gun officer to be stationed outside the fence the entire time a truck is on-site to monitor inmate activity (inmates are used to unload the truck and store the items). The truck must be inspected when it enters and exits the fence. Before the truck is allowed to leave from inside the fence, it must be inspected and a count of inmates must be taken and "cleared" – all inmates must be accounted for. This whole process usually takes 2-2½ hours for each truck delivery. The VDC trucking contractor, Wilson Trucking, works with the facility, trying to time deliveries to routine counts, which avoids the need to conduct a special inmate count just to accommodate a trucker's delivery schedule.*

* * *

> *The warehouse at St. Brides Correctional Center, a major institution with approximately 600 inmates, is located inside the perimeter at the rear of the facility. Due to the awkward layout of the facility and to the concern for maintaining security, most delivery trucks come into the sally port (a gate in the double perimeter fence) and are unloaded there. DOC staff then haul the goods, using forklifts, about ¼ mile from the sally port to the warehouse and other storerooms. After the truck is unloaded, it must be searched by DOC staff and the inmate count must be "cleared" before the truck is permitted to leave. According to St. Brides staff, Wilson Trucking generally times deliveries to the regular 11 a.m. inmate count, thus avoiding the need for a special count just to permit the truck to leave. Trucks from other vendors are sometimes held for several hours in the sally port until the next regular inmate count, which are routinely conducted five times per 24-hour day.*

Of the 40 DOC major institutions and correctional units, 24 have warehouses located outside the perimeter fences, where vendors make deliveries. These operations are more efficient than the examples of Caroline and St. Brides, because deliveries can be made to the outside warehouse, and trucks can come and go with no need to open the perimeter fence. At these facilities, DOC employees generally transport goods from the warehouse through the sally port into the food service operation, thus assuring a higher level of security. Searches and inmate counts are still required, however.

## Sources of Food and Housekeeping Products

Due to the concern for security, staff at the DOC facilities prefer to minimize the number of vendors and deliveries they deal with. The JLARC survey found that, of all VDC's current customers, DOC facilities deal with the fewest food vendors (six, on average, including VDC), and the fewest deliveries per month (23, on average). Excluding internal purchases of food from DOC's own agribusiness operation, DOC facilities purchase on average about 90 percent of their food supplies from VDC.

The other major source of food products for DOC is the agency's own agribusiness program. About 24 percent of all DOC food is provided by agribusiness, which includes produce, meat and fish, and dairy products. This is likely to increase as the agribusiness produce operation only recently expanded to serve all DOC facilities.

DOC also purchases some food through contracts and spot purchases from local suppliers. These purchases typically include bread products, dry cereals, luncheon meats, and produce. DOC also uses some food donated by the U.S. Department of Agriculture.

For housekeeping products, DOC facilities deal with even fewer vendors, usually buying from only one or two vendors, with most facilities receiving housekeeping supplies once a month. For most facilities, their only vendor for housekeeping products is VDC, which, on average, provides 94 percent of the housekeeping purchases by correctional facilities.

## Inventory Levels

The 1999 Task Force Report on the Food Delivery System for the Prisons and Mental Health Hospitals in Virginia noted that, as of June 30, 1999, DOC facilities had on average 71 days' worth of inventory on hand. In response, the General Assembly removed $2.5 million from DOC's budget in FY 2001, and inserted language in the Appropriation Act directing the agency to reduce its inventory of food on hand to a 30-day supply. An additional $1 million was removed from the agency in FY 2002, with language directing the further reduction to a 14-day supply. The JLARC survey of VDC customers, conducted in August 2000, found that 53 percent of the DOC facilities reported having on hand a 15 to 30 day supply, with the remaining 47 percent of facilities reporting more than a 31-day supply on hand.

During the course of this study, DOC facilities were reducing inventory levels. DOC staff also identified concerns about the ability of facilities to operate effectively with a 14 day supply of food on hand. One concern about reducing inventory was identified by the Sussex I private food service vendor:

> *"Just-in-time deliveries work well as long as the trucks get here," according to the food service manager. He noted that supply trucks had been unable to get to the facility for several days in September 1999*

> *due to Hurricane Floyd and the associated flooding, and again during and after the ice storm in January 2000. Based on this experience, the manager switched from maintaining a 7 to 10 day supply to a 30 day supply for the subsequent hurricane and winter seasons, from August, 2000 through February, 2001.*

At all eight correctional facilities visited during this study, DOC employees stated that a 14-day inventory would hamper the facilities' ability to handle an emergency such as a sudden influx of inmates evacuated from other locations, or to handle a shipping delay such as can occur due to bad weather. The superintendent at one facility noted the remoteness of his facility and the lack of alternative vendors (other than VDC) in his area. This superintendent stated:

> You just can't run out of food in a prison environment. One riot will cost more in damages than the Department will save by cutting inventories.

DOC staff interviewed for this study generally agreed that having more than 30 days' worth of inventory is unnecessary, but argued that they should be allowed to keep up to 30 days' worth of items on hand. Their key concerns are to avoid running out of major food items, and to be able to cope with a weather-related emergency.

Although weather emergencies do not occur every year or in every part of the State, DOC's ability to respond to extremes in weather hinges in part on having adequate supplies on hand at the facilities. Several DOC staff mentioned winter road closures which interrupt scheduled deliveries as one reason to keep a month's worth of supplies. One example was the response to Hurricane Floyd:

> *In September 1999, Hurricane Floyd and subsequent flooding led DOC to evacuate approximately 3,400 inmates from facilities in the storm's path, including St. Brides, Indian Creek, Deerfield, Southampton, and Haynesville Correctional Centers. Inmates from these locations were primarily transported to and housed at Greensville, Buckingham, and Dillwyn Correctional Centers. On less than 12 hours notice, the receiving facilities were expected to add as many as 800 inmates to their populations for several days, pulling food, bedding and other supplies from their warehouses to meet the sudden need. The inmates were returned to their original institutions after about three days.*

DOC personnel have also noted that new warehouses have been constructed at a number of facilities that lacked outside warehouses, and that these new warehouses were designed to hold the department's preferred 30-day supply of goods, including bedding, clothing, and other supplies in addition to food. Through the early 1990s DOC sought funding for the construction of warehouses outside the secure perimeters at all existing major institutions that did not at the time have external warehouses. Key reasons for this initiative were to increase the self-sufficiency of each institution, and to reduce the possibility of escapes by inmates hiding inside trucks that had to come inside the perimeter to make deliveries or for related purposes. The General Assembly provided the funding, and the new outside warehouses were built.

Further, all new major institutions constructed since the 1980s have been built with warehouses outside the perimeter. By placing the warehouses outside the perimeter, the number of trucks required to come inside the fence was greatly reduced.

## MENTAL HEALTH AND MENTAL RETARDATION FACILITIES

As with DOC facilities, DMHMRSAS facilities operate institutional food service programs. However, instead of security the focus is on patient care and nutrition. DMHMRSAS has 15 facilities located at 12 sites throughout the State. Food service operations at 12 facilities provide the meals for all 15 facilities. The food service operations provide meals to approximately 4,000 residents as well as cafeteria service to the facilities' employees.

While the number of patients at these facilities has declined significantly over the past 20 years, the patients currently served tend to have more profound disabilities. As a result, the food service operation must use a wide range of food preparation methods to meet the unique needs of each patient. New cooking and food management systems instituted over the past several years have helped the facilities better meet these varied needs.

DMHMRSAS facilities spent approximately $8.7 million on food and housekeeping products in FY 2000. On average, three-fourths of a facility's food is purchased from VDC and State contracts. As with DOC facilities, DMHMRSAS facilities purchase the bulk of their housekeeping products from VDC.

### Current Food Service Operations

DMHMRSAS facilities provide food in an institutional setting, while still providing for some individualized meals based on a patient's physical and dietary needs. The facilities use a 21-day menu cycle for planning and preparing meals. The menus may vary by facility; however, they are all based on a standard set of recipes (the Armed Forces and "Food for Fifty" recipe systems). This approach allows for some consistency while also allowing for regional variations in food preferences. For example, facilities in the northern Virginia area tend to serve more "ethnic" meals than the facilities in southwest Virginia due to the different levels of ethnic diversity between facilities.

While there is a standard menu, the varied physical and mental capabilities of the patients necessitate numerous modifications across the resident population, particularly at the mental retardation facilities. For example, some patients need a low sodium diet or they need their food chopped or pureed so that they can swallow it.

Each patient's special dietary needs are identified by the medical and dietician staff and incorporated into meal planning. In preparation for each meal, the facility's food management computer system prepares an individual meal ticket for every patient. The meal listed on the ticket is based on the standard menu and addresses the patient's particular dietary needs.

At most facilities, meals are served in patients' rooms. However, some facilities also have cafeteria-style dining for some patients.

### New Food Service Technology Has Been Implemented to Improve Patient Care and Food Service Management

According to a DMHMRSAS report to the 1999 Task Force study on the food delivery system for prisons and mental health hospitals, "the prime motivator for DMHMRSAS is the managed nutritional intake of its patients." To this end, DMHMRSAS has undertaken two major initiatives in the past several years that have resulted in significant changes to its food service operations – implementation of "cook-chill" technology and a computerized food management system. According to DMHMRSAS staff, both the cook-chill technology and the new computer system have reduced food service costs and improved food quality and subsequent nutritional intake for patients.

The most significant change has been a $19 million renovation of facilities' kitchens to accommodate the cook-chill approach to food preparation. Before this renovation, facilities cooked all the food for a meal in the hours preceding that meal, in the same manner as DOC facilities currently operate. However, with cook-chill, food is prepared in large batches days in advance and "blast-chilled" until shortly before the food will be served to patients. The appropriate food for each patient is then placed on trays and put in "re-thermalization" units. The filled units are brought to the patient wards, where they automatically heat the food to the proper temperature for immediate service to the patients. This process ensures that the food is served at the temperature prescribed by federal guidelines of the Joint Commission for the Accreditation of Hospital Organizations and Health Care Financing Administration.

DMHMRSAS staff reported that this system has improved the quality of its food preparation and has resulted in increased patient satisfaction. This system has also resulted in a substantial decrease in the number of kitchen staff needed for food preparation, thus reducing food service operating expenses.

The second major initiative has been the ongoing implementation of a computer software system for food management. This system serves three significant roles. First, it tracks patients' dietary needs. Second, the system can analyze the nutritional content of meals to ensure proper nutrition of patients, as federally required. Third, the system tracks different facets of food product usage. For example, it calculates the quantity of each ingredient needed for each recipe, based on the facility's patient count. It also incorporates each patient's dietary requirements (for example, pureed food, low sodium food) into the calculations of the quantity of food needed for each meal. Further, it tracks food purchases and costs, allowing for calculations of per meal food costs.

According to DMHMRSAS staff, it was difficult to keep track of patients' different dietary needs before the food management system was implemented. As a result, food service staff tended to overproduce each meal type to avoid running out of any food type. This resulted in a lot of wasted food. The new system has minimized this problem.

## Sources of Food and Housekeeping Products

Most DMHMRSAS facilities reported using several vendors to meet their food product needs. On average, DMHMRSAS facilities rely on 11 vendors each month for their food and food-related product needs. Facilities make extensive use of State contracts for various food products, particularly for dairy and bread products and nutritional supplements. On average, 20 percent of a facility's food-related expenditures are made to State-contracted suppliers. An average of 55 percent of its food expenditures are accounted for through purchases from VDC. Purchases from local food distributors account for most of the remaining food expenditures.

As with DOC facilities, DMHMRSAS facilities do not generally need "branded" or even grade A foods, since most of the food goes through extensive processing before final delivery to the patients. (The difference between grade A and grade B foods generally relates to the appearance and texture of the food. There is no difference in its nutritional value.) However, as a result of the new cook-chill technology, changes have occurred in the types of food products purchased by facilities. In particular, facilities purchase more pre-cooked products that are simply reheated in the "re-thermalization" units just prior to serving. According to one nutritional services director:

> Before cook-chill, we couldn't afford to buy pre-cooked bacon. Now, we can't afford not to.

Since pre-cooked foods are not typically bought by DOC facilities, there is a much lower demand for these products across State agencies. Because of this lower purchasing volume, VDC does not tend to stock these items. Instead, facilities usually buy these types of food products from local distributors on a spot purchase basis.

As with DOC facilities, DMHMRSAS facilities reported using only a few housekeeping supply vendors. Their primary source for these products is VDC, accounting for an average of 85 percent of housekeeping product expenditures. They typically use only one other vendor for such products, purchasing items that are not available from VDC.

**Inventory Management**

Based on the JLARC survey of DMHMRSAS facilities, most facilities maintain between a 15 to 45 day average food and housekeeping product inventory. Consistent with the inventory level, most facilities currently receive deliveries from VDC either bi-weekly or monthly.

The 2000 Appropriation Act reduced total funding across facilities by approximately $200,000 each of the next two fiscal years to effect a one-time food inventory reduction. (Inventory levels of housekeeping products were not affected by this action.) At the time of the Appropriation Act passage, the department was already developing plans to institute a pilot program of weekly food deliveries from VDC to one of its facilities – Western State Hospital.

> *Prior to the pilot program, Western State Hospital received monthly food deliveries from VDC. The deliveries were housed at the hospital's central warehouse. The food service staff would submit a request to the warehouse for the products they needed, and the warehouse staff would transport the products to the kitchen on a weekly or more frequent basis. With weekly deliveries from VDC, the deliveries are now brought directly to the kitchen for storage. The nutritional services director reported that the new process of weekly deliveries from the VDC were "wonderful. . . couldn't ask for better."*
>
> *As a result of this new arrangement, food service staff may stop using the central warehouse for any food-related storage in the future. However, before completely eliminating the use of the central warehouse for food storage, a planned project to upgrade the kitchen's cold storage capacity must be completed. Once the upgrade is completed, the facility will likely shut down the freezers in the warehouse, thus saving some utility costs. In addition, facility staff reported that they may be able to save a portion of a warehouse worker full-time equivalent position. They are also looking at options for how to use the remaining warehouse space.*

Department staff reported that weekly deliveries will minimize the amount of money tied up in inventory and allow for more efficient inventory management through by-passing a facility's central warehouse. The department now plans to phase in the weekly deliveries at the other facilities over the next several months. (Central office staff reported that facilities' kitchens generally have the storage capacity for one week's worth of food.)

As described in the Western State Hospital case example, in addition to the one-time saving from an inventory reduction, there are two primary ways in which a switch to weekly deliveries would save money: (1) savings in utility costs; and (2) savings in warehouse personnel costs. (Significant savings would also occur if the facility could completely close down the warehouse and sell or rent out the building;

however, this is unlikely since the buildings are located within the facility campus and all currently house other goods besides food.) Obtaining savings from this approach is important because there are also additional transportation costs associated with weekly deliveries.

*VDC tracked the transportation costs for Western State Hospital deliveries during the five months that they have had weekly deliveries. During this time period VDC incurred an additional $3,000 in transportation costs. This added cost is primarily due to having to transport less-than-truckload quantities to Western State Hospital. As would be expected, Western State's weekly deliveries were much smaller than its monthly deliveries, and VDC was not always able to fill the trucks with other customers' deliveries.*

However, based on the physical layouts of all the DMHMRSAS facilities, it is unlikely that utility and personnel savings could accrue to all the facilities. While there are four facilities that have separate warehouse buildings, the remaining eight facilities have warehouses and/or storage rooms that are adjacent to their kitchens or within the same building. For example:

*At Eastern State Hospital, the facility's warehouse is adjacent to the kitchen. In fact, the same loading docks serve both areas. When the kitchen staff need additional food supplies, those products are simply wheeled over from the warehouse area on a cart. Further, the kitchen's freezers are in disrepair and have limited capacity. (There are no plans for capital upgrades to the freezers at this time.) In contrast, the warehouse's freezer space is in good condition. Recently, one of the kitchen freezers broke down and all contents of the freezer had to be moved to the warehouse's freezer. Under these conditions it does not appear to be prudent to shut down the warehouse freezer, thus precluding any utility cost savings from weekly deliveries. Facility staff also questioned whether there would be any personnel savings. Without these savings, the weekly deliveries would result in a net increase in cost to that facility.*

Hence, a "one size fits all" arrangement may not be appropriate given the different sizes and physical layouts of the various facilities. The department needs to analyze on a facility-by-facility basis the costs of carrying different inventory levels compared to the transportation costs associated with different delivery frequencies. Weekly deliveries should only be instituted at facilities that can demonstrate a clear cost savings or other compelling need for frequent deliveries, such as limited storage space. At the same time, VDC should seek ways to minimize the added transportation cost to the facilities that warrant weekly deliveries. VDC's role in this issue will be discussed in more detail in Chapter IV.

***Recommendation (1).*** **The Department of Mental Health, Mental Retardation and Substance Abuse Services should evaluate on a facility-by-facility**

**basis the carrying costs of different inventory levels compared to the transportation costs associated with different delivery frequencies. The department should require each facility to identify whether cost savings will accrue from the use of weekly deliveries from the VDC. If cost savings or other efficiencies will not occur, then the department should reconsider instituting weekly deliveries at the facility. The department should consult with the Virginia Distribution Center in identifying transportation costs.**

## HIGHER EDUCATION

College and university food service operations are “auxiliary programs” supported through the sale of student meal plans and food products. They have evolved from cafeteria-style, single entrée dining facilities into large retail-type operations serving a variety of upscale food products. Currently, Radford University, Christopher Newport University (CNU) and Virginia Tech are the only three public universities that operate their own dining facilities. The other 12 public four-year colleges and universities privatized their food service programs by contracting with managed food service providers that handle all aspects of their food service programs, including food procurement.

In contrast, a majority of the States’ public colleges and universities manage their own housekeeping programs and purchase most of their janitorial supplies from VDC. However, two public institutions of higher education privatized their housekeeping operations (Longwood College, Virginia State University) and two other institutions purchase their housekeeping products from a prime vendor (Virginia Tech, University of Virginia).

### Trends in University Food Service Operations

Enrollment in many public colleges remained relatively small through much of the early 20th century, with institutions typically operating formal dining programs that served students single-entrée meals. Due to increased student enrollment after World War II and other factors, schools implemented cafeteria-style dining programs that provided students additional choices.

Many institutions restructured their food service operations again in the 1980s and 1990s in response to students’ changing food tastes and demographic changes in the American population. As Americans became older, had more income, worked longer hours, and became more ethnically diverse, they also had less time to prepare meals at home. As a result, more Americans chose to dine out more often, and restaurants responded by serving a variety of adult- and ethnic-oriented foods.

University staff reported that, by the 1980s and 1990s, college students who had grown up in this environment expected universities to serve a diverse selection of restaurant-style food products. In fact, as reported by Radford University, Virginia Tech, and CNU staff, students today expect to be served a wide variety of upscale food such as pasta, salads, deli-style sandwiches, vegetarian meals, frozen yogurt, and ethnic cuisine. They also want dining facilities to operate on extended hours and offer take-out and delivery services.

As a result, many colleges and universities shifted food service operations away from cafeteria-style dining to a more retail-oriented concept that offered students a broad selection of diverse food products. To accomplish this change, many public higher education institutions contracted with food service provider companies such as ARAMARK or Sodexho-Marriott to operate their dining facilities. Other institutions continued to operate their own dining facilities but diversified their food service operations by purchasing franchise agreements with branded concept companies such as Burger King, Taco Bell, Subway, and Chick-fil-A, as well as offering a variety of food options in their dining facilities.

## University Food Services Are Complex, Retail-Oriented Operations

University food service programs now offer students both traditional cafeteria style dining facilities and upscale food courts with a wide variety of meal options. For example:

> *Radford University operates a cafeteria that offers students a variety of food choices such as low-fat and vegetarian entrees, a pasta bar, deli bar, and salad bar. In addition, it diversified its food service program by entering into licensing agreements with restaurants such as Chick-fil-A, Stonewall's Pizza, Mean Jean's Burgers, Summit Subs, Terri Yaki's, and Freshens.*

* * *

> *Virginia Tech redesigned its food service operation in the early 1990s. It hired nine chefs to supervise food preparation and converted one of its traditional style dining facilities into a food court that offers students options such as sandwiches, baked potatoes, vegetarian burgers, ethnic cuisine, yogurt smoothies, and various soups, salads, and pastries. Virginia Tech opened a second food court in 1999 with seven dining venues that have separate kitchen islands allowing students to observe their food as it is prepared. This food court features one kitchen equipped with wood ovens for preparing Italian dishes such as pizza and stromboli, and six other kitchens that offer options such as seafood, grilled chicken salads, ice cream, soups, chili, steaks, hamburgers, hot dogs, quesadillas, and specialty sandwiches.*

Christopher Newport University, Radford University, and Virginia Tech have unique food product requirements because they operate both traditional dining facilities and food courts that serve a wide selection of food items. For example, Radford University purchased almost 3,000 different food and food-related items during FY 2000. This contrasts sharply with DOC's institutional style food service program that uses about 300 different products. Food product consistency is also an important issue for these universities – as the following example reported by CNU attests:

> *Students consume large quantities of french fries and ketchup and they expect the brand of these products to be consistent. However, CNU was not able to serve its students a consistent brand of french fry and ketchup because it obtained these products from VDC (which typically obtains the lowest priced product that meets its specifications, regardless of brand name.) As a result, students voiced their displeasure with these food products through editorial articles that were published in the student newspaper.*

In addition to needing greater selection and consistent quality, these universities have limited storage space and require more frequent food deliveries directly to their dining facilities. They do not have either the staff or the storage space to accommodate infrequent deliveries to central locations at each campus. They also have limited staff available to move products from the storage facilities to the dining facilities.

## Supply Sources for Virginia's Public Colleges and Universities

Of the State's 15 public four-year colleges and universities, 12 contract with private food service providers which in turn arrange for supplies. These contractual relationships are not included in this review.

The three public universities that provide their own food service operations have implemented two different approaches to obtain their food and housekeeping products. Radford University and CNU purchase a majority of their food supplies from numerous wholesale distributors using a combination of short-term contracts and spot purchases. These two universities purchase only a small amount of their food supplies from VDC because it does not stock the extensive variety of brand name food products they require. More specifically, CNU purchased 11 percent of its food and Radford University purchased 14 percent of its food from VDC during FY 2000. In addition, since both universities purchased franchise licenses to restaurants such as Chick-fil-A and Mean Jean's Burgers, they are contractually required to purchase food supplies from specific vendors to guarantee that the franchises serve meals prepared in accordance with their respective national chain's menu.

Virginia Tech uses a different food procurement approach than CNU and Radford University. It contracted with a prime vendor in 1995 to provide its dining facilities with frequent deliveries of a wide range of food products. Virginia Tech reported purchasing about 73 percent of its food from its prime vendor and using an average of nine other vendors a month to obtain its remaining food supplies.

As with food, the State's colleges and universities use two distinct approaches to obtain janitorial products. A majority manage their own housekeeping operations. (Longwood College and Virginia State University privatized their housekeeping operations and do not directly buy any housekeeping products.)

Most institutions purchase a significant amount of their janitorial supplies from VDC. In fact, the State's public four-year colleges and universities reported purchasing an average of 77 percent of their housekeeping supplies from VDC. In contrast, Virginia Tech and UVA maintain housekeeping product contracts with a prime vendor to provide campus-wide "just-in-time" delivery service. The products are provided directly to the end user rather than first stored in a university warehouse. They purchase an average of 91 percent of their housekeeping products from the prime vendor.

## OTHER GOVERNMENTAL USERS OF FOOD AND HOUSEKEEPING PRODUCTS

State and local government agencies purchase their food and housekeeping products using a variety of procurement approaches. Regardless of the overall procurement approach used, the State and local government agencies in the survey reported that their product requirements are not adequately met by any one supplier. Their service needs appear to have a major impact on the types of supplies they use.

### Other State Agencies' Purchasing Practices for Food and Housekeeping Products

The major State government agencies that purchase food and housekeeping products include correctional facilities, mental health and mental retardation facilities, and public four-year colleges and universities; however, other State agencies also purchase these products to varying degrees. JLARC staff surveyed 16 State agencies that use the VDC to determine their food and housekeeping procurement requirements.

Of the 14 responses to the survey, six agencies reported having food service operations. (An additional State agency only purchases food products for educational purposes.) These agencies were classified as either "institutional" or "retail-oriented," depending on factors such as the type of clientele they serve and the source of their funding.

The State agencies that operate institutional dining facilities, such as the Department of Juvenile Justice (DJJ) which operates eight juvenile correctional centers, cater to resident populations. Similar to DOC and DMHMRSAS facilities, these agencies use relatively few vendors to supply their food product needs and receive few deliveries per month (Table 1). In addition, the institutional agencies purchase a majority of their food products from VDC.

**Table 1**

**State Agency Food and Housekeeping Procurement Sources**

| Organization Type | Average Vendors per Month | Average Deliveries per Month | Average FY 2000 Expenditures | Average % of Food from State Sources: VDC | Average % of Food from State Sources: DPS State Contracts | Average % of Food from Private Sources: Wholesale Distributors | Average % of Food from Private Sources: Retail Stores |
|---|---|---|---|---|---|---|---|
| ***Food*** | | | | | | | |
| Institutional Agencies (N=4) | 7 | 27 | $498,157 | 64 | 18 | 18 | .25 |
| Retail-Oriented Agencies (N=2) | 25 | 185 | $369,500 | 0 | 0 | 96.5 | 3.5 |
| ***Housekeeping*** | | | | | | | |
| All State Agencies (N=17)* | 2 | 6 | $94,091 | 86 | 1 | 9 | 3 |

Note: "Institutional Agencies" include DJJ, State Police, and the VA Schools for the Deaf and Blind in Hampton and Staunton. DJJ contracted with a private food service provider in 1997 to manage the food service programs at four of its eight juvenile correctional centers. However, DJJ operates the dining facilities in its remaining four correctional centers. "Retail-Oriented Agencies" include the Department of Conservation and Recreation and the Virginia Museum of Fine Arts which operate restaurants and snack bars at their facilities.

*Food and Housekeeping surveys were mailed to 15 State agencies and 14 agencies responded (93 percent). JLARC received 14 food survey responses and 17 housekeeping survey responses (one agency had three departments that responded to the housekeeping survey).

Source: JLARC staff survey of a sample of current VDC customers, summer 2000.

The State agencies that operate retail-oriented dining facilities, such as the Virginia Museum of Fine Arts, cater to a non-resident clientele. These retail-oriented operations typically get frequent deliveries from a large number of vendors, and obtain a significant amount of their food supplies from wholesale distributors since VDC does not stock the variety of products or provide the delivery service they require. For example:

> *The Virginia Museum of Fine Arts operates two dining establishments: the "Arts Cafe and Cappuccino Bar" that serves light refreshments to museum patrons and the "Members Dining Room" that provides museum members with restaurant style dining services. Museum patrons pay for these services. The Museum of Fine Arts requires access to a variety of high quality brand name food products not commonly used by institutional food service operations. The museum also has limited storage space and requires frequent food product deliveries.*

* * *

> *The Department of Conservation and Recreation operates three restaurants and 12 snack bars that are located at various State parks. These facilities operate on a seasonal basis and need access to a variety of brand name food products that are typically in smaller pack sizes than what VDC provides. In addition, due to limited storage space, these facilities require weekly product deliveries.*

In contrast to the agencies' food procurement practices, there was little variation across agencies in housekeeping product procurement practices. State agencies that responded to the survey purchase housekeeping supplies on average from two vendors per month and receive an average of five product deliveries per month. These State agencies purchase a significant amount of their housekeeping supplies from VDC.

## Local Government Agencies' Food and Housekeeping Procurement Requirements

Localities are not mandated by the State to purchase food and housekeeping products from VDC. However, since they are political subdivisions of the Commonwealth, they are allowed to purchase products from VDC. JLARC staff surveyed 190 local government agencies to determine their food and housekeeping procurement practices; 128 local agencies responded (a response rate of 67 percent). Based on this data, it appears that the local institutional agencies – chiefly local school systems and local and regional jails — purchase most of the food and housekeeping supplies that are consumed at the local government level. Local school systems and jails obtain these products from a variety of sources.

Based on the survey results, it appears that local school systems typically require frequent deliveries to each school – a service that is normally provided by prime vendors but not provided by the VDC. Further, they typically purchase grade A and some "branded" foods. As with the universities, some local school system representatives reported that their students expect consistency in the foods offered. One school nutritional director stated, "Kids like to have the same product brand over time for some food so we put those brands on our bid requests." Based on a cursory comparison of the food products purchased by some local schools to that stocked by VDC, it appears that VDC does not offer many of the products used by the schools (particularly in the preferred container sizes).

As a result of such service and product requirements, few school systems purchase food products from VDC, and instead rely on prime vendors or other local distributors. Approximately 78 percent of the local school systems surveyed indicated that they purchase their food supplies from prime vendors. The prime vendor contracts that many local school systems enter into with food distributors consist of annual contracts with established product prices rather than the cost-plus fee contracts that organizations such as Virginia Tech have with their primary food distributors. They typically have separate contracts to obtain dairy and bread products.

The survey also indicated that local and regional jails purchase food products from a variety of sources. For example, about 20 percent of the 42 jails that responded to the JLARC surveys contract with prime vendors to obtain a majority of their food products. In addition, 45 percent of the jails purchase at least some of their food products from VDC. However, a majority use spot purchases or multiple term contracts to purchase their food products from wholesale distributors.

The local school systems and jails indicated on the survey that they purchase their housekeeping products from several sources. Jails that use the VDC purchase a majority of their housekeeping products from VDC. Local schools purchase most of their housekeeping supplies from either prime vendors or other wholesale distributors. In fact, about 87 percent of the local school systems purchase housekeeping supplies from these sources. In addition, local school systems and jails also purchase housekeeping products via DPS State contracts and from retail stores.

## CONCLUSION

This chapter has described in detail the food service and housekeeping operations currently used by agencies. Understanding the similarities and differences in the food and housekeeping operations of the agencies is important in understanding why they may need different approaches for procurement. Figure 2 summarizes the key facets of the approaches for the three primary types of State users of food and housekeeping products.

The table shows some important similarities between the DOC and DMHMRSAS facilities and Virginia Tech. First, they all buy the majority of their food and housekeeping products from one source – DOC and DMHMRSAS facilities predominantly use the VDC while Virginia Tech predominantly uses a prime vendor. Second, they all rely on relatively few vendors for all their food product needs, despite the fact that Virginia Tech uses a much larger number of products than DOC and DMHMRSAS facilities. This same pattern holds true for housekeeping product procurement. It is also clear that regardless of whether State agencies use the VDC or a prime vendor, there will always be a need to use additional food distributors for some products, particularly produce and dairy products.

There are also some key differences between the groups. For example, while Virginia Tech receives numerous deliveries per month, DOC and DMHMRSAS facilities receive far fewer deliveries. As mentioned previously, DOC's security focus results in a need to minimize the number of deliveries. DOC facility staff reported that the use of warehouses, most of which are located outside of the secure perimeter, supports their security goal and will be used regardless of the overall procurement approach used. This approach contrasts with prime vendor users, such as Virginia Tech, which have incurred cost savings primarily due to closing their warehouses.

**Figure 2**

## Selected State Agency Survey Results: Service Characteristics

| | FOOD PRODUCTS | | | | HOUSEKEEPING PRODUCTS | | | |
|---|---|---|---|---|---|---|---|---|
| Sources of Products Purchased: | DOC | DMHMRSAS | Non-Prime Vendor Universities (Radford & Christopher Newport) | Prime Vendor University (Virginia Tech) | DOC | DMHMRSAS | Non-Prime Vendor Universities | Prime Vendor Universities (Virginia Tech & UVA) |
| % from VDC | 68% | 55% | 12.5% | 0.2% | 94% | 87% | 75% | 2% |
| % from DGS Contracts | 4.5% | 19% | 5% | 0% | 2% | 2% | 11% | 0% |
| % from Prime Vendors | 0% | 0% | 0% | 73.1% | 0% | 0% | 0% | 91% |
| % from Distributors | 3% | 25% | 80% | 26.4% | 2% | 10% | 12% | 7% |
| % from Retail Stores | 0.5% | 1% | 2.5% | 0.3% | 0.5% | 2% | 2% | 0% |
| % from Other Sources | 24%* | 0% | 0% | 0% | 0.3% | 0% | 1% | 0% |
| Average Expenditures | $580,280 | $613,360 | $1,714,500 | $7,239,777 | $102,829 | $110,383 | $84,745 | $170,526 |
| Average Number of Deliveries Monthly | 23 | 45.5 | 210 | 104 | 3 | 4 | 6 | 10 |
| Average Number of Vendors Monthly | 6 | 11 | 27.5 | 10 | 1 | 3 | 3 | 3 |

*Represents purchases from DOC Agribusiness Operation.

Source: JLARC staff survey of VDC customers, summer 2000.

This table also points to the differences between most State users of the VDC compared to Radford University and CNU. Radford University and CNU attempt to use the State-sanctioned system of buying from the VDC while having service and product quality needs more similar to Virginia Tech. The result is that these agencies must rely on a much larger number of vendors to meet their food product needs and must deal with a large number of deliveries each month.

The next chapter describes and evaluates the alternative procurement approaches available to the State.

# III. Assessment of the State's Current Food and Housekeeping Product Procurement System

Chapter II described the substantial differences across the various governmental users of food and housekeeping products. In particular, there are significant distinctions between the service requirements of institutional food service operations and the more retail-oriented operations. Given the range of needs, it does not appear that a "one size fits all" approach is appropriate for Virginia's government agencies.

This chapter discusses the factors that must be considered in assessing food and housekeeping procurement approaches, and applies those factors to the circumstances faced by the State's major food and housekeeping product users. Based on this assessment, it appears that Virginia Distribution Center (VDC) adequately addresses the service needs of the State's institutional users and does so in a cost-effective manner at this time. Therefore, it appears reasonable to continue operation of the VDC. However, as discussed in more detail in Chapter IV, VDC faces some operational and financial challenges that it needs to address to remain viable. Further, an alternative approach – use of a prime vendor – appears to better meet the needs of the retail-oriented food services such as those found at State universities, and should be allowed for these agencies.

## FOOD AND HOUSEKEEPING PRODUCT PROCUREMENT SYSTEMS

Before examining the various product procurement systems, it is important to clearly identify the conditions under which different State agencies operate and the factors upon which various procurement systems should be judged. This section identifies the factors that define the needs of State agencies. It also discusses the various procurement options that could be used to meet those agency needs.

### Framework for Assessing Food and Housekeeping Product Procurement Approaches

In assessing various product procurement approaches, it is important to first determine the product and service requirements of the user agencies. Then a determination can be made as to which approach can meet those requirements in the least costly manner. There are numerous service and cost factors that must be considered in tandem to reach sound conclusions.

***Product and Service Factors.*** The needs of the user agencies must be examined across several dimensions. First, it is important to identify the types of products needed by an agency, including the range and quality level of those products. For example, universities and local schools typically use grade A fruits and vegetables in their food operations. DOC and DMHMRSAS facilities typically use grade B for many of these products.

In addition to product considerations, the various service needs of each agency must be examined. A key service need pertains to how frequently an agency requires products to be delivered, that is, daily, weekly, or monthly. The frequency of deliveries is often tied to the storage capacity of an agency. For example, some DMHMRSAS facilities have reported wanting weekly deliveries from the VDC because their kitchens are capable of storing about one week's worth of goods there. Another service factor is the number of locations to which an agency requires products to be delivered. At DOC and DMHMRSAS facilities, there is typically only one drop-off location. For universities, there are typically several drop-off sites, corresponding to the various dining establishments located throughout the campus.

***Cost Factors.*** There are four main cost elements associated with a product procurement system. The most obvious element is the cost of the products to be purchased, with the key question being, "From what source can the agency get the products at the least cost?" However, there are other significant costs that must be considered in determining the most appropriate procurement system for a given agency. They are inventory carrying costs, the cost of the procurement staff's time, and oversight of procurement sources (in cases in which term contracts are used).

Inventory carrying costs include the cost of the inventory itself as well as the warehouse costs incurred to store the inventory. Warehouse costs would include personnel, building maintenance and utilities, and any other overhead associated with storing the goods. (There also could be carrying costs associated with interest payments and insurance; however, these types of costs are not generally incurred by State agencies). Also, there are opportunity costs from not being able to use the funds that are tied up in inventory. In the case of VDC customers, the opportunity costs may be minimized by the fact that the State customers are simply transferring funds to another State agency (the VDC), and thus, any interest accrued to the State would not be foregone since the money remains in the State coffers.

The importance of considering inventory carrying costs in examining the cost-effectiveness of various procurement systems can be seen in the following case example:

> *Prior to 1996, the University of Virginia purchased its housekeeping supplies in bulk and stored the products in a central warehouse. Warehouse staff would then deliver the products on a weekly basis to the various departments across the campus that used the supplies. In 1996, U.Va. compared the cost of maintaining its central warehouse to the cost of contracting with a prime vendor for next day delivery of housekeeping supplies directly to the end users.*

> *Based on a comparison of product prices obtained by the warehouse versus the prime vendor, staff found that the prime vendor's prices were about five percent higher (approximately $25,000 per year) based on the university's purchasing volume. However, they found that they could obtain significant savings from eliminating use of the warehouse. Specifically, they identified a one-time savings of $64,300 from the liquidation of on-hand inventory and the sale of the delivery truck. In addition, they calculated annual personnel, building maintenance, and utility savings of $147,970. After accounting for the added cost of the products from the prime vendor, they would receive a net annual savings of almost $123,000. In addition, they would obtain the more frequent deliveries which they reported wanting. While there would be some additional cost for oversight of the contract that was not considered, this analysis clearly identified a significant cost savings to using a prime vendor. Further, the university could then use the warehouse space for other needed purposes.*

Such an assessment would be expected to have a different outcome for an agency, such as a DOC facility, for which the warehouse is an important component of the overall security operation and therefore, cannot be eliminated.

Procurement and administrative staff costs entail the staff time involved in obtaining all the food and housekeeping products needed by the agency. Generally, the larger the number of vendors used, the more staff effort would be involved in developing bids and contracts and in tracking orders and payments.

Finally, the costs involved in contract administration need to be considered. On the one hand, there would likely be staff savings from reducing the number of different contracts used. However, agencies typically must spend added time monitoring larger contracts, especially on auditing prices.

One additional cost area needs to be considered when contemplating a change to an alternative procurement approach; that is, the conversion, or transition, costs that would result from a switch in approaches. VDC is currently constructing a new warehouse at a cost of approximately $12.5 million. While the State could potentially recoup the construction cost of the warehouse through its sale, there would be significant unrecoverable costs such as the architectural costs for design of the new warehouse. In addition, the VDC has recently spent more than $500,000 on a new computer system and bar code scanning equipment, the cost of which would not likely be recoverable. However, the State could also save money by foregoing the purchase of some new equipment needed for the new warehouse. Finally, if the State were to choose to develop a statewide prime vendor contract, there might also be personnel costs associated with development and oversight of the contract. These transition costs need to be considered in weighing the advantages and disadvantages of the various procurement approaches.

## Four Options Available to the State

Based on a review of procurement approaches used across Virginia and other states, it appears that there are four broad options available for the procurement of food and housekeeping products. These options are:

- *Current approach*, in which VDC is the single largest source of food and housekeeping products, supplemented with State contracts and local purchases;

- *Prime vendor approach*, in which the majority of goods are purchased from one vendor, supplemented with other State contracts and local purchases. (This approach could be set up as one statewide contract, one contract per geographic area, or one per agency);

- *State contract approach*, in which the majority of goods are purchased through a series of several State contracts; and

- *"Free for all" approach*, in which each agency is responsible for procuring its own food and housekeeping goods.

In examining the options in relation to the critical cost and service factors described previously, it appears that two options stand out as the most viable for the State. The first option is the current approach to using the VDC, supplemented with State contracts and local purchases. The second option is the use of a prime vendor, also supplemented with State contracts and/or local purchases. Both of these options are currently in use to varying degrees by State and local government agencies, and will be discussed in more detail in the next section.

On the other hand, the other two options do not appear appropriate. In the "free-for-all" approach, the State would not derive any cost reductions from volume purchasing across agencies, as use of the VDC currently permits. This approach would require each agency to substantially build up its procurement function, a practice that would not be efficient on a statewide basis. Problems and inefficiencies with a "free-for-all" approach used by Virginia prior to 1960 led to the VDC's creation. It does not appear that moving back to that approach would be advantageous to the State.

Likewise, there appear to be inherent inefficiencies with using a series of State contracts for agencies' food and procurement needs. This approach would increase the number of vendors used by various State agencies, increase the number of different deliveries, and increase the procurement effort required of each agency. Therefore, this approach also does not appear warranted.

## ASSESSMENT OF AGENCY PROCUREMENT APPROACHES

Corresponding to the framework described in the previous section, there were three primary questions that guided the JLARC assessment of food and housekeeping product procurement approaches:

- Which approach provides the level of product quality needed?
- Which approach provides the level of service needed?
- Which approach is the least costly, given the set of quality and service requirements?

JLARC staff focused the assessment on two procurement options: use of the VDC and use of a prime vendor. Each approach appears to have its place in the overall State procurement system for food and housekeeping products. In particular, the VDC appears better suited to the institutional users whose service requirements dictate or allow for less frequent deliveries and whose range of products is minimal. Prime vendors appear better suited to the retail-oriented users whose service requirements necessitate frequent deliveries of a wide range of products.

### Use of the VDC

JLARC staff found that for most VDC customers, the VDC provides an appropriate level of service at the lowest cost. Figure 3 displays the JLARC staff assessment of the extent to which the VDC meets the needs of its primary customers.

***VDC Generally Meets the Product and Service Needs of Most Agencies.*** Since VDC's establishment 40 years ago, its role has been to purchase high volume, standardized items for resale to State agencies and localities. Although it carries a much smaller number of products than a typical private sector prime vendor, VDC's strength is its ability to provide at low cost the basic food and housekeeping products primarily used by institutions. Since DOC is the largest State purchaser of food and accounts for almost two-thirds of VDC's sales, DOC is clearly a driving force in determining the products offered by the VDC. When DOC facilities can use a particular product, it helps ensure enough purchasing volume for VDC to obtain the product at low cost. Not surprisingly then, DOC facilities buy a higher percentage of their food and housekeeping products from the VDC than any other type of agency. Also, most DOC facilities want relatively less frequent deliveries, which generally is the most cost-effective for the VDC to provide.

While also generally meeting the needs of DMHMRSAS facilities, it is not quite as good a fit as with DOC facilities. For example, although still providing a majority of DMHMRSAS facilities' food and housekeeping product needs, there are a

**Figure 3**

## Assessment of VDC's Ability to Meet Agencies' Food and Housekeeping Product Needs

**KEY:** ✔ Meets Criterion Well ✓ Meets Criterion with Some Reservations ✘ Does Not Meet Criterion ? Unknown

**FOOD PRODUCTS**

| | DOC | DMHMRSAS | Universities |
|---|---|---|---|
| Provides Products Needed | ✔ | ✓ | ✘ |
| Provides Level of Service Needed | ✔ | ✔ | ✘ |
| Provides Lowest Total Cost | ✔ | ✔ | ✘ * |

**HOUSEKEEPING PRODUCTS**

| | DOC | DMHMRSAS | Universities |
|---|---|---|---|
| Provides Products Needed | ✔ | ✔ | ✔ |
| Provides Level of Service Needed | ✔ | ✔ | ✔ |
| Provides Lowest Total Cost | ✔ | ✔ | ? |

* VDC product prices are typically lower than those of prime vendors. Universities have been able to reduce their total cost of operations through the use of prime vendors, primarily due to warehouse personnel reductions achievable with that approach.

Source: JLARC staff assessment.

number of food products that DMHMRSAS facilities must obtain through local sources. This reduces the efficiency of the system to some extent, but may result in more versatility:

> *One DMHMRSAS nutritional services director reported that the current system "works quite well." He said he wants the best products available at the lowest cost and the current system provides this. He said that "no one vendor has the corner on all the products" he uses. He said that there are certain brands of products that he can get from one vendor but not another. With the current approach, he said he has "maximum versatility and cost control." He said that this would not necessarily occur with the use of one prime vendor.*

While generally reporting satisfaction with the VDC, DMHMRSAS facilities did identify a number of additional products that they would like the VDC to carry in stock. VDC is reportedly examining the feasibility of adding items to its product line once it moves to the new warehouse.

VDC has also recently been working with DMHMRSAS facilities to effect a schedule of weekly deliveries to the facilities. This reflects a willingness on VDC's part to accommodate the needs of its DMHMRSAS customers.

Based on data collected during JLARC's review, VDC does not adequately meet the food procurement needs of CNU, Radford University, and Virginia Tech. As previously stated, the universities operate retail-oriented food service programs that require access to a variety of brand name products within specific time frames. VDC does not stock the range of food products needed by these universities, nor does it provide the delivery frequency needed.

Despite universities' concerns with VDC's food products, most universities that purchase their own housekeeping products do so from the VDC. They generally reported satisfaction with the product and service levels provided by the VDC, as the following quotes demonstrate:

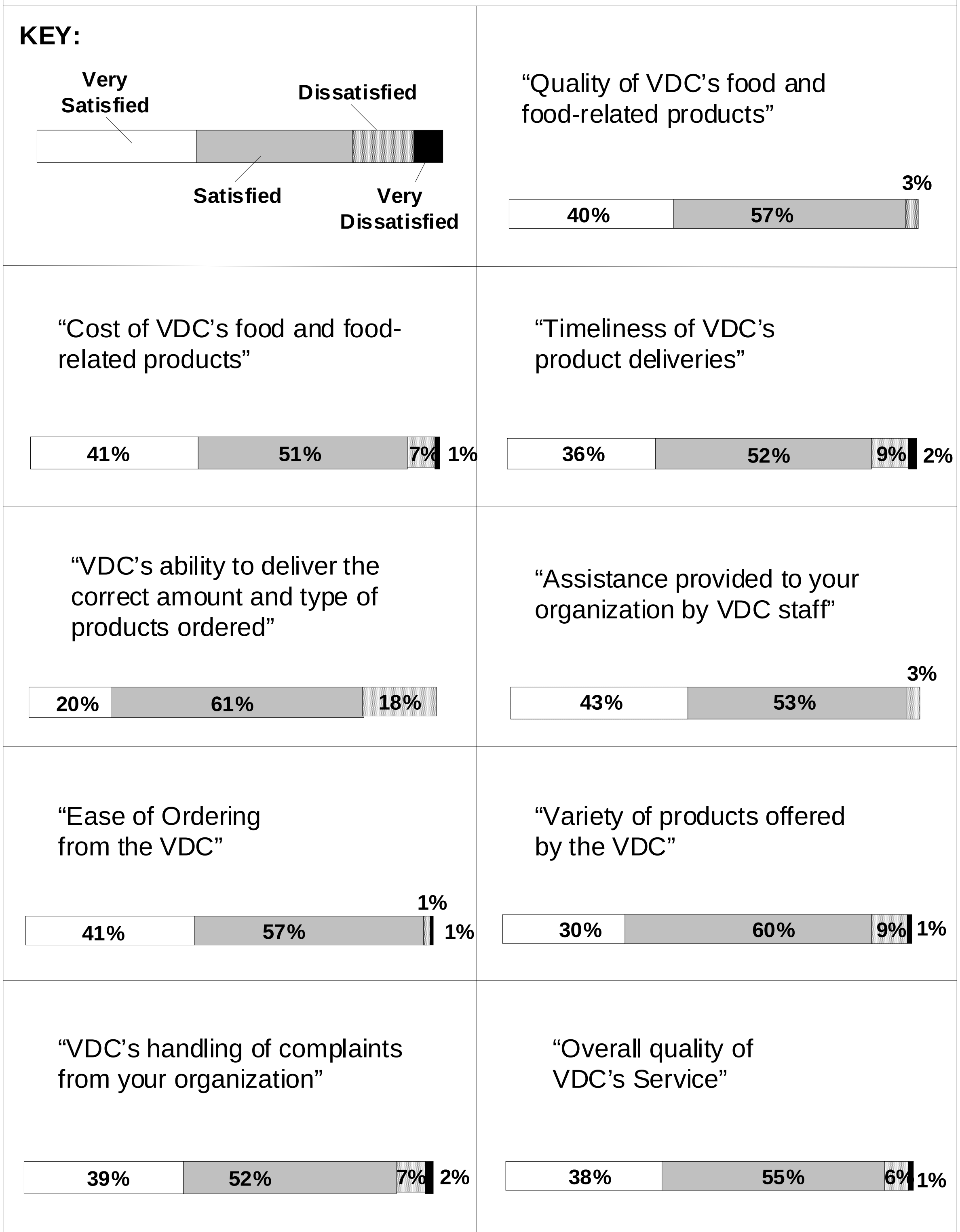
> Many products supplied by the VDC are of excellent quality and price.... I feel that for the quantity of products we get, the VDC is a very economical and efficient way to order them.
>
> * * *
>
> Overall I am very pleased with the VDC. As stated earlier there are a few occasions where I have had to request waivers, and a few prices that I felt were out of line, however overall it is a very important part of my ordering cycle. As a member of the VDC Housekeeping Advisory Committee I have a chance to voice my concerns on these and other matters with great success.

The extent to which the VDC meets most agencies' product and service needs is borne out by the agencies' survey responses to questions about VDC's performance. VDC's current customers were asked to rate the VDC on a series of factors addressing VDC's products and services. Figures 4 and 5 display the agencies' responses concerning, respectively, VDC's food products and housekeeping products. The survey responses clearly reflect a high level of satisfaction with the VDC. (Additional survey results can be found in Appendix C.) However, there were also some operational concerns raised about the VDC. These issues will be discussed in Chapter IV.

***Data Suggest that Current VDC Approach Is Cost-Effective for Institutional Customers.*** Various data collected and examined during the course of this review suggests that the VDC sells its products to State and local agencies at a lower cost than private sector vendors. The VDC annually conducts a market basket survey

**Figure 4**

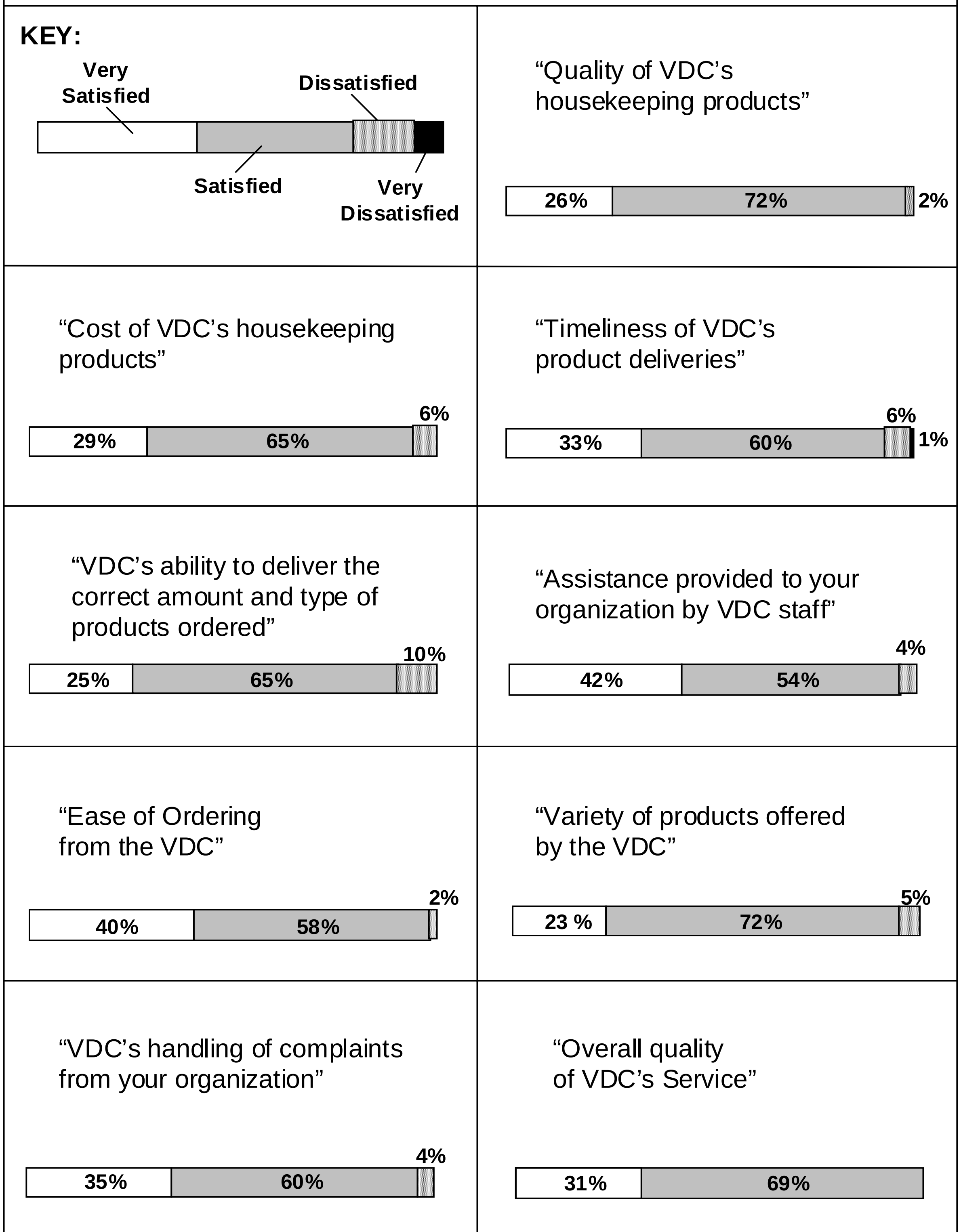
## Survey Results Concerning the Quality of VDC's Food Products and Services




Source: JLARC staff survey of users, summer 2000. N = 88 for all responses except "overall quality," N = 87.

**Figure 5**

## Survey Results Concerning the Quality of VDC's Housekeeping Products




Source: JLARC staff survey of users, summer 2000. JLARC received 137 responses from 122 State and local government agencies (some agencies have decentralized purchasing authority, allowing departments to purchase products directly from VDC).

in which it requests that a subset of its customers obtain price quotes from local vendors for a sample of food and housekeeping products (typically 15 to 16 products of each type). The March 2000 survey found that VDC's prices for food were 41 percent lower than the average local distributor, while its housekeeping products were 40 percent lower.

In the directions for the survey, VDC asks the agencies to "ask for prices on quantities you would normally order from Virginia Distribution Center, with the grade (if applicable), description and size of the items as they appear" on the list provided. In conducting site visits with a number of the participants to the market basket survey, JLARC staff found that the agencies were appropriately seeking price quotes from wholesale distributors rather than retail sources, as some previous reports have suggested. This comparison is valid to the extent that an agency would purchase these items via a spot purchase rather than a term contract if they were not sold by the VDC. (Typically term contracts provide better pricing, especially for products with relatively stable prices.)

This scenario does, in fact, occur when VDC is out-of-stock on a particular item and an agency must then buy the product locally. One facility provided JLARC staff with some examples of products it had to purchase from local food distributors instead of the VDC (Table 2). As noted by this facility's nutritional services director, "It is easy to see the value that the central warehouse provides for us." This comparison also demonstrates one reason why it is important for the VDC to minimize stock outages.

In the 1998 College of William and Mary Compete Center study, the project team conducted a market basket survey comparing VDC's prices to a wholesale distributor for a selection of food products used most often by DOC and DMHMRSAS facilities. The project team obtained price quotes from a private vendor for 25 products. The team found that, based on agencies' monthly usage of those items, VDC's

**Table 2**

**Price Comparison of Products Purchased from Local Food Distributors Compared to VDC**

| Product | Local Food Distributor's Price | VDC's Price | Percentage Difference |
|---|---|---|---|
| Tomato Paste (grade A) | $24.95 per case | $18.49 per case | 35% |
| Quick Cook Grits | $12.03 per case | $10.89 per case | 10% |
| Cream of Wheat Cereal | $42.85 per case | $11.02 per case | 289% |
| Corn Muffin Mix | $36.56 per case | $19.23 per case | 90% |
| Frankfurters | $14.72 per case | $11.02 per case | 34% |
| Diced Pears (grade B) | $26.75 per case | $17.27 per case | 55% |

Source: Invoices from a DMHMRSAS facility (based on actual prices paid to different food distributors) and VDC's product catalog.

prices were 17 percent lower than the private vendor's quoted prices. The study stated that, "In summary, we have found that VDC provides acceptable levels of service at reasonably competitive prices, even when compared to other wholesale sources."

To further explore the issue of product costs, JLARC staff also conducted a market basket survey, comparing VDC's prices to various wholesale distributors that are serving as prime vendors. JLARC staff obtained the prices that a sample of local, State, and federal government agencies received from their prime vendors for a sample of VDC products used most often by typical DOC and DMHMRSAS facilities. The comparison covered the prices charged during a two-week period in November. The necessity of ensuring the products were of comparable quality and package size limited the product comparison to a relatively small number of products. (See Appendix D for a more detailed discussion of the JLARC market basket survey.) However, based on the products for which valid comparisons were possible, DOC and DMHMRSAS facilities would have paid from 13 percent to 41 percent more (based on annual volume of purchases for one DOC facility and one DMHMRSAS facility) to the prime vendors compared to the VDC. It is important to point out that the prime vendors' prices were based on more frequent deliveries than the VDC typically provides. As will be discussed in the next section, there must be a need for the prime vendor's added service level and/or there needs to be an offsetting cost reduction (typically obtained by closing an agency warehouse) in order for the prime vendor approach to be cost-effective.

## Use of Prime Vendor

There are three variations on the prime vendor approach that the State could adopt. The first is to have one prime vendor responsible for supplying all State agencies. The second is to divide the State into geographic regions and have one prime vendor contract for each region. The third is to develop prime vendor contracts for individual agencies or small groups of agencies on a case-by-case basis. As described in Chapter II, the third option is currently in limited use across the State, primarily at the local government level. Figure 6 contains JLARC staff's assessment of the ability of prime vendors to meet the needs of the primary State agency users of food and housekeeping products.

***Prime Vendors Are Capable of Providing Frequent Delivery of a Wide Range of Products.*** Based on a review of numerous documents from prime vendors and discussions with prime vendors and their governmental users, it appears that there are two primary strengths to the prime vendor approach. First, prime vendors offer a wide assortment of products, including "branded" products and those of various grades. In other words, they provide a lot of choice for their customers. This allows customers to buy the majority of their products from one source, saving on procurement effort. Prime vendors also typically provide frequent deliveries (for example, several times a week), which is critical for customers with limited storage capacity. These are factors that are either not wanted or needed by the DOC and DMHMRSAS facilities. In fact, DOC recently undertook an effort to reduce the number of food products that its facilities are allowed to purchase.

**Figure 6**

**Assessment of Prime Vendors' Ability to Meet Agencies' Food and Housekeeping Product Needs**

**KEY:** ✔ Meets Criterion Well ✓ Meets Criterion with Some Reservations ✘ Does Not Meet Criterion ? Unknown

| **FOOD PRODUCTS** | **DOC** | **DMHMRSAS** | **Universities** |
|---|---|---|---|
| Provides Products Needed | ✔ | ✔ | ✔ |
| Provides Level of Service Needed | ✔ | ✔ | ✔ |
| Provides Lowest Total Cost | ✘ | ✘ | ✔ |

| **HOUSEKEEPING PRODUCTS** | **DOC** | **DMHMRSAS** | **Universities** |
|---|---|---|---|
| Provides Products Needed | ✔ | ✔ | ✔ |
| Provides Level of Service Needed | ✔ | ✔ | ✔ |
| Provides Lowest Total Cost | ✘ | ✘ | ? |

Source: JLARC staff assessment.

However, the strengths of the prime vendor approach directly address the product and service needs of the State's universities. As previously described, universities use a large number of food and food-related products in their food service operations. An important aspect of product assortment is that the prime vendor can provide the same brands over time. Consistency of products was cited by the universities as important to their operation. As one university staff person said:

> Often times the [VDC's] food quality is inconsistent from delivery to delivery, or the product quality is not suitable for paying customers vs. "captive" state charges, i.e. prisoners or hospitalized persons. [A product example is] pizza cheese.

Virginia Tech reported being very satisfied with the wide selection of products offered by its prime vendor for food.

The universities also reported needing relatively frequent deliveries for their food service operations. CNU staff reported that food storage space was very limited at that university. They have no central warehouse, and instead require weekly or more frequent deliveries directly to each of the dining facilities. Another university reported that:

> We need daily deliveries to each [dining facility] including the option to have shorted or poor quality items redelivered the same day. Each [dining facility] cannot accept infrequent deliveries due to storage space. Infrequent deliveries would necessitate a return to the warehouse/redelivery system, which was costly and inefficient.

The JLARC survey results showed that prime vendor users, primarily local school systems, are satisfied with their prime vendors. The survey of local governments and non-profit organizations asked for the organization's "overall level of satisfaction with the prime vendor." All of the agencies using prime vendors responded that they were either "very satisfied" or "satisfied."

***Prime Vendors Are Capable of Providing Savings in Certain Circumstances.*** There are two primary ways in which the use of a prime vendor could result in savings. The evidence suggests that the primary financial benefit comes from the ability to eliminate an agency's warehouse and accompanying personnel. Several sources have cited this factor as the main reason for savings. For example, a representative of a prime vendor stated in a letter to the 1999 Task Force that:

> After review of the Virginia Distribution Center Catalog, it appears that the Commonwealth is obtaining competitive pricing, but further savings might be possible if all requirements were consolidated. As with the federal government, I suspect the most significant savings would come from eliminating all the warehousing functions, along with the labor involved in ordering, receiving, shipping and managing the various inventories throughout your current food service distribution system.

The benefits derived by the military from using a prime vendor were summed up by the chief of the food service business unit for the military, who said in a letter to staff of the 1999 Task Force:

> If anything, our unit prices moved somewhat higher as we went into a prime vendor program partly because these commercial distributors tend to buy short and because branded product became a much larger part of our program. What you will see in the studies [of military prime vendor programs] is a consistent savings by our agency and our customers in personnel, overhead, buildings, equipment, transportation, and support services. You will also note onetime savings as we and our customers ate down our respective inventories and we stopped having to invest monies in maintaining those inven-

> tories. Finally, you will note incidences of cost avoidance; many customers were able to eliminate plans for the construction and refurbishing of warehouses and related infrastructure. The collective assessment of all of us at all levels in the Department of Defense is that the net result was a significant savings.

This general view was supported by the cost analysis conducted by Virginia Tech concerning use of a prime vendor for its food product needs.

> *Under the terms of Virginia Tech's contract, the prime vendor is responsible for warehousing the university's food products, which allows Virginia Tech to use its central warehousing space for other purposes. In addition, the prime vendor provides Virginia Tech's dining facilities with a consistent variety of brand name food products that it delivers directly to each facility on a daily basis. As a result, Virginia Tech's staff are no longer responsible for receiving food products at the central warehouse and then redelivering them to the dining facilities. Moreover, the prime vendor contract allowed Virginia Tech to streamline its food procurement system because its staff are no longer responsible for the daily procurement of a majority of the university's food. Finally, Virginia Tech reported a savings of $300,000 by eliminating salary and operational expenses associated with its central food storage warehouse.*

It does not appear that similar financial benefits would accrue to Virginia's DOC and DMHMRSAS facilities if they switched to a prime vendor approach. First, DMHMRSAS facilities are phasing out the use of warehouses for food storage under the VDC procurement approach, and therefore there would be no additional savings to be derived. Further, DOC facilities reported a need for their warehouses for security purposes; therefore, it does not appear feasible to close those warehouses at this time. Finally, Virginia has already taken steps to reduce the inventory levels of DOC and DMHMRSAS facilities, a source of one-time savings.

As the case examples note, some financial benefit could result from use of the prime vendor if it enables an agency to reduce its procurement effort (for example, the number of vendors it routinely uses and the number of contracts maintained). In the case of DOC and DMHMRSAS facilities, the JLARC review found that these agencies generally do not use a large number of vendors and the process is fairly streamlined. VDC is able to supply the majority of their food and housekeeping product needs. Also, the State would have to develop multiple prime vendor contracts to cover all of the different types of products provided by the VDC. While this study has focused on VDC's food and housekeeping products, the VDC also sells linens, personal care products, paints, and other miscellaneous goods. It is unlikely that any private sector companies are set up to sell all of these types of products. Hence, use of prime vendor contracts for the full range of goods that VDC provides to DOC and DMHMRSAS facilities may actually increase their procurement effort.

Without the large-scale elimination of warehouse space and/or a reduction of procurement effort, there appears to be little opportunity for additional cost savings associated with changing to a statewide prime vendor procurement approach for these agencies. These cost savings would be critical since the cost data suggests that institutional agencies would likely pay more for the products purchased through a prime vendor.

In contrast to the DOC and DMHMRSAS operations, the food procurement approaches for Radford University and CNU appear inefficient. These universities rely on more than twice as many vendors as the other State groups, purchasing their food products from an average of 28 vendors per month and receiving an average of 210 food deliveries per month. They rely extensively on term contracts of relatively short duration as well as spot purchasing, which require a substantial amount of procurement effort.

It appears that these universities should be able to reduce the number of vendors that they use as well as the number of deliveries they receive each month by obtaining a majority of their food products from a prime vendor. Virginia Tech staff reported that use of a prime vendor resulted in a reduction of deliveries, which subsequently reduced the number of invoices and invoice-associated documents that they had to process each month. It currently receives about 104 deliveries per month from an average of ten vendors – substantially less than the other universities (even though Virginia Tech has a larger food service operation). Therefore, while the conditions do not appear conducive for DOC and DMHMRSAS facilities to use a prime vendor approach, it appears that Radford University and CNU could benefit from such an approach.

## CONCLUSION

Based on an assessment that took into account the varied needs of each type of State user, it appears that the current VDC system works well for the majority of State customers – the institutional users. However, it does not work well for the more retail-oriented users, specifically universities.

Given that different approaches work best for different customers, it does not appear that the State would benefit from selecting one food and housekeeping procurement approach for the entire State. The analysis shows that inefficiencies are created by imposing the VDC approach on agencies with retail operations, such as universities. Likewise, it would also not be appropriate to impose the approach that works best for universities – prime vendor – on the institutional users since to do so would likely increase their operational costs.

While there may be some cost advantage to consolidating the "buying power" of DOC, DMHMRSAS, the universities, and others to obtain better prices, the substantially different service needs of the different customers suggests that certain customers, such as the universities, may be helped at the expense of other customers. In other words, some customers may end up paying for services that they do not want or need. Therefore, it appears that the universities should develop, either individually or jointly, prime vendor contracts that would enable them to buy the majority of their food from one source.

The two universities that do not currently have prime vendor contracts for their food purchases – Radford and CNU – have expressed interest in developing such contracts. However, one factor hindering them from pursuing this approach is the Department of General Service's mandatory source rule – that agencies must buy their food and housekeeping products from the VDC. It does not appear that having the VDC as a mandatory source has negatively impacted the quality of its products and services; however, it has served to limit agencies' ability to tailor their procurement approach to their unique needs.

One of the reasons behind having a mandatory source rule is that it helps ensure a level of sales volume sufficient to obtain reduced prices. In the past this also has had the effect of enabling the VDC to generate sales without needing a "sales force" typical with private sector vendors. Ultimately, the purpose to having a mandatory source is to help agencies obtain the goods they need at the lowest cost. However, in the case of the universities the mandatory source rule has become more of a hindrance than a help, and may have resulted in higher indirect costs being incurred by the universities.

To alleviate this problem, the Department of General Services should amend its mandatory source rule to allow agencies with retail-oriented (non-general funded) operations, such as at universities, to obtain their food products in a manner that allows for the least overall cost to the agency, given the agency's service and product needs. In addition, universities should analyze their total housekeeping procurement costs, including the cost of any warehouses used for storage, to identify the procurement approach that best meets their needs at the lowest total cost.

***Recommendation (2).*** **The Department of General Services should amend its mandatory source rule to allow agencies with retail-oriented operations to obtain their food from the source that provides the service level needed at the lowest total cost.**

***Recommendation (3).*** **Universities that currently use warehouses to store housekeeping products should conduct an assessment to determine whether it would be feasible and cost-effective to eliminate their warehouses and develop prime vendor contracts that support "desktop" delivery of products on a frequent basis. Such an assessment should include determining whether the warehouse can be used for other needed purposes, and whether the savings associated with closing the warehouse would offset any cost increases in product prices from use of a prime vendor. The Department of**

**General Services should exempt from the mandatory source rule any university that identifies a savings through the use of an alternative procurement approach, such as prime vending.**

# IV. Virginia Distribution Center Operations

In addition to examining the overall State system for procuring food and housekeeping products, JLARC staff also examined in detail the operations of the Virginia Distribution Center (VDC). This examination included a review of VDC's processes for product procurement, inventory management, and distribution. JLARC staff reviewed bid files, quality control lab results, customer complaint files, various VDC reports, written procedures, and financial data, and interviewed numerous VDC staff. In addition, material on "best practices" in warehouse management was reviewed.

Based on an examination of the data, JLARC staff found that VDC maintains an adequate operation. VDC appears to follow, or is in the process of instituting, a number of warehouse management best practices. In addition, most of VDC's customers are satisfied with its performance.

However, there are still a number of areas that VDC needs to address to increase its efficiency and improve customer service. VDC also needs to address its declining financial performance. With improvements in these areas, VDC will be better positioned to meet the needs of its current customers as well as to expand its operation.

## VDC'S OPERATIONAL PERFORMANCE

VDC's practices were generally found to follow sound warehouse management policies. In fact, the VDC has instituted a number of "best practices" in this field. However, there are other practices that VDC needs to address to improve its operations and customer service.

### VDC Generally Follows Sound Warehouse Practices

During the course of this review, JLARC staff reviewed numerous materials concerning warehouse management practices. A number of warehousing standards and "best practices" were identified through this effort. JLARC staff then compared these practices to VDC's operations to evaluate whether the VDC appears to follow appropriate warehousing practices and engage in any industry best practices. This review found that the VDC currently uses or is in the planning phase to implement a number of model practices for distribution centers.

***VDC Has Included "Best Practices" in Planning the New Warehouse.*** VDC staff reported being hampered in following good inventory management practices due to the poor condition of the current warehouse. For example, the warehouse is not laid out very efficiently for order picking and packing activities. Also, the floors cannot withstand the weight associated with using a racking system. Instead of using racks, cases of products are simply piled on top of each other. Products are routinely rotated to use old supplies first, and the lack of racks makes rotation more difficult. In addition, the warehouse's freezer capacity is inadequate. As a result, VDC has to rent additional freezer storage space from a local cold storage company. VDC also has to use the same docks for incoming and outgoing deliveries, which causes scheduling problems.

In part as a result of these problems, VDC is in the process of constructing a new warehouse. VDC staff have incorporated modern distribution center practices in planning for the new warehouse. For example, all of the products will be on racks except for products in the cross-docking area. The cross-docking area will be used for very fast-moving supplies. (Cross-docking is a process whereby fast-moving supplies are never put away. Essentially, these products just move from an incoming dock to an outgoing dock). Also, VDC will not need to rent cold storage space since the new facility will have sufficient freezer capacity. In addition, the new warehouse will use separate docks for incoming and outgoing deliveries.

Therefore, it appears that the new warehouse will allow for some efficiencies to be implemented by VDC. In addition, the rental expenses for the freezer space (approximately $100,000 in FY 2000) will be eliminated.

***VDC Has Installed New Automation to Increase Efficiency.*** Despite the current warehouse's limitations, newly installed automation has reportedly improved inventory management efficiency. Specifically, VDC initiated a new automated warehouse management system (WMS) and a radio-frequency bar-code scanning system in October 1999.

WMS is an Oracle-based relational database system designed to integrate a distribution center's receiving, inventory management, and customer order processing functions. For example, VDC has reorder points for all of its products that are tracked through WMS. (Reorder points are the inventory levels at which additional stock should be ordered to ensure that inventory is not depleted before new stock arrives). Further, VDC uses radio-frequency bar-code scanners to enter products received from suppliers into the WMS system. VDC staff reported that, once they move to the new warehouse, they will also use the scanners to identify the location of and order in which to pick products for shipment. Although not implemented yet, the system will also be able to track performance data, such as the length of time it took to pick an order.

In addition, VDC has developed a web page for customers to obtain up-to-date information about product offerings and prices. Customers may also submit their orders on-line, consistent with current best practices in the industry. Several agency representatives interviewed during this study reported satisfaction with the new on-line ordering system.

***VDC Has Begun Use of Cycle Counting of Inventory.*** Until this year, VDC conducted inventory counts of 100 percent of its products twice a year – once in December and once in June. In order to conduct these counts, the VDC had to close the warehouse for a few days each time, interrupting the orderly flow of supplies and causing hardships or inconveniences for some agencies. VDC has now begun conducting cycle counts, in which all products are counted at least once in a year, but the counting occurs in small groups of products throughout the year. This process eliminates the need to close the warehouse. It is considered a "best practice" in private sector distribution centers and should be well received by agencies.

***VDC Periodically Seeks Input from Its Customers.*** A key facet of any successful business is good customer relations. JLARC staff found that VDC seeks feedback from its customers on a periodic basis. VDC obtains customer input through two advisory committees – the Food Service Management Council and Housekeeping Products Advisory Committee. The committees assist VDC staff in identifying new products that customers want the VDC to sell, developing product specifications, and identifying problems with the quality of VDC's products and services. The advisory committees are composed of representatives from State agencies and localities that routinely use the VDC. The committees meet at least quarterly.

Based on agency comments from the JLARC surveys and site visits, these committees are well received. As noted by two agencies:

> The product advisory committee meetings held by VDC allow agencies the opportunity to share information and keep VDC informed of product needs.

* * *

> VDC is on top of the [product] specifications. The advisory committees help write the specifications. VDC really listens to whom they serve.

JLARC staff reviewed the minutes from the past year's advisory committee meetings, as well as customer complaint files, and found that the VDC routinely addresses the complaints raised during the meetings.

In addition to input through the advisory committees, each year the VDC asks a sample of its customers to participate in a market basket survey to assess the competitiveness of VDC's prices compared to private sector sources. In conjunction with this survey, VDC asks the participants to the survey for input concerning its performance. Review of the last several years' worth of surveys showed a relatively high level of satisfaction with the VDC.

As discussed in Chapter III, most of VDC's customers also reported satisfaction with VDC's products and services on the JLARC survey. Comments from the JLARC survey included the following:

> Very satisfied with VDC. VDC works to supply our institution with emergency deliveries, takes care of problems promptly and courte-

> ously, and is always available to help with questions or problems. VDC has qualified and helpful personnel.
>
> * * *
>
> VDC is just, plain and simply, less expensive to purchase from. I would suspect that further cost benefit could be derived if warehouse expanded its product lines.
>
> * * *
>
> It is not currently mandatory for our agency to purchase items from VDC. We purchase these items from VDC because of cost and convenience.
>
> * * *
>
> VDC has always delivered quality products and have shipped these products when we need them. The new ordering system is working well and has really expedited our orders.

While the surveys reported general satisfaction with the VDC, they also identified concerns with some of VDC's practices, which will be discussed in the next section.

## VDC Faces Operational Challenges

The VDC has undertaken two major initiatives in the past couple of years that in the long term will likely improve its operations. However, in the short term these initiatives appear to have caused problems. The first initiative is the planning of the new warehouse. The second is the implementation of a new computer warehouse management system. These initiatives were conducted in addition to VDC's regular workload, and have taken time away from VDC's main responsibility to meet the product needs of its customers. This may have negatively impacted the performance of VDC's primary work.

Further, while the WMS system appears to have many strengths, VDC has encountered numerous problems in its implementation, including dealing with the bankruptcy of the WMS vendor. This has hindered VDC being able to take full advantage of the system.

***VDC Lacks Adequate Management Reports.*** One deficiency with the VDC is its lack of adequate management reports readily available for decision-making purposes. For example, VDC was not able to provide JLARC staff with various data requested during the study. It could not provide data on usage by product. This type of data is important in identifying the high volume products that VDC should focus on, as well as the low volume products that VDC should consider eliminating from its product line. Further, it should be one basis for developing VDC's product placements in the new warehouse. VDC also could not provide JLARC staff a listing of all its customers and their product purchases. This type of data could help the VDC in identifying potential new customers to target.

Further, VDC has not attempted to track the extent to which it ships orders on the customer's requested delivery date. This is a key piece of information the VDC should use to track the extent to which it is meeting its customers' delivery needs. Results showing a favorable track record could be used in marketing the VDC to new customers.

One of the reasons the data are not available stems from problems associated with WMS documentation. The WMS has the capability to provide a multitude of information on product usage, fill rates, and outbound orders. However, due to other staff priorities most of these reports have not yet been developed. While the VDC contract with the WMS software vendor required that the system be able to provide "customizable reports for analysis reporting," it did not require the vendor to develop any of these management reports. VDC does not currently have the staff capability to produce these reports and instead must rely on DGS information system staff for report development. Slowing this process has been the fact that the WMS vendor has filed for bankruptcy. The VDC was not able to obtain adequate documentation of the system from the vendor, in particular a data map indicating the file location of each data variable.

Once the data have been mapped, VDC should make it a priority to develop reports that enable staff to better track product and agency usage. Development of the identified reports would give VDC the opportunity to reassess its full product lines – decide what to keep selling, what products to eliminate, and what products to add – prior to moving to the new warehouse. This prior assessment would help streamline the transition to the new warehouse.

In addition to data for VDC management purposes, VDC should develop reports that would assist agencies in better managing their food and housekeeping purchasing. For example, the VDC could provide periodic reports that would show product usage for each agency, sorted in descending order of total product expenditures. This type of report is typically provided as a service by prime vendors to their customers. Once the reports were programmed into the WMS system, report generation would be relatively simple and the reports could be sent via email or included with the customer's delivery.

***Recommendation (4).*** **The Department of General Services should ensure that Virginia Distribution Center staff receive training on report development for an Oracle-based system.**

***Recommendation (5).*** **The Department of General Services information services staff or Virginia Distribution Center staff should develop the management reports necessary for sound decision-making as soon as possible.**

**In particular, reports useful in planning operations at the new warehouse should take priority.**

***VDC's Fill Rate Should Be Monitored.*** Another type of data that the VDC needs to monitor is its fill rate. The fill rate is a measure of the proportion of warehouse stock items delivered compared to the number of items ordered by customers. The fill rate is an indicator of the warehouse's ability to keep needed items in stock and available for delivery to customers. The VDC's fill rate has shown improvement over time. At the time of a 1980 JLARC study of the VDC, its fill rate was only 84 percent. By FY 1987, its fill rate had increased to 95 percent. In FY 1999, the fill rate was 96 percent, and for first quarter FY 2000, it was 97 percent. This rate compares reasonably well to the fill rates typically reported by major prime vendors. For example, Virginia Tech's prime vendor guarantees a minimum fill rate of 98.5 percent.

While VDC's overall fill rate was adequate the last time it was calculated (in October 1999), there are some agencies for which fill rates were relatively low in 1999. For example, the VDC fill rate for the Marion Correctional Treatment Center was 87 percent in September 1999 and 86 percent in October 1999. The VDC should continually strive to improve its fill rate for all its customers. As mentioned in Chapter III, stock outages by the VDC have financial implications to the agencies since, oftentimes, an agency will have to pay more for the product from a local vendor. One respondent to the JLARC staff survey of VDC customers noted:

> We experience shortages each month. Some of the quantities are large (e.g., 20 cases of chicken breasts, 10 cases of ground beef). When ordered locally the price absorbed by the agency is extensive compared to VDC's volume pricing. Shortages have improved, but could be improved even more.

Of particular concern is that the VDC has not monitored its fill rate since October 1999. DGS information systems staff are reportedly working on developing this report on the WMS; however, a report is still not available over one year after implementation of the new system.

This report appears particularly important to develop because the JLARC survey suggests that VDC may be experiencing a problem with its fill rate. The lowest rated item on the JLARC survey of VDC customers pertained to agencies' satisfaction with "VDC's ability to deliver the correct amount and type of products ordered." Eighteen percent of the respondents reported dissatisfaction with this area. VDC needs to better monitor its fill rate, and identify agencies that are particularly affected by shortages of VDC products. It should then take steps to alleviate these problems.

The problem cited also could be a reflection of picking errors or data entry errors at the VDC. For example, a customer may be sent cans of sliced pears instead of the diced pears requested. As with the other management data, VDC does not have current information on the level of VDC's inventory errors (which would indicate discrepancies in products ordered and shipped). However, review of FY 1998 and FY 1999 inventory error data showed a substantial increase in the number of inventory errors in FY 1999 compared to FY 1998.

VDC has recognized this problem and has begun taking corrective steps. Specifically, VDC staff developed an "exceptions log" to identify all errors in products shipped, including the source of the error. The reasons for the errors are discussed in weekly staff meetings. One outcome of this effort has been the identification of products with similar containers that are located near each other, increasing the chance for mis-picks. VDC staff have relocated the products to help reduce such errors. In addition, the warehouse staff have been given incentives to minimize picking errors. For example, the picking team with the least errors at the end of the week may be given a small prize. VDC should continue these efforts, as well as develop methods to measure the success of them.

***Recommendation (6).*** **The Virginia Distribution Center needs to place a high priority on developing a fill rate report that will identify fill rates by item and by agency. It should use the fill rate data to identify what products, if any, VDC is having trouble keeping in stock, and take appropriate steps to prevent future stock-out problems.**

***VDC Should Strive to Decrease the Time Between Order Submission and Delivery.*** One management measure the VDC has begun to track is the amount of time it takes to process an order. VDC counts the processing time from the time the order is received to the time the order has been scheduled for delivery (not at the actual delivery time, since some customers submit orders well in advance of when they want the delivery). VDC has reported a decrease in the average processing time from five days as of November 1999 to three days as of October 2000.

Although this decrease in processing time is a positive step for the VDC, it has not resulted in any decrease in the length of time in advance that VDC requires customers to submit orders. VDC routinely requires agencies to submit their orders at least one and a half weeks in advance of the requested delivery date. This advance time has been a source of concern for some VDC customers, as evidenced by the following comments from the JLARC survey:

> It takes a long time to receive orders from the VDC; would like to get orders a few days after submitting orders.
>
> * * *
>
> [Dissatisfied with the timeliness of VDC's deliveries because it takes] ten days from faxed order to delivery.
>
> * * *
>
> We should be able to get quicker turnaround like we get from private vendors.

VDC should explore options to reduce the amount of time necessary to fill orders. Since use of the on-line order submission is preferred by the VDC and in fact takes less time to process, VDC could provide an incentive for agencies to place orders on-line, such as a reduced order turnaround time for these orders.

***Recommendation (7).*** **The Virginia Distribution Center should set specific performance objectives to reduce the length of time between order submission and delivery. Performance objectives should include incentives for the use of orders placed on-line. VDC should set an organization-wide objective of filling orders not later than six working days after receipt of an order or on the customer's requested delivery date, whichever is later.**

***VDC Needs to Communicate Better with Customers Regarding Orders***. While VDC works with customers on a periodic basis through the use of the advisory committees, VDC does not always communicate well with customers regarding individual orders. For example, instead of routinely calling a customer to find out its preferred solution when its order contains an item that is out-of-stock, VDC places the responsibility on the customer to request a phone call from the VDC.

There is also confusion among VDC customers as to VDC's policy regarding back orders. Some customers clearly hold the view that VDC does not accept back orders. VDC reported that it allows back orders; however, the customer must specifically request that an out-of-stock item be placed on back order. Otherwise, VDC uses the "fill or kill" approach in which an out-of-stock item is simply deleted from the order. When an item is placed on back order, VDC does not appear to clearly communicate to the customer the expected delivery date. VDC reported that back orders are handled in varying ways, from shipment to the customer as soon as the item is received by VDC to simply placing the item on the customer's next normally scheduled delivery. Many respondents to the JLARC survey reported problems with VDC's approach to back orders and substitutions, as the follow quotes attest:

> When VDC has items on back-order that we need, we must place a second order rather than VDC delivering after they receive [the product].

* * *

> Would like to see VDC establish a policy for contacting us if they are out of a product. It has put me in a bind a few times due to certain items not being delivered.

* * *

> Too often they are out of key items. They fail to notify us. Waivers are time consuming to obtain. They do not let us know if back orders will come soon or on the next delivery. They do not always call for substitutions when requested.

* * *

> Back orders and delivery times are inconsistent which makes it difficult to manage.

Providing unreliable delivery times causes customers to have to carry a larger safety stock level. Given the mandate for DOC and DMHMRSAS facilities to reduce their inventory levels, VDC's delivery performance becomes crucial.

While VDC reported staffing limitations as the main reason why customers are not always called when they should be, VDC should take measures to ensure that the notifications to customers take priority. One measure that could be taken is the use of advance shipping notices, which is a feature available through the WMS. This provides email notification to the customer of the products to be shipped and the date of shipment. VDC staff reported that they have not fully explored this option due to time constraints.

***Recommendation (8).*** **The Virginia Distribution Center should send a notification to all its customers detailing its policies on substitutions and back orders. It should then make it a priority to call all customers which request calls prior to substitutions and to provide customers with sufficient advance notice of the delivery times for back orders. In particular, it should implement the advance shipping notice feature of the WMS.**

***Low Inventory Turnover Rate.*** VDC's inventory turnover rate has been declining in recent years, from a turnover of about nine times in FY 1998 to only 6.4 times in FY 2000. This is a very low inventory turnover rate compared to private sector distributors, which typically have turn rates of 15 to 20 times per year. Higher inventory turns can help ensure fresher products and minimize spoilage. A few VDC customers noted that they have received goods that were past their expiration date. For example, one survey respondent reported that:

> [The facility] received salad dressing that was delivered past its expiration date and when replacement products were sent they also had expired.

Further, higher inventory turnover reduces the per unit carrying cost associated with inventory. VDC staff noted that it maintained one additional week's worth of inventory in FY 2000 to better serve DOC's and DMHMRSAS's changed ordering and delivery practices. VDC's low FY 2000 turnover rate may also, in part, reflect that inventory levels were not adjusted in light of a decrease in sales. Regardless of the reason for the high inventory levels, VDC needs to take steps to reduce its inventory levels.

***Recommendation (9).*** **The Virginia Distribution Center should develop a plan to reduce its inventory level while still providing a good order fill rate for agencies.**

## VDC'S FINANCIAL PERFORMANCE

VDC operates as an internal service fund. Virginia has several of these funds, which operate by selling goods or services to other governmental units and must be self-supporting. The goal of internal service funds, set out in *Code of Virginia* §2.1-1961B, is to recover the costs of providing the service. This statute also assigns JLARC a role in monitoring these funds.

To cover its expenses, VDC charges an eight percent mark-up on all goods sold. The mark-up must cover VDC's direct and indirect expenses, including the cost to transport goods to agencies throughout the State. The percentage mark-up has varied over time, ranging from five percent in years prior to 1984, to 11 percent in 1988 through 1990. It was lowered from nine percent to eight percent on July 1, 1995.

Over the last five years, VDC has generated small profits in three years and small losses in two years. This pattern is fairly consistent with the idea of a program intended only to cover its costs and not generate significant earnings. However, sales have gone flat and expenses continue to increase. With the additional commitment to pay for the new warehouse out of VDC earnings, a rate adjustment, additional sales, and control of expenses appear needed.

### VDC Sales Are Flat But Expenses Are Increasing

Since FY 1996, VDC sales have essentially been level, fluctuating between $38 and $41 million per year (Table 3). VDC's operating costs, on the other hand, have climbed steadily over the same period, from $2.4 million (6.0 percent of sales) in FY 1996, to $3.79 million (9.9 percent of sales) in FY 2000.

***Sales Are Flat.*** Part of the reason for flat sales has been the physical limitations of the existing VDC warehouse, which in turn has contributed to management's reluctance to expand business. Once the new warehouse is open, providing additional storage capacity, VDC management has indicated that expanded sales will be pursued.

Other key reasons for VDC's flat sales have been the loss of university business and the leveling-off of the prison inmate population. The latter trend was unexpected as recently as three years ago. In 1997, a private consultant study observed substantial increases in sales to correctional facilities and localities, along with substantial declines in sales to universities. Since that time, however, the prison inmate population has plateaued. Annual growth in the inmate population of 1.5 percent is now the official forecast through FY 2005. The last new State correctional facilities opened in early 1999, and no further expansion of the prison system is currently planned.

VDC sales to universities have declined since the 1997 consultant's report, and appear likely to decline further. For example, James Madison University an-

**Table 3**

**VDC Sales, Expenses, and Profits**

| Fiscal Year | Sales* | Cost of Goods Sold | Operating Expenses | Net Profit/(Loss)** | Profit/(Loss) as % of Sales** |
|---|---|---|---|---|---|
| 1996 | $40,320,950 | $36,963,194 | $2,431,817 | $925,940 | 2.3% |
| 1997 | 41,583,078 | 39,281,205 | 2,831,650 | 470,223 | 1.1% |
| 1998 | 39,165,682 | 35,987,990 | 3,053,602 | 124,097 | 0.3% |
| 1999 | 41,031,225 | 37,874,466 | 3,559,961 | (373,202) | (0.9%) |
| 2000 | 38,263,779 | 35,056,432 | 3,787,734 | (580,387) | (1.5%) |

* Includes sales and other revenues.
** Does not include transfers from the VDC fund to the General Fund.

Source: JLARC staff analysis of VDC data.

nounced in mid-2000 that it was switching to a food service provider, leaving only three universities which purchase their own food supplies. As described in previous chapters, one of these universities uses a prime vendor instead of the VDC, and this report has suggested that the other two universities may also benefit from prime vendor arrangements.

Based on trends at the time, the 1997 consultant's report predicted annual VDC sales growth of six percent. With a fixed mark-up of eight percent, this expected growth would have covered some growth in VDC expenses. Without the expected sales growth, however, VDC has had no means of recovering increased expenses.

***Increased Expenses.*** Most of the 55 percent increase in VDC operating expenses over the last five years has resulted from increases in freight costs, employee compensation, and computer-related initiatives. A factor in the most recent year, and in upcoming years, is payment for the new warehouse facility now under construction.

Freight costs have risen over the last five years. In FY 1996, VDC's expenditures to deliver goods to customer agencies totaled $883,259, rising to $1,393,408 in FY 2000. This 58 percent increase includes, among other factors, the addition of several new delivery locations during those years, as well as the re-bid of the contract in FY 1998. That re-bid resulted in a new contract with Wilson Trucking Corporation, and an increase in freight rates of approximately 4.6 percent. An additional increase of 4.9 percent in delivery rates was agreed to in a contract modification approved in August, 2000.

Another source of increased operating costs derives from State-mandated pay and benefit increases. VDC's 27 full-time positions receive these increases, as do all other State employees. Mandated pay raises taking effect between FY 1996 and FY 2000 added more than 18 percent to employee compensation. These raises are reflected in the expenditure of $258,000 more in FY 2000 for employees (both classified and hourly) than in FY 1996. The current Appropriation Act adds a further 3.25 percent raise for State employees. Additional raises can be expected in future years.

Unlike general funded State agencies, however, no additional funds were provided to VDC to cover the increased cost of these pay raises. As an internal service fund, VDC is expected to cover these increased costs from within its own revenue base.

Computer initiatives have also added to VDC expenses. VDC's financial statements indicate that in FY 2000 it spent approximately $225,000 more on computer-related items than in FY 1996. While some of these initiatives, such as the warehouse management system (WMS) and on-line ordering, may help control operating costs in the future, initial development and installation costs of $294,400 and $247,719 were paid in FYs 1999 and 2000, respectively. As the system is nearly complete, VDC anticipates reducing its computer-related spending in FY 2001.

While expenses may not continue to rise as quickly in the next several years since the computer system is now in place, clearly some of these other expenses may continue increasing. Against this background of rising expenses, VDC also proposes to pay for the construction of a new warehouse.

**Cost of the New Warehouse Must Be Included in the Mark-Up**

The decision was made in 1997 to construct a new 128,000 square foot warehouse on State-owned land in eastern Henrico County. The project is estimated to cost $12.5 million and expected to open in the spring of 2001. During the course of this study, construction on the new warehouse was well under way. Key reasons behind the decision to build were to avoid the physical limitations and high costs of either renovating or continuing to maintain the old warehouse facility, to provide space to accommodate expected growth, to improve operating efficiency, and to have the ability to stock additional types of commodities.

In approving this project the 1997 General Assembly authorized the Department of General Services to use a Treasury loan to pay for the construction. The agency may take as long as 12 years to repay such a loan. In FY 2000, DGS paid $1.7 million toward the construction of the new warehouse. The full amount of the construction project must be paid only from VDC revenues.

## Cash Transfers to the General Fund Affect VDC's Financial Position

One factor that ultimately impacts VDC's ability to cover its expenses, including the new warehouse, is the periodic transfer of VDC fund balances to the General Fund. In the past five years almost $1.26 million from the VDC internal service fund has been transferred to the State's General Fund. More than half of this transfer occurred in FY 1997, at which time $763,318 was transferred to the General Fund.

DGS staff indicated to JLARC staff a preference for paying as much of the new warehouse construction costs as possible out of VDC's current cash flow. To the extent that cash can be used to pay for the project, the amount of the required Treasury loan may be reduced, and as a result, VDC would incur less interest expense. Any transfers in the near future would limit VDC's ability to pay for costs associated with the new warehouse out of its current cash flow.

## VDC Mark-Up Should Be Re-Examined

Increasing expenses and a fixed mark-up of eight percent have led to losses for the VDC in the last two years (Table 3). Because the State looks to VDC to cover its expenses and expects it to pay for the construction of the new $12.5 million warehouse, the mark-up needs to be reconsidered.

As noted earlier, JLARC has a statutory role in the review of balances and rates charged by internal service funds such as VDC. In previous years, JLARC staff have used a guideline to evaluate VDC's financial status. This guideline allowed VDC to retain a balance of up to three months of expenses, plus $500,000 for inventory purchases. Based on FY 2000's financial statement, this guideline would permit VDC to retain up to $1,446,934. VDC's balance of cash on hand totaled $421,175 as of June 30, 2000 – well below the guideline.

In the face of increasing expenses, the need to cover the cost of the new warehouse, two years of operating deficits, and a small cash balance, it appears necessary to re-examine the rate of mark-up allowed on VDC products. Raising the rate is the action most consistent with past practice, although there may be alternative rate structures to consider. For example, the Deputy Director of DGS noted that commercial suppliers often include the cost of freight as a component of the cost of goods sold, but VDC currently includes freight as an element of the mark-up. This accounting distinction would not necessarily affect the total price paid by a VDC customer in the short run, although it would be a departure from the long-standing practice of charging all customers the same mark-up, regardless of the actual cost of freighting product to the customer. It would appear that a result of this accounting change would be that freight costs could vary and be passed on to customers without the need to seek an adjustment in the mark-up rate, which would require JLARC's approval.

The period over which the Treasury loan will be paid should also be carefully considered. The terms of the loan permit up to 12 years for re-payment, although DGS staff have previously expressed interest in paying it off sooner. DGS should carefully weigh the advantages and disadvantages of paying it off sooner. The advantage to paying off the loan more quickly (reduced interest payments) may be offset by the increased cost to customers. While the JLARC market basket price comparison showed that VDC's prices tend to be substantially lower than wholesale distributors, a major increase in VDC's prices could cause some customers to take their business elsewhere, resulting in a loss of VDC sales. VDC sales have already been flat in recent years.

The impact of any cost increase for VDC's customers must be considered in adjusting the rate charged by VDC. Just as VDC's revenues are not supplemented when pay raises are mandated by the State, VDC's customer agencies do not necessarily receive a budget increase because of VDC rate increases. A rate increase will require VDC's customers to increase spending on food supplies and housekeeping products.

DGS staff reported that they are currently reviewing options for addressing VDC's recent operating losses. Since the VDC will be moving into a new warehouse in March 2001, it may be appropriate to make an interim rate adjustment, with a possible need for additional adjustments after it determines the full impact (both positive and negative) that the new warehouse will have on its expenses.

***Recommendation (10).*** **DGS should complete its assessment of options for eliminating VDC's operating loss, including possible adjustments to the VDC mark-up rate. Any proposed rate adjustment should clearly indicate the intended pay-off period for the Treasury loan. DGS should report on its assessment to JLARC by May 2001.**

## Steps Needed to Increase VDC Sales

In addition to adjusting its mark-up rate, the VDC needs to focus attention on increasing its customer base. Currently, the VDC conducts very little marketing to promote increased use of the VDC. Staff will occasionally attend trade shows; however, unlike private sector distribution centers, the VDC does not maintain a sales force. In order to remain viable in the future, it appears that the VDC will need to more aggressively market its services.

As previously described, increasing sales from its current customer base are unlikely. In fact, sales will likely decrease from some university customers. Instead, there appear to be two main targets that the VDC should explore. First, based on the survey of local government and non-profit organizations, it appears that local and regional jails maintain the type of operation that can be adequately met by the VDC. Similar to DOC facilities, the jails provide food service to an inmate population. This type of food service does not require top graded or "branded" products. In addition, many of the jails surveyed routinely maintain a two to four week inventory.

Further, based on survey follow-up interviews with staff of some of the jails, it appears that a number of local and regional jails maintain inefficient procurement operations for food and housekeeping products. In particular, several jails stated that their procurement approach entails periodically calling around to local vendors to get quotes on the products needed by the jail. They then purchase from the vendor(s) that provide the lowest price on each product. Use of the VDC should enable those jails to reduce their procurement effort while obtaining low prices for the products supplied by the VDC. Table 4 indicates that just five of the 20 regional jails made use of VDC in FY 2000.

In contrast, expanding VDC's service to non-profit organizations does not appear beneficial at this time. The non-profit organizations responding to the JLARC survey, on average, serve a much smaller clientele compared to the DOC and DMHMRSAS facilities. VDC typically sells products in large container sizes (for example, in ten pound cans and by the case). These large sizes are not well suited to smaller users. Also, since the non-profit organizations in the survey do not purchase a large volume of products, it does not appear that the added volume buying power that may be possible if VDC served non-profit organizations would be enough to offset the transportation costs involved in distributing small orders to a large number of these organizations across the State. VDC's trucking firm currently charges $74 per drop-off

**Table 4**

**Use of VDC by Regional Jails**

| **Regional Jails which USED VDC In FY 2000** | |
|---|---|
| Albemarle-Charlottesville | |
| Clarke-Frederick-Winchester | |
| Riverside | |
| Virginia Peninsula | |
| Western Tidewater | |
| **Regional Jails which Did NOT Use VDC In FY 2000** | |
| Alleghany-Covington | Pamunkey |
| Blue Ridge | Peumansend Creek |
| Central Virginia | Piedmont |
| Hampton Roads | Prince William-Manassas |
| Henrico County | Rappahannock |
| Middle Peninsula | Rockbridge |
| New River | Southside |
| Northern Neck | |

Source: VCD sales data, FY 2000.

for multiple delivery stops from one truck. This charge is in addition to the basic delivery charge per truck. If VDC assessed the non-profit organizations the drop-off charge (as it does with local government customers), it is questionable whether any cost savings from VDC's advantageous product pricing would be enough to offset this charge. Therefore, it appears that changing the law to allow non-profit organizations to purchase from the VDC would not benefit the VDC or the non-profit organizations.

The second avenue for possible increased sales is State agencies that contract with private firms for janitorial and/or food service. State procurement rules allow a private firm to purchase supplies from the VDC as long as those supplies are used on behalf of a State agency. One agency reported successful use of this approach:

> Our college utilizes contract janitorial services, in which the contractor is responsible for providing most janitorial products. The college furnishes some products (floor finishes, and consumable products such as toilet tissue, hand towels, hand soap, trash bags, etc.), which are primarily secured through VDC at low cost.

In addition, Aramark purchases some food products from the VDC for use at Lawrenceville and Sussex I Correctional Centers.

In particular, DGS should ensure that agencies with janitorial service provider contracts know that their providers can purchase products to be used on behalf of the agencies from the VDC. DGS should explore this option with the service providers with which it has contracts for State office buildings. This would increase VDC sales within a close radius of the VDC, thus minimizing VDC's transportation costs in relation to those increased sales.

Prior to undertaking a significant marketing effort, however, the VDC should develop marketing materials that highlight the strengths of the VDC system for institutional users. In addition, it should develop a marketing plan that identifies a timeline for implementation and identifies the higher priority sites that should be pursued initially (such as those located near DMHMRSAS facilities that have weekly deliveries).

***Recommendation (11).*** **The Virginia Distribution Center should develop a marketing plan geared toward adding new State and local agencies to its customer base. Implementation of the plan should begin as soon as it moves to the new warehouse in the Spring 2001.**

# Appendixes

## Appendix A

# Study Mandate

### ITEM 20 G – 2000 APPROPRIATION ACT

### VIRGINIA DISTRIBUTION CENTER

The Joint Legislative Audit and Review Commission shall study the distribution of food and other products from the Virginia Distribution Center to state agencies and political subdivisions. The study shall include, but not be limited to: (i) an evaluation of current operations and financing of the Virginia Distribution Center; (ii) the adequacy of the Center's services and products for customers; (iii) the applicability of industry best practices to the Center's operations to improve services and reduce costs; (iv) the appropriateness of mandated sources, and the impact of such mandates on costs and quality of service; (v) alternatives for the distribution of food and other products to state and local government agencies, including the feasibility and advisability of privatizing distribution services; and (vi) the feasibility of expanding distribution services to additional state and local agencies and nonprofit organizations in the Commonwealth. In completing this study, the Commission shall consider the findings and recommendations of the Task Force Study on the Food Delivery System for the Prisons and Mental Health Hospitals in Virginia. The Commonwealth Competition Council, the Department of Corrections, the Department of General Services, the Department of Mental Health, Mental Retardation and Substance Abuse Services, and all other agencies and institutions of the Commonwealth shall provide assistance to the Commission, upon request. The Commission shall complete its study prior to the 2001 Session of the General Assembly.

## Appendix B

# VDC Sales, FY 2000

| CUSTOMER NAME | SALES |
|---|---|
| Greensville Correctional Center | $2,797,562.40 |
| Powhatan Correctional Center | 2,263,408.30 |
| Sussex II Correctional Center | 1,218,093.90 |
| Indian Creek Correctional Center | 994,390.76 |
| Haynesville Correctional Center | 953,586.42 |
| Red Onion State Prison | 949,753.91 |
| Nottoway Correctional Center | 920,882.08 |
| Division of Community Corrections | 862,314.03 |
| Central Region Correctional Field Unit | 838,267.24 |
| Western Region Correctional Field Unit | 816,997.86 |
| Augusta Correctional Center | 808,363.63 |
| Coffeewood Correctional Center | 756,442.83 |
| Wallens Ridge State Prison | 733,957.77 |
| Keen Mountain Correctional Center | 721,551.89 |
| Buckingham Correctional Center | 680,668.63 |
| Dillwyn Correctional Center | 661,225.03 |
| Brunswick Correctional Center | 650,342.89 |
| Staunton Correctional Center | 525,740.89 |
| Mecklenburg Correctional Center | 506,441.73 |
| Lunenburg Correctional Center | 497,616.14 |
| Bland Correctional Center | 492,971.89 |
| Northern Region Correctional Field Unit | 469,286.28 |
| Southampton Correctional Center | 455,056.88 |
| Fluvanna Women's Correctional Center | 454,877.48 |
| Deerfield Correctional Center | 335,224.89 |
| Virginia Correctional Center for Women | 328,510.82 |
| Lunenburg Correctional Center | 230,880.47 |
| St Brides Correctional Center | 199,024.36 |
| Sussex I Correctional Center | 198,775.48 |
| Southampton Reception Class | 174,920.79 |

| CUSTOMER NAME | SALES |
|---|---|
| Lawrenceville Correctional Center (Aramark) | $144,341.14 |
| Deep Meadow Correctional Center | 99,983.59 |
| Marion Correctional Treatment Center | 70,895.60 |
| James River Correctional Center | 51,669.88 |
| DOC Employee Relations and Training | 50,931.32 |
| Southampton Intensive Treatment Center | 38,188.89 |
| Department of Corrections | 2,067.99 |
| DOC Institutional Services | 297.24 |
| Eastern Region Correctional Field Unit | 15.04 |
| **DOC SUBTOTAL** | **22,955,528.36** |
| Southside Virginia Training Center | 1,241,152.80 |
| Central Virginia Training Center | 1,001,563.50 |
| Eastern State Hospital | 596,429.35 |
| Southwestern Mental Health Institute | 302,215.49 |
| Southeastern Virginia Training Center | 270,521.10 |
| Northern Virginia Training Center | 256,229.88 |
| Piedmont Geriatric Hospital | 236,777.10 |
| Western State Hospital | 228,699.05 |
| Catawba Hospital | 197,520.49 |
| Southwestern Virginia Training Center | 192,912.72 |
| Northern Virginia Mental Health Institute | 101,754.76 |
| Southern Virginia Mental Health Institute | 101,561.22 |
| Hiram W. Davis Medical Center | 7,506.27 |
| Dejarnette Center | 107.78 |
| **DMHMRSAS SUBTOTAL** | **4,734,951.51** |
| James Madison University | 934,686.09 |
| Radford University | 624,652.11 |
| College of William and Mary | 221,214.03 |
| Virginia Commonwealth University | 197,799.37 |
| Old Dominion University | 136,186.66 |
| Christopher Newport University | 108,176.35 |
| George Mason University | 88,315.19 |
| Mary Washington College | 81,382.88 |

| CUSTOMER NAME | SALES |
|---|---|
| Virginia Military Institute | $68,078.51 |
| Virginia Tech | 66,293.75 |
| Medical College of Virginia (General Stores) | 53,807.44 |
| Norfolk State University | 60,516.98 |
| Clinch Valley College | 26,207.66 |
| Virginia State University | 20,367.64 |
| Virginia Institute of Marine Science | 14,386.03 |
| Longwood College | 13,216.06 |
| Richard Bland College | 9,496.02 |
| University of Virginia | 7,170.96 |
| **HIGHER EDUCATION SUBTOTAL** | **2,731,953.73** |
| Department of Juvenile Justice | 977,712.59 |
| Department of Military Affairs | 108,128.30 |
| Department of State Police | 104,965.17 |
| Department of Transportation | 87,804.79 |
| Tidewater Community College | 77,723.55 |
| Department of Conservation and Recreation | 76,813.92 |
| Department of Motor Vehicles | 73,075.15 |
| Department of Health | 61,605.33 |
| Virginia School for Deaf and Blind (Hampton) | 58,291.20 |
| Department of Alcoholic Beverage Control | 57,101.24 |
| Virginia Correctional Enterprises | 49,611.94 |
| Woodrow Wilson Rehabilitation Center | 48,316.15 |
| Department of General Services | 46,549.20 |
| Virginia School for Deaf and Blind (Staunton) | 45,375.10 |
| J Sargeant Reynolds Community College | 35,463.96 |
| Danville Community College | 32,089.08 |
| John Tyler Community College | 29,150.66 |
| Virginia Museum of Fine Arts | 24,933.15 |
| Jamestown Yorktown Foundation | 24,917.15 |
| Department of Correctional Education | 22,350.12 |
| Virginia Western Community College | 20,535.54 |
| Breaks Interstate Parks Commission | 19,434.66 |

| CUSTOMER NAME | SALES |
|---|---|
| Department of Forestry | $15,648.92 |
| Science Museum of Virginia | 14,673.62 |
| Mountain Empire Community College | 14,017.36 |
| Thomas Nelson Community College | 12,875.26 |
| Southside Virginia Community College | 12,779.15 |
| Germanna Community College | 12,614.11 |
| New River Community College | 12,374.14 |
| Rappahannock Community College | 12,142.39 |
| Northern Virginia Community College | 11,871.70 |
| Virginia Employment Commission | 11,107.72 |
| Central Virginia Community College | 10,688.28 |
| Virginia Highlands Community College | 10,592.42 |
| Piedmont Virginia Community College | 10,532.15 |
| Patrick Henry Community College | 10,427.65 |
| Lord Fairfax Community College | 10,329.31 |
| Library of Virginia | 9,124.03 |
| Paul D Camp Community College | 8,337.74 |
| Department for the Visually Handicapped | 7,960.31 |
| Dabney S Lancaster Community College | 7,759.04 |
| Department of Agriculture and Consumer Services | 6,781.62 |
| Blue Ridge Community College | 6,606.47 |
| Department of Taxation | 6,329.68 |
| Southwest Virginia Community College | 6,047.39 |
| Department of Environmental Quality | 4,221.46 |
| Supreme Court | 4,069.50 |
| Department of Education | 4,000.68 |
| Frontier Culture Museum of Virginia | 3,270.02 |
| Department of Social Services | 3,071.23 |
| Virginia Rehabilitation Center for the Blind | 3,046.98 |
| Department of Criminal Justice Services | 2,463.26 |
| Virginia Marine Resources Commission | 2,431.27 |
| Department of Health Professions | 2,184.96 |
| State Lottery Department | 2,180.72 |

| CUSTOMER NAME | SALES |
|---|---|
| Virginia Economic Development Partnership | $1,977.02 |
| Wytheville Community College | 1,676.44 |
| Virginia Museum of Natural History | 1,557.00 |
| Department of Emergency Services | 1,536.28 |
| Eastern Shore Community College | 1,527.89 |
| Gunston Hall Plantation | 1,457.18 |
| Department of Aviation | 1,206.89 |
| House of Delegates | 1,115.37 |
| Department of Rehabilitative Services | 1,111.46 |
| Department of Medical Assistance Services | 1,090.86 |
| Department of Information Technology | 1,068.04 |
| Department of Veterans' Affairs | 1,018.18 |
| Department of Professional and Occupational Regulation | 974.48 |
| Worker's Compensation Commission | 962.59 |
| Virginia State Bar | 948.64 |
| Department of Game and Inland Fisheries | 944.23 |
| Virginia Port Authority | 844.62 |
| Virginia Israel Advisory Board | 837.21 |
| State Corporation Commission | 797.72 |
| Department of Labor and Industry | 763.91 |
| Department of Fire Programs | 718.22 |
| Secretary of Administration | 709.38 |
| Department of Mines, Minerals and Energy | 590.87 |
| Compensation Board | 575.53 |
| Department of Housing and Community Development | 553.29 |
| Department of Personnel and Training | 450.89 |
| Public Defender Commission | 378.97 |
| Department of Employee Relations Counselors | 352.47 |
| Department for the Aging | 332.33 |
| Virginia Retirement System | 314.03 |
| Department of the Treasury | 271.92 |
| Governor’s Employment and Training Department | 259.42 |
| Senate of Virginia | 245.00 |

| CUSTOMER NAME | SALES |
|---|---|
| Court of Appeals of Virginia | $244.99 |
| Commission on Local Government | 244.99 |
| Commission on VASAP | 172.24 |
| Department of Accounts | 133.52 |
| Minority Business Enterprises | 110.63 |
| Division of Capitol Police | 98.46 |
| Attorney General and the Department of Law | 88.43 |
| Commonwealth Attorney Service Council | 77.18 |
| Department of Planning and Budget | 72.84 |
| Department of Historic Resources | 69.28 |
| Charitable Gaming Commission | 62.35 |
| Division of Legislative Services | 61.80 |
| State Board of Elections | 54.91 |
| Rights of Virginians with Disabilities | 48.56 |
| Council on Information Management | 30.06 |
| Council on Human Rights | 24.29 |
| Virginia Commission for the Arts | 23.01 |
| Department of Rail and Public Transportation | 17.30 |
| Virginia Racing Commission | 13.66 |
| Virginia Community College System | 12.14 |
| Virginia Parole Board | 12.05 |
| Virginia Housing Study Commission | 8.31 |
| Joint Legislative Audit and Review Commission | 6.87 |
| Department of Mental Health | (5,262.55) |
| Wilson Trucking Corporation | 2,360.65 |
| United Parcel Service | 61.00 |
| Richmond Cold Storage | 49.20 |
| **OTHER STATE AGENCIES SUBTOTAL** | **2,382,572.99** |
| Fairfax County | 683,483.19 |
| Newport News City | 587,560.67 |
| Chesapeake City | 471,239.07 |
| Richmond City | 318,866.49 |
| Petersburg City | 262,929.16 |

| CUSTOMER NAME | SALES |
|---|---|
| Loudoun County | $254,411.35 |
| Hopewell City | 176,808.36 |
| Henrico County | 176,307.94 |
| Augusta County | 150,370.36 |
| Virginia Beach City | 145,753.43 |
| Caroline County | 108,502.92 |
| York County | 100,120.29 |
| Alexandria City | 98,387.62 |
| Norfolk City | 93,698.21 |
| Culpeper County | 89,453.14 |
| Middlesex County | 86,810.94 |
| Roanoke County | 81,649.76 |
| Rockingham County | 74,850.81 |
| Manassas City | 65,203.09 |
| Prince George County | 64,038.42 |
| Henry County | 53,503.32 |
| Amherst County | 53,378.59 |
| Southampton County | 45,156.15 |
| Chesterfield County | 38,040.18 |
| Nottoway County | 35,362.38 |
| Campbell County | 34,756.80 |
| Gloucester County | 32,364.24 |
| Albemarle County | 29,113.73 |
| Winchester City | 29,015.69 |
| Warren County | 28,040.22 |
| Stafford County | 24,589.30 |
| Hanover County | 21,306.10 |
| Bath County | 20,936.41 |
| Rockbridge County | 18,430.12 |
| Williamsburg City | 17,677.06 |
| Buena Vista City | 17,445.10 |
| Franklin City | 16,284.61 |

| CUSTOMER NAME | SALES |
|---|---|
| Fairfax City | $15,536.07 |
| Staunton City | 14,482.15 |
| Mecklenburg County | 12,210.16 |
| Fredericksburg City | 12,670.21 |
| Prince William County | 12,417.91 |
| Page County | 12,218.00 |
| Rappahannock County | 12,083.33 |
| Richmond County | 11,575.19 |
| Hampton City | 11,296.80 |
| Brunswick County | 11,244.63 |
| Buchanan County | 10,148.09 |
| Sussex County | 9,664.03 |
| Surry County | 8,412.57 |
| Goochland County | 8,236.65 |
| Arlington County | 7,996.36 |
| Colonial Heights City | 6,446.30 |
| Roanoke City | 7,311.24 |
| Fauquier County | 6,638.92 |
| King William County | 6,060.75 |
| Martinsville City | 5,827.86 |
| Louisa County | 5,384.17 |
| Wythe County | 5,110.03 |
| Spotsylvania County | 4,505.02 |
| Charlottesville City | 4,378.94 |
| Portsmouth City | 4,326.50 |
| Fluvanna County | 4,190.58 |
| Mathews County | 3,906.75 |
| Orange County | 3,268.11 |
| James City County | 3,225.29 |
| Frederick County | 3,112.40 |
| Wise County | 3,056.16 |
| Halifax County | 2,556.11 |
| King George County | 2,252.51 |

| CUSTOMER NAME | SALES |
|---|---|
| Washington County | $2,150.25 |
| Floyd County | 2,088.71 |
| Waynesboro City | 2,013.90 |
| Russell County | 1,790.20 |
| Franklin County | 1,782.87 |
| Dinwiddie County | 1,757.42 |
| Botetourt County | 1,536.00 |
| Suffolk City | 1,399.32 |
| Amelia County | 1,315.42 |
| Shenandoah County | 1,269.63 |
| Harrisonburg City | 1,269.58 |
| Bedford County | 1,228.69 |
| Pulaski County | 947.50 |
| Isle of Wight County | 938.23 |
| Bristol City | 921.60 |
| Clarke County | 921.46 |
| Bedford City | 686.22 |
| Montgomery County | 667.36 |
| Madison County | 307.15 |
| Salem City | 307.15 |
| Pittsylvania County | 196.56 |
| Westmoreland County | 60.80 |
| Accomack County | 26.24 |
| **LOCAL GOVERNMENT SUBTOTAL** | **4,883,177.27** |
| Clarke/Frederick/Winchester Regional Jail | 167,782.49 |
| Virginia Peninsula Regional Jail | 153,879.93 |
| Western Tidewater Regional Jail | 111,709.47 |
| Albemarle/Charlottesville Regional Jail | 9,184.93 |
| Riverside Regional Jail | 5,069.80 |
| **REGIONAL JAIL SUBTOTAL** | **447,626.62** |

**GRAND TOTAL $38,135,810.48**

## Appendix C

# Survey of VDC Customers

**(Note: Response tallies are provided in bold type near each check-box or blank)**

**<u>PLEASE FORWARD TO THE FOOD SERVICES SUPERVISOR</u>**

### Joint Legislative Audit and Review Commission of the Virginia General Assembly

### Survey of Virginia Distribution Center Customers

The Virginia General Assembly directed the Joint Legislative Audit and Review Commission (JLARC) to study the distribution of food and other products from the Virginia Distribution Center (VDC) to State agencies and political subdivisions (see page 12 of the survey). As part of this study, JLARC staff are obtaining agencies' views concerning the adequacy of the VDC's services and products and the appropriateness of the VDC as a source of food and janitorial supplies. In addition, JLARC is studying alternatives to the VDC, including the feasibility of privatizing the distribution of food and janitorial products to state and local government agencies and nonprofit organizations in the Commonwealth.

Your answers to the following questions will help us provide the General Assembly with information concerning how well the VDC serves state agencies and political subdivisions. The survey also asks questions about your experiences with prime food vendors and food service providers. Your organization was selected to receive this survey because it purchased goods from the VDC in FY 1999 and/or FY 2000. **The data will be reported in aggregate form only, and no identifying information will be given or shared with any entity.**

The information gathered on this survey is very important to our study and we appreciate your time and effort. Please return the completed survey directly to JLARC by **<u>September 14, 2000</u>**. If you have any questions, please contact Gerald Craver at (804) 819-4566 or Linda Ford at (804) 819-4568.

**Organization:**______________________________________________

**Contact Name:**__________________________ **Title:**________________

**Telephone Number:**______________________ **Date:**________________

If your organization does **<u>not</u>** have a food service operation, please check the box below and complete and return this page only.

☐ **N = 133**
**Organizations that do not have a food service operation = 11**
**Organizations that have a food service operation = 122**

*This survey should be completed by the food services manager or by the staff member within the organization who supervises food service operations. The survey consists of three sections: general organizational information, VDC service quality, and the organization's use of prime vendors and food service providers. Please complete each item of the survey as requested.*

**Please use the following definitions when completing this survey:**

**Food Products:** For the purposes of this survey, food products are defined as goods such as meats, spices, beverages, canned goods, vegetables, and fruits that an organization purchases from the VDC and/or private sector vendors.

**Food-Related Products:** Food-related products are defined as goods such as paper napkins, plates, disposable cutlery, and stainless steel flatware that an organization purchases from the VDC and/or private sector vendors.

**Prime Vendors:** Prime vendors are defined as private sector companies that contract with an organization to provide a relatively broad range of products to the organization. Examples of food distributors that serve as prime vendors include SYSCO Food Services of Virginia, Alliant Foodservice, and U.S. Foodservice. Vendors that have DPS/State contracts for specific products, such as milk, should not be counted as prime vendors. If your organization buys products from companies such as those listed but does not have a written contract with the company, then the company should not be counted as a prime vendor for your organization.

**Food Service Provider:** Food service providers are defined as private sector companies that contract with an organization to manage its food service operations (such as managing a cafeteria). ARAMARK is an example of a food service provider.

**DPS/State Contracts:** Contracts developed by the Department of General Services' Division of Purchases and Supply (DPS) for the purchase of products such as milk, bread, and cereal.

**Fiscal Year 2000:** Fiscal year 2000 refers to the time period from July 1, 1999 to June 30, 2000.

## General Organizational Information

1. For approximately how many patients, clients, inmates, or residents does your facility/organization provide food on an average day? *(If your organization does not serve an identifiable population, please leave this question blank and skip to question 2.)*

    ______________________________

    **N = 89**
    **Average = 2,831**
    **Range = 12 – 41,000**

2. Please identify all methods your organization uses to purchase food and food-related products. *(Check all that apply.)* **N =122**

   **25** ☐ Contract with a food service provider **(If the food service provider purchases all food and food-related products for your organization, please skip to question 23)**
   **12** ☐ Contract with prime vendor(s) for a wide range of product types
   **88** ☐ Purchase from the VDC
   **43** ☐ Issue bids for term contracts for one or a few product types per contract
   **53** ☐ Issue bids or obtain quotes for spot purchases for one or a few product types per purchase
   **39** ☐ Purchase directly from retail store(s)
   **32** ☐ Other (*please specify*):____________________________________

3. How many vendors, including the VDC, does your organization currently use to obtain its food and food-related products?

   __________________________

   **N = 95**
   **Average = 10**
   **Range = 1 - 40**

4. Please indicate the percentage of food and food-related products, in terms of dollar value, that your organization purchases from each type of source. **N = 97**

| | |
|---|---|
| VDC: | ______ **52%** |
| DPS/State Contracts: | ______ **6%** |
| Prime Vendors: | ______ **10%** |
| Wholesale Distributors/Manufacturers: | ______ **17%** |
| Retail Stores: | ______ **2%** |
| Other (*please specify*) :__________________ | ______ **13%** |
| | 100 % |

5. What were your organization's annual food and food-related product expenditures for fiscal year 2000? *(Only include product purchases. Do not include the cost of food-related services that may have been provided.)*

   $__________________________

   **N = 93**
   **Average = $907,337**
   **Range = $9,900 - $8,472,363**

6. Please provide the information requested below concerning the types of facilities your organization uses to store food and food-related products. (*Please fill in the blanks and check the boxes as appropriate.*)

| Facility or Storage Space | Number of facilities or storage spaces | Are the facilities or storage spaces used to store other goods in addition to food and food-related products? | |
|---|---|---|---|
| Warehouse **N = 97** | **Range = 0 – 5** | ☐ Yes **43** | ☐ No **14** **N = 57** |
| Storage closet(s) *(small spaces)* **N = 97** | **Range = 0 – 55** | ☐ Yes **15** | ☐ No **39** **N = 54** |
| Storage room(s) *(large spaces)* **N = 97** | **Range = 0 – 81** | ☐ Yes **19** | ☐ No **58** **N = 77** |
| Other (*please specify*): **N = 97** ______________ | **Range = 0 – 21** | ☐ Yes **2** | ☐ No **15** **N = 17** |

If your organization stores other items in addition to food and food-related products in its storage facilities, please indicate the types of other items in the space provided. (*Please complete this question if you checked any "Yes" boxes in the question above*.)

7. On average, how much food and food-related product inventory does your organization keep on hand? (*Please check only one box.*) **N = 97**

**5** ☐ Less than a 7 day supply
**12** ☐ 7 to 14 day supply
**39** ☐ 15 to 30 day supply
**29** ☐ 31 to 45 day supply
**8** ☐ 46 to 60 day supply
**4** ☐ More than a 60 day supply

8. Please identify the total number of deliveries per month for food and food-related products that your organization typically receives from all vendors combined. *(For example, if you receive one delivery per week from each of four different vendors, write 16 in the space below [4 vendors X 1 delivery per week X 4 weeks = 16].)*

_______________________________ **N = 92**
**Average = 107**
**Range = 1 – 5,855**

9. From how many vendors per month does your organization typically receive deliveries for food and food-related products?

_______________________________ **N = 92**
**Average = 8**
**Range = 1 – 30**

10. From how many vendors does your organization receive daily deliveries for food and food-related products? **N = 97**
**Average = 0.6**
_______________________________ **Range = 0 – 8**

11. Do you think that your organization's process of obtaining all of its food and food-related products is efficient and cost-effective? **N= 97**

**75** ☐ Yes
**22** ☐ No *If no*, why not? What changes do you think are needed?

**VDC Service Quality**

12. Does your organization purchase food and food-related products from the VDC? **N = 97**

**88** ☐ Yes
**9** ☐ No *If no*, please skip to question 22.

13. On average, how often does your organization submit orders to the VDC? (*Please check only one box.*) **N = 88**

- **0** ☐ Daily
- **1** ☐ Two to three times a week
- **5** ☐ Once a week
- **15** ☐ Once every two weeks
- **1** ☐ Once every three weeks
- **54** ☐ Monthly
- **12** ☐ Other (*please specify*): ________________________________

14. By what method does your organization submit orders to the VDC? (*Check all that apply*.) **N = 88**

- **48** ☐ On-line order form
- **50** ☐ Fax
- **10** ☐ Mail
- **5** ☐ Other (*please specify*):________________________________

15. On average, how frequently does the VDC deliver goods to your organization? (*Please check only one box.*) **N = 88**

- **1** ☐ Daily
- **0** ☐ Two to three times a week
- **4** ☐ Once a week
- **17** ☐ Once every two weeks
- **1** ☐ Once every three weeks
- **55** ☐ Monthly
- **10** ☐ Other (*please specify*): ________________________________

16. Do you think that the frequency of VDC's deliveries is adequate? **N = 88**

- **75** ☐ Yes
- **13** ☐ No *If no*, please explain why the frequency of deliveries is not adequate. How frequently would your organization like to receive VDC deliveries?

17. How flexible has the VDC been in setting a delivery schedule that meets your organization's needs? (*Please check only one box*.) **N = 88**

- **51** ☐ Very flexible
- **25** ☐ Somewhat flexible
- **10** ☐ Not very flexible
- **2** ☐ Not flexible at all

18. Has your organization ever discontinued purchasing a food or food-related product from the VDC due to poor quality or other negative reasons? **N = 88**

- **23** ☐ Yes *If yes*, please explain the circumstances in the space below.
- **65** ☐ No

19. What food and food-related products, if any, would your organization like to obtain from the VDC that are not currently provided? From what source(s) does your organization currently obtain these goods? *(For example, retail store, wholesale distributor, etc.) (If there are not any additional food products that your organization would like to obtain from the VDC, please write "none" in the space below.)*

20. Please indicate your organization's level of satisfaction with the VDC's performance in the following areas. (*Please check one box in each row*.)

| **N = 88** | Very Satisfied | Satisfied | Dissatisfied | Very Dissatisfied | Not Applicable |
|---|---|---|---|---|---|
| Quality of VDC's food and food-related products | ☐ **35** | ☐ **50** | ☐ **3** | ☐ | ☐ |
| Cost of VDC's food and food-related products | ☐ **36** | ☐ **45** | ☐ **6** | ☐ **1** | ☐ |
| Timeliness of VDC's product deliveries (orders delivered when requested) | ☐ **32** | ☐ **46** | ☐ **8** | ☐ **2** | ☐ |
| VDC's ability to deliver the correct amount and type of products ordered | ☐ **18** | ☐ **54** | ☐ **16** | ☐ | ☐ |
| Assistance provided to your organization by VDC staff | ☐ **38** | ☐ **47** | ☐ **3** | ☐ | ☐ |
| Variety of products offered by the VDC | ☐ **26** | ☐ **53** | ☐ **8** | ☐ **1** | ☐ |
| Ease of ordering from the VDC | ☐ **36** | ☐ **49** | ☐ **1** | ☐ **1** | ☐ **1** |
| VDC's handling of complaints from your organization | ☐ **34** | ☐ **45** | ☐ **6** | ☐ **2** | ☐ **1** |
| Overall quality of VDC's services **N = 87** | ☐ **33** | ☐ **48** | ☐ **5** | ☐ **1** | ☐ |

Please describe the reason(s) for any "dissatisfied" or "very dissatisfied" responses. *(If additional space is needed, please attach additional sheets to the end of the survey.)*

21. **For state agencies only:** Would your organization purchase products from the VDC if it was not mandatory? **N = 73**

**56** ☐ Yes *If yes*, please explain why in the space provided.
**4** ☐ No *If no*, please explain why not in the space provided.
**13** ☐ Do not know

**<u>Organization's Use of Prime Vendors and Food Service Providers</u>**

22. Does your organization routinely purchase food and food-related products from a prime vendor? *(Please refer to the definition of "prime vendor" on page two.)* **N = 97**

**12** ☐ Yes
**85** ☐ No *If no*, please skip to question 28.

23. When did your organization first begin purchasing food and food-related products or services from a prime vendor or food service provider? (*Please identify the year*.) **Range : 1948 - 2000**

______________________

24. Please explain why your organization uses a prime vendor or food service provider rather than the VDC. *(If additional space is needed, please attach additional sheets to the end of the survey.)*

**Please complete questions 25, 26, and 27 if your organization purchases food and food-related products from a prime vendor. Otherwise, please skip to question 28.**

25. Please indicate the prime vendor(s) from which your organization purchases products, the frequency of organization orders and prime vendor deliveries, and the types of products purchased. (*If additional space is needed, please attach additional sheets to the end of the survey*.) **N = 12**

| Name of Prime Vendor: | | Daily | Two to three times a week | Once a week | Once every two weeks | Once every three weeks | Monthly |
|---|---|---|---|---|---|---|---|
| ____________ | Frequency of organization orders: | ☐ **1** | ☐ **4** | ☐ **5** | ☐ **1** | ☐ **1** | ☐ |
| | Frequency of vendor deliveries: | ☐ **1** | ☐ **4** | ☐ **5** | ☐ **1** | ☐ **1** | ☐ |
| List examples of products purchased (e.g. fresh produce, meats, beverages): | | | | | | | |
| Name of Prime Vendor: ____________ | Frequency of organization orders: | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |
| | Frequency of vendor deliveries: | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |
| List examples of products purchased (e.g. fresh produce, meats, beverages): | | | | | | | |
| Name of Prime Vendor: ____________ | Frequency of organization orders: | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |
| | Frequency of vendor deliveries: | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |
| List examples of products purchased (e.g. fresh produce, meats, beverages): | | | | | | | |

26. Please rate the overall prices of your prime vendor's food and food-related products compared to the VDC for comparable products. (*Please check only one box.*) **N = 12**

- **0** ☐ More expensive
- **4** ☐ Similar
- **4** ☐ Less expensive
- **4** ☐ Do not know

27. Please rate your overall level of satisfaction with the prime vendor(s) that your organization uses compared to the VDC. (*Please check only one box*.) **N = 12**

- **3** ☐ My organization is more satisfied with prime vendors than with the VDC.
- **0** ☐ My organization is more satisfied with the VDC than with prime vendors.
- **2** ☐ My organization is equally satisfied with the prime vendors and the VDC.
- **1** ☐ My organization's satisfaction level varies by prime vendor.
- **6** ☐ My organization rarely uses the VDC and therefore cannot make a comparison.

28. Please make any additional comments or suggestions about the VDC, prime vendors, food service providers, or your organization's process of obtaining food and food-related products in the space provided.

**THANK YOU FOR YOUR TIME AND COOPERATION.**


**<u>PLEASE RETURN TO</u>:**

**GERALD CRAVER**
**JOINT LEGISLATIVE AUDIT AND REVIEW COMMISSION**
**SUITE 1100, GENERAL ASSEMBLY BUILDING**
**CAPITOL SQUARE**
**RICHMOND, VIRGINIA 23219**
**FAX: 804-371-0101**

**PLEASE FORWARD TO THE HOUSEKEEPING/ JANITORIAL SUPERVISOR**

## Joint Legislative Audit and Review Commission of the Virginia General Assembly

## Survey of Virginia Distribution Center Customers

The Virginia General Assembly directed the Joint Legislative Audit and Review Commission (JLARC) to study the distribution of food and housekeeping/janitorial products from the Virginia Distribution Center (VDC) to State agencies and political subdivisions (see page 12 of the survey). As part of this study, JLARC staff are obtaining agencies' views concerning the adequacy of the VDC's services and products and the appropriateness of the VDC as a source of food and janitorial supplies. In addition, JLARC is studying alternatives to the VDC, including the feasibility of privatizing the distribution of food and janitorial products to state and local government agencies and nonprofit organizations in the Commonwealth.

Your answers to the following questions will help us provide the General Assembly with information concerning how well the VDC serves state agencies and political subdivisions. The survey also asks questions about your experiences with prime vendors that provide housekeeping/janitorial products. Your organization was selected to receive this survey because it purchased goods from the VDC in FY 1999 and/or FY 2000. **The data will be reported in aggregate form only, and no identifying information will be given or shared with any entity.**

The information gathered on this survey is very important to our study and we appreciate your time and effort. Please return the completed survey directly to JLARC by **September 14, 2000**. If you have any questions, please contact Gerald Craver at (804) 819-4566 or Linda Ford at (804) 819-4568.

**Organization:**______________________________________________

**Contact Name:**________________________ **Title:**________________

**Telephone Number:**____________________ **Date:**________________

If your organization does **not** purchase housekeeping/janitorial products from any source, please check the box below and complete and return this page only.

☐ **N = 137**
**Organizations that do not have a housekeeping operation = 2**
**Organizations that do have a housekeeping operation = 135**

*This survey should be completed by the housekeeping manager or by the staff member within the organization who supervises housekeeping operations. The survey consists of three sections: general organizational information, VDC service quality, and the organization's use of prime vendors. Please complete each item of the survey as requested.*

**Please use the following definitions when completing this survey:**

**Housekeeping Products:** For the purposes of this survey, housekeeping/janitorial products are defined as goods such as floor care products, toilet tissue and paper towels, hand soaps, paper and soap dispensers, paints/paint brushes, brooms/cleaning brushes, cleaning chemicals, waste receptacles, towels and sheets.

**Prime Vendors:** Prime vendors are defined as private sector companies that contract with an organization to provide a relatively broad range of products to the organization. Examples of housekeeping product distributors that serve as prime vendors include Grainger and Graybar. Vendors that have DPS/State contracts for specific products, such as disinfectants, should not be counted as prime vendors. <u>If your organization buys products from companies such as those listed but does not have a written contract with the company, then the company should not be counted as a prime vendor for your organization</u>.

**DPS/State Contracts:** Contracts developed by the Department of General Services' Division of Purchases and Supply (DPS) for the purchase of products.

**Fiscal Year 2000:** Fiscal year 2000 refers to the time period from July 1, 1999 to June 30, 2000.

## <u>General Organizational Information</u>

1. How many patients, clients, inmates, or residents does your facility/organization serve on an average day? *(If your organization does not serve an identifiable population, please leave this question blank and skip to question 2.)*

   ____________________________ **N = 113**
   **Average = 7,257**
   **Range = 12- 406,714**

2. Please identify all methods your organization uses to purchase housekeeping products. *(Check all that apply.)* **N = 135**

   **27** ☐ Issue bids for term contracts for one or a few product types per contract
   **60** ☐ Issue bids or obtain quotes for spot purchases for one or a few product types per purchase
   **8** ☐ Contract with prime vendor(s) for a wide range of product types
   **126** ☐ Purchase from the VDC
   **52** ☐ Purchase directly from retail store(s)
   **21** ☐ Other (*please specify*):____________________________________

3. How many vendors, including the VDC, does your organization currently use to obtain its housekeeping products?

    ______________________

    **N = 133**
    **Average = 5**
    **Range = 0 - 30**

4. Please indicate the percentage of housekeeping products, in terms of dollar value, that your organization purchases from each type of source. **N = 133**

| | |
|---|---|
| VDC: | ______ **76%** |
| DPS/State Contracts: | ______ **3%** |
| Prime Vendors: | ______ **6%** |
| Wholesale Distributors/Manufacturers: | ______ **10%** |
| Retail Stores: | ______ **3%** |
| Other (*please specify*): ________________ | ______ **1%** |
| | 100 % |

5. What were your organization's annual housekeeping product expenditures for fiscal year 2000? *(Only include product purchases. Do not include the cost of housekeeping-related services that may have been provided.)*

    $______________________

    **N = 120**
    **Average = 110,973**
    **Range = $1,500 – $689,161**

6. Please provide the information requested below concerning the types of facilities your organization uses to store housekeeping products. (*Please fill in the blanks and check the boxes as appropriate.*)

| Facility or <u>Storage Space</u> | Number of facilities or <u>storage spaces</u> | Are the facilities or storage spaces used to store other goods in <u>addition to housekeeping products</u>? | |
|---|---|---|---|
| Warehouse **N = 135** | **Range = 0 - 14** ________ | ☐ Yes **79** | ☐ No **N = 86** **7** |
| Storage closet(s) *(small spaces)* **N = 135** | **Range = 0 - 430** ________ | ☐ Yes **39** | ☐ No **N = 92** **53** |
| Storage room(s) *(large spaces)* **N = 135** | **Range = 0 – 76** ________ | ☐ Yes **46** | ☐ No **N = 83** **37** |
| Other (*please specify*): **N = 135** ________ | **Range = 0 - 1** ________ | ☐ Yes **3** | ☐ No **N = 4** **1** |

*(Question 6 continued)*

If your organization stores other items in addition to housekeeping products in its storage facilities, please indicate the types of other items in the space provided. (*Please complete this question if you checked any "Yes" boxes in the question above*.)

7. On average, how much housekeeping product inventory does your organization keep on hand? (*Please check only one box.*) **N = 133**

   **2** ☐ Less than a 7 day supply
   **5** ☐ 7 to 14 day supply
   **42** ☐ 15 to 30 day supply
   **47** ☐ 31 to 45 day supply
   **19** ☐ 46 to 60 day supply
   **18** ☐ More than a 60 day supply

8. Please identify the total number of deliveries per month for housekeeping products that your organization typically receives from all vendors combined. *(For example, if you receive one delivery per week from each of four different vendors, write 16 in the space below [4 vendors X 1 delivery per week X 4 weeks = 16].)*

   ______________________________

   **N = 133**
   **Average = 4**
   **Range = 0 - 32**

9. From how many vendors per month does your organization typically receive deliveries for housekeeping products?

   ______________________________

   **N = 133**
   **Average = 2**
   **Range = 0 - 15**

10. From how many vendors does your organization receive daily deliveries for housekeeping products?

   ______________________________

   **N = 130**
   **Average = .05**
   **Range = 0 -2**

11. Do you think that your organization's process of obtaining all of its housekeeping products is efficient and cost-effective? **N = 133**

   **120** ☐ Yes
   **13** ☐ No   *If no*, why not? What changes do you think are needed?

**VDC Service Quality**

12. Does your organization purchase housekeeping products from the VDC? **N = 133**

   **126** ☐ Yes
   **7** ☐ No   *If no*, please skip to question 22.

13. On average, how often does your organization submit orders for housekeeping products to the VDC? (*Please check only one box.*) **N = 126**

   **0** ☐ Daily
   **2** ☐ Two to three times a week
   **7** ☐ Once a week
   **13** ☐ Once every two weeks
   **3** ☐ Once every three weeks
   **74** ☐ Monthly
   **27** ☐ Other (*please specify*): ________________________________

14. By what method does your organization submit orders to the VDC? (*Check all that apply*.) **N = 126**

   **52** ☐ On-line order form
   **75** ☐ Fax
   **26** ☐ Mail
   **8** ☐ Other (*please specify*):________________________________

15. On average, how frequently does the VDC deliver housekeeping products to your organization? (*Please check only one box.*) **N = 126**

- **0** ☐ Daily
- **1** ☐ Two to three times a week
- **5** ☐ Once a week
- **16** ☐ Once every two weeks
- **2** ☐ Once every three weeks
- **73** ☐ Monthly
- **29** ☐ Other (*please specify*): ________________________________

16. Do you think that the frequency of VDC's deliveries is adequate? **N = 126**

- **120** ☐ Yes
- **6** ☐ No *If no*, please explain why the frequency of deliveries is not adequate. How frequently would your organization like to receive VDC deliveries?

17. How flexible has the VDC been in setting a delivery schedule that meets your organization's needs? (*Please check only one box*.) **N = 123**

- **75** ☐ Very flexible
- **37** ☐ Somewhat flexible
- **9** ☐ Not very flexible
- **2** ☐ Not flexible at all

18. Has your organization ever discontinued purchasing a housekeeping product from the VDC due to poor quality or other negative reasons? **N = 126**

- **27** ☐ Yes *If yes*, please explain the circumstances in the space below.
- **99** ☐ No

19. What housekeeping products, if any, would your organization like to obtain from the VDC that are not currently provided? From what source(s) does your organization currently obtain these goods? *(For example, retail store, wholesale distributor, etc.) (If there are not additional housekeeping products that your organization would like to obtain from the VDC, please write "none" in the space below.)*

20. Please indicate your organization's level of satisfaction with the VDC's performance in the following areas. (*Please check one box in each row*.)

| N = 126 | Very Satisfied | Satisfied | Dissatisfied | Very Dissatisfied | Not Applicable |
|---|---|---|---|---|---|
| Quality of VDC's housekeeping products | ☐ 33 | ☐ 91 | ☐ 2 | ☐ | ☐ |
| Cost of VDC's housekeeping products | ☐ 36 | ☐ 82 | ☐ 7 | ☐ | ☐ 1 |
| Timeliness of VDC's product deliveries (orders delivered when requested) | ☐ 42 | ☐ 74 | ☐ 8 | ☐ 1 | ☐ 1 |
| VDC's ability to deliver the correct amount and type of products ordered | ☐ 31 | ☐ 82 | ☐ 13 | ☐ | ☐ |
| Assistance provided to your organization by VDC staff | ☐ 49 | ☐ 63 | ☐ 5 | ☐ | ☐ 9 |
| Variety of products offered by the VDC | ☐ 29 | ☐ 90 | ☐ 6 | ☐ | ☐ 1 |
| Ease of ordering from the VDC | ☐ 50 | ☐ 72 | ☐ 2 | ☐ | ☐ 2 |
| VDC's handling of complaints from your organization | ☐ 40 | ☐ 69 | ☐ 5 | ☐ | ☐ 12 |
| Overall quality of VDC's services | ☐ 39 | ☐ 86 | ☐ | ☐ | ☐ 1 |

*(Question 20 continued)*

Please describe the reason(s) for any “dissatisfied” or “very dissatisfied” responses. *(If additional space is needed, please use the last page of the survey or attach additional sheets.)*

21. **For state agencies only:** Would your organization purchase housekeeping products from the VDC if it was not mandatory? **N = 107**

**81** ☐ Yes — *If yes*, please explain why in the space provided.
**10** ☐ No — *If no*, please explain why not in the space provided.
**16** ☐ Do not know

**Organization’s Use of Prime Vendors**

22. Does your organization routinely purchase housekeeping products from a prime vendor? *(Please refer to the definition of “prime vendor” on page two.)* **N = 135**

**8** ☐ Yes
**124** ☐ No — *If no*, please skip to question 28.

23. When did your organization first begin purchasing housekeeping products from a prime vendor? (*Please identify the year*.)

**Range: 1970 - 2000**

24. Please indicate the prime vendor(s) from which your organization purchases housekeeping products, the frequency of organization orders and prime vendor deliveries, and the types of products purchased. (*If additional space is needed, please use the last page of the survey or attach additional sheets*.)

**N = 8**

| Name of Prime Vendor: | | Daily | Two to three times a week | Once a week | Once every two weeks | Once every three weeks | Monthly |
|---|---|---|---|---|---|---|---|
| ____________ | Frequency of organization orders: | ☐ **1** | ☐ **1** | ☐ **1** | ☐ **1** | ☐ **1** | ☐ **3** |
| | Frequency of vendor deliveries: | ☐ **1** | ☐ **1** | ☐ **1** | ☐ **1** | ☐ **1** | ☐ **3** |

List examples of products purchased (e.g. linens, paper towels, cleaners, trash cans):

| Name of Prime Vendor: | | | | | | | |
|---|---|---|---|---|---|---|---|
| ____________ | Frequency of organization orders: | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ **1** |
| | Frequency of vendor deliveries: | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ **1** |

List examples of products purchased (e.g. linens, paper towels, cleaners, trash cans):

| Name of Prime Vendor: | | | | | | | |
|---|---|---|---|---|---|---|---|
| ____________ | Frequency of organization orders: | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ **1** |
| | Frequency of vendor deliveries: | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ **1** |

List examples of products purchased (e.g. linens, paper towels, cleaners, trash cans):

**Note: Eight organizations that responded to the survey purchase from at least one prime vendor. One organization purchases products from three prime vendors.**

25. Please explain why your organization purchases housekeeping products from a prime vendor rather than the VDC.

26. Please rate the overall prices of your prime vendor's housekeeping products compared to the VDC for comparable products. (*Please check only one box.*) **N = 8**

- **0** ☐ More expensive
- **4** ☐ Similar
- **2** ☐ Less expensive
- **2** ☐ Do not know

27. Please rate your overall level of satisfaction with the prime vendor(s) that your organization uses compared to the VDC. (*Please check only one box*.) **N = 8**

- **4** ☐ My organization is more satisfied with prime vendors than with the VDC.
- **0** ☐ My organization is more satisfied with the VDC than with prime vendors.
- **2** ☐ My organization is equally satisfied with the prime vendors and the VDC.
- **0** ☐ My organization's satisfaction level varies by prime vendor.
- **2** ☐ My organization rarely uses the VDC and therefore cannot make a comparison.

28. Please make any additional comments or suggestions about the VDC, prime vendors, or your organization's process of obtaining housekeeping products in the space provided.

**THANK YOU FOR YOUR TIME AND COOPERATION.**

**<u>PLEASE RETURN TO</u>:**

**GERALD CRAVER**
**JOINT LEGISLATIVE AUDIT AND REVIEW COMMISSION**
**SUITE 1100, GENERAL ASSEMBLY BUILDING**
**CAPITOL SQUARE**
**RICHMOND, VIRGINIA 23219**
**FAX: 804-371-0101**

## COMMONWEALTH OF VIRGINIA
**Joint Legislative Audit and Review Commission**
**of the Virginia General Assembly**

# A Survey of Local Governments and Non-profit Organizations

The Joint Legislative Audit and Review Commission (JLARC) has been directed by the Virginia General Assembly to conduct a review of the State's process of acquiring food and housekeeping products for its agencies. (A copy of the study mandate is attached to this survey.) A primary method used by the State is a central warehouse operation, called the Virginia Distribution Center. As part of this study, we are examining the feasibility of broadening the Virginia Distribution Center customer base to include more local governments and non-profit organizations.

The purpose of this survey is to better understand the current purchasing practices of local governments and non-profit organizations with regard to food and housekeeping products (the primary products sold by the Virginia Distribution Center). The survey consists of three sections: questions about your organization's purchases of food and food-related products, questions about your organization's purchases of housekeeping products, and for local government respondents, questions about your use of the state central warehouse. This survey should be completed by staff members that have knowledge of your organization's food services and housekeeping services. Please note that the survey may require responses from more than one staff person, depending on your organization's division of staff responsibilities.

Your responses to the questions are very important to the study, and we appreciate your time and effort. Your answers will assist us in providing the information requested by the General Assembly. The data will be reported in aggregate form only. **No identifying information will be given or shared with any agency.** If you have any questions about the survey, please direct them to April Kees at (804) 819-4578 or Linda Ford at (804) 819-4568. Please return your completed survey in the attached, postage-paid envelope by **<u>September 25, 2000</u>**.

**Organization:**______________________________________________________

**Contact Name:**____________________________ **Title:**_____________________

**Telephone Number:**________________________ **Date:**____________________

**Please use the following definitions when completing this survey:**

**Food Products:** For the purposes of this survey, food products are defined as goods such as meats, beverages, canned goods, vegetables, fruits, and spices that an organization purchases from private sector vendors.

**Food-Related Products:** Food-related products are defined as goods such as paper napkins, plates, disposable cutlery, and stainless steel flatware that an organization purchases from private sector vendors.

**Housekeeping Products:** For the purposes of this survey, housekeeping/janitorial products are defined as goods such as toilet tissue and paper towels, hand soaps, paper and soap dispensers, floor care products, paints/paint brushes, brooms/cleaning brushes, cleaning chemicals, waste receptacles, towels and sheets.

**Prime Vendors:** Prime vendors are defined as private sector companies that contract with an organization to provide a relatively broad range of products to the organization. Examples of food distributors that serve as prime vendors include SYSCO Food Services of Virginia, Alliant Foodservice, and U.S. Foodservice. Examples of janitorial product distributors that serve as prime vendors include Grainger and Graybar. <u>If your organization buys products from companies such as those listed but does not have a written contract with the company, then the company should not be counted as a prime vendor for your organization</u>. *(Note: These are not all-inclusive lists of private sector companies that serve as prime vendors.)*

**Food Service Provider:** Food service providers are defined as private sector companies that contract with an organization to manage its food service operations (such as managing a cafeteria). ARAMARK is an example of a food service provider.

**Janitorial Service Provider:** Janitorial service providers are defined as private sector companies that contract with an organization to clean its offices and/or living quarters.

**Virginia Distribution Center:** The Virginia Distribution Center (VDC) serves as the state central warehouse. It stocks food, food-related, and housekeeping products that can be purchased by State agencies and local governments.

**DPS/State Contracts:** Contracts developed by the Virginia Department of General Services' Division of Purchases and Supply (DPS) for the purchase of products such as milk, bread, and cereal.

**Fiscal Year 2000:** Fiscal year 2000 refers to the time period from July 1, 1999 to June 30, 2000.

**Calendar Year 1999:** Calendar year 2000 refers to the time period from January 1, 1999 to December 31, 1999.

## SECTION 1: Questions Pertaining to Food and Food-related Products

Please refer to the definitions on page two before completing this section.

1. For approximately how many patients, clients, inmates, or students does your organization provide food on an average day? *(Enter the number below.)*

   ______________________ **(If none, please skip to question 16)**

   **N = 92, Average = 1,206, Range = 6 – 15,000**

2. Please identify all methods your organization uses to purchase food and food-related products. *(Check all that apply.)* **N = 91**

   **15** ☐ Contract with a food service provider **(If the food service provider purchases all food and food-related products for your organization, please skip to question 16)**
   **44** ☐ Contract with prime vendor(s) for a wide range of product types
   **18** ☐ Enter into contracts (covering a certain period of time) for one or a few product types per contract
   **14** ☐ Issue bids or obtain quotes for one-time purchases for one or a few product types per purchase
   **47** ☐ Purchase directly from retail store(s)
   **33** ☐ Other (*please specify*):____________________________________

3. How many vendors does your organization currently use to obtain its food and food-related products? *(Enter the number in the space below.)*

   ______________________

   **N = 70**
   **Average = 6**
   **Range = 0 - 17**

4. Please indicate the percentage of food and food-related products, in terms of dollar value, that your organization purchases from each type of source. **N = 72**

| | |
|---|---|
| DPS/State Contract: | ______ **0.5 %** |
| Prime Vendors: | ______ **43 %** |
| Wholesale Distributors/Manufacturers: | ______ **26 %** |
| Retail Stores: | ______ **19 %** |
| Other (*please specify*) :__________________ | ______ **11 %** |
| | 100 % |

5. What were your organization's annual expenditures for food and food-related products for fiscal year 2000 or calendar year 1999? *(Only include product purchases. Do not include the cost of food-related services that may have been provided. Please check the appropriate year designation.)*

   $____________________ ☐ Fiscal Year 2000 ☐ Calendar Year 1999

   **N = 80**
   **Average = $295,106**
   **Range = $250 - $2.9 Million**

6. On average, how much food and food-related product inventory does your organization keep on hand? (*Please check only one box.*) **N = 75**

**11** ☐ Less than a 7 day supply
**38** ☐ 7 to 14 day supply
**13** ☐ 15 to 30 day supply
**4** ☐ 31 to 45 day supply
**2** ☐ 46 to 60 day supply
**7** ☐ More than a 60 day supply

7. What is your organization's total <u>capacity</u> for food storage, in terms of the number of days' worth of products? *(Check the box that most closely identifies the maximum number of days' worth of food products that your organization could physically store at one time.)* **N = 74**

**0** ☐ No storage space
**6** ☐ Capacity for a 1 to 6 day supply
**30** ☐ Capacity for a 7 to 14 day supply
**22** ☐ Capacity for a 15 to 30 day supply
**5** ☐ Capacity for a 31 to 45 day supply
**5** ☐ Capacity for a 46 to 60 day supply
**6** ☐ Capacity for a 61 day supply or greater

8. Please identify the total number of deliveries per month for food and food-related products that your organization typically receives from all vendors combined. *(For example, if you receive one delivery per week from each of four different vendors, write 16 in the space below [4 vendors X 1 delivery per week X 4 weeks = 16].)*

______________________

**N = 71**
**Average = 28**
**Range = 0 - 174**

9. From how many vendors per month does your organization typically receive deliveries for food and food-related products? *(Enter the number below.)*

______________________

**N = 72**
**Average = 5**
**Range = 0 - 17**

10. From how many vendors does your organization receive daily deliveries for food and food-related products? *(Enter the number below.)*

______________________

**N = 72**
**Average = 0.4**
**Range = 0 - 3**

11. Please identify the typical number of times per month your organization picks up food and food-related products from a vendor/store (rather than having it delivered). *(Enter the number below.)*

______________________

**N =73**
**Average 4**
**Range = 0 - 32**

12. Does your organization routinely purchase food and food-related products from a prime vendor(s)? *(Please refer to the definition of "prime vendor" on page two.)* **N = 85**

**45** ☐ Yes *If yes*, in what year did you begin using a prime vendor? ____________ **Range: 1977 - 2000**
**40** ☐ No *If no*, please skip to question 16.

**Please complete questions 13 through 15 for the prime vendor(s) that your organization uses to purchase food and food-related products. *<u>If your organization uses more than one prime vendor, please copy page 5 of the survey (questions 13 through 15) and complete the questions for each prime vendor used.</u>***

13. Please identify the types of products purchased from the prime vendor *(e.g. fresh produce, canned fruits and vegetables, meats)*.

**Note: Forty-five organizations reported having contracts with a total of 46 prime vendors.**

14. On average, how frequently does the prime vendor deliver goods to your organization? (*Please check only one box.*) **N = 45**

- **0** ☐ Daily
- **12** ☐ Two to three times a week
- **32** ☐ Once a week
- **1** ☐ Once every two weeks
- **0** ☐ Once every three weeks
- **0** ☐ Monthly
- **1** ☐ Other (*please specify*): ________________________________

15. Please rate your organization's overall level of satisfaction with the prime vendor. (*Please check only one box.*) **N = 46**

- **26** ☐ Very satisfied
- **21** ☐ Satisfied
- **0** ☐ Dissatisfied
- **0** ☐ Very dissatisfied

Please explain the specific aspects leading to your satisfaction/dissatisfaction with the prime vendor in the space below. *(If additional space is needed, please use the last page of the survey or attach additional sheets.)*

## SECTION 2: Questions Pertaining to Housekeeping/Janitorial Products

Please refer to the definitions on page two before completing this section.

16. Please identify all methods your organization uses to purchase housekeeping products. *(Check all that apply.)* **N = 156**

    **27** ☐ Contract with a janitorial service provider **(If the janitorial service provider purchases all housekeeping products for your organization, please skip to Section 3 on page 9)**
    **39** ☐ Contract with prime vendor(s) for a wide range of product types
    **17** ☐ Enter into contracts (for a certain period of time) for one or a few product types per contract
    **37** ☐ Issue bids or obtain quotes for one-time purchases for one or a few product types per purchase
    **96** ☐ Purchase directly from retail store(s)
    **39** ☐ Other (*please specify*):___________________________________

17. How many vendors does your organization currently use to obtain its housekeeping products? *(Enter the number below.)*

    ______________________

    **N = 111**
    **Average = 3.5**
    **Range = 1 - 20**

18. Please indicate the percentage of housekeeping products, in terms of dollar value, that your organization purchases from each type of source. **N = 121**

| | |
|---|---|
| DPS/State Contract: | ______ **1%** |
| Prime Vendors: | ______ **22%** |
| Wholesale Distributors/Manufacturers: | ______ **26%** |
| Retail Stores: | ______ **42%** |
| Other (*please specify*) :__________________ | ______ **9%** |
| | 100 % |

19. What were your organization's annual expenditures for housekeeping products for fiscal year 2000 or calendar year 1999? *(Only include product purchases. Do not include the cost of janitorial services that may have been provided. Please check the appropriate year designation.)*

    $___________________ ☐ Fiscal Year 2000 ☐ Calendar Year 1999

    **N = 131**
    **Average = $22,492**
    **Range = $10 - $260,000**

20. On average, how much housekeeping product inventory does your organization keep on hand? (*Please check only one box.*) **N = 124**

**7** ☐ Less than a 7 day supply
**20** ☐ 7 to 14 day supply
**50** ☐ 15 to 30 day supply
**21** ☐ 31 to 45 day supply
**9** ☐ 46 to 60 day supply
**17** ☐ More than a 60 day supply

21. What is your organization's total capacity for housekeeping product storage, in terms of the number of days' worth of products? *(Check the box that most closely identifies the maximum number of days' worth of housekeeping products that your organization could physically store at one time.)* **N = 125**

**7** ☐ No storage space
**4** ☐ Capacity for a 1 to 6 day supply
**10** ☐ Capacity for a 7 to 14 day supply
**38** ☐ Capacity for a 15 to 30 day supply
**21** ☐ Capacity for a 31 to 45 day supply
**18** ☐ Capacity for a 46 to 60 day supply
**27** ☐ Capacity for a 61 day supply or greater

22. Please identify the total number of deliveries per month for housekeeping products that your organization typically receives from all vendors combined. *(For example, if you receive one delivery per week from each of four different vendors, write 16 in the space below [4 vendors X 1 delivery per week X 4 weeks = 16].)*

______________________ **N = 119**
**Average = 3.5**
**Range = 0 - 24**

23. From how many vendors per month does your organization typically receive deliveries for housekeeping products? *(Enter the number below.)*

______________________ **N = 120**
**Average = 1.5**
**Range = 0 - 8**

24. From how many vendors does your organization receive daily deliveries for housekeeping products? *(Enter the number below.)*

______________________ **N = 119**
**Average = 0.0**
**Range = 0 -1**

25. Please identify the typical number of times per month that your organization picks up housekeeping products from a vendor/store (rather than having it delivered). *(Enter the number below.)*

______________________ **N = 122**
**Average = 2**
**Range = 0 -25**

26. Does your organization routinely purchase housekeeping products from a prime vendor(s)? *(Please refer to the definition of "prime vendor" on page two.)* **N = 139**

**39** ☐ Yes *If yes*, in what year did you begin using a prime vendor? ______________ **Range = 1955 - 2000**
**100** ☐ No *If no*, please skip to Section 3 on page 9.

**Please complete questions 27 through 29 for the prime vendor(s) that your organization uses to purchase housekeeping products. *If your organization uses more than one prime vendor, please copy page 8 of the survey (questions 27 through 29) and complete the questions for each prime vendor used.***

27. Please identify the types of products purchased from the prime vendor *(e.g. cleaning supplies, paper products, linens)*.

**Note: Thirty-nine organizations reported having contracts with a total of 48 prime vendors.**

28. On average, how frequently does the prime vendor deliver goods to your organization? (*Please check only one box.*) **N = 47**

**0** ☐ Daily
**4** ☐ Two to three times a week
**7** ☐ Once a week
**10** ☐ Once every two weeks
**2** ☐ Once every three weeks
**17** ☐ Monthly
**7** ☐ Other (*please specify*): ________________________________

29. Please rate your organization's overall level of satisfaction with the prime vendor. (*Please check only one box.*) **N = 46**

**28** ☐ Very satisfied
**18** ☐ Satisfied
**0** ☐ Dissatisfied
**0** ☐ Very dissatisfied

Please explain the specific aspects leading to your satisfaction/dissatisfaction with the prime vendor in the space below. *(If additional space is needed, please use the last page of the survey or attach additional sheets.)*

**SECTION 3: For Local Government Agencies Only – Questions pertaining to the state central warehouse.**

This section is to be completed by local government agencies only. If your organization is not part of the local government, please skip to question 35. Please refer to the definitions on page two before completing this section.

30. Has your organization purchased products from the Virginia Distribution Center (state central warehouse) in the past **four** years? **N = 79**

**11** ☐ Yes
**69** ☐ No *If no,* why has your organization chosen not to purchase food and housekeeping products from the VDC? (After completing this question, please skip to Question 34.)

31. In approximately what year did your organization last purchase products from the VDC? *(Enter the year below.)*

**Range: 1997 - 2000**

________________________

29. Based on your organization's experience with the VDC within the past four years, please indicate your level of satisfaction with the VDC's performance in the following areas. (*Please check one box in each row*.)

| **N = 8** | Very Satisfied | Satisfied | Dissatisfied | Very Dissatisfied | Not Applicable/ Don't Know |
|---|---|---|---|---|---|
| Quality of VDC's products | ☐ **2** | ☐ **6** | ☐ | ☐ | ☐ |
| Cost of VDC's products | ☐ **2** | ☐ **6** | ☐ | ☐ | ☐ |
| Timeliness of VDC's product deliveries (orders delivered when requested) | ☐ **1** | ☐ **4** | ☐ **2** | ☐ | ☐ **1** |
| VDC's ability to deliver the correct amount and type of products ordered | ☐ **2** | ☐ **6** | ☐ | ☐ | ☐ |
| Assistance provided to your organization by VDC staff | ☐ **1** | ☐ **7** | ☐ | ☐ | ☐ |
| Variety of products offered by the VDC | ☐ **2** | ☐ **4** | ☐ **2** | ☐ | ☐ |
| Ease of ordering from the VDC | ☐ **3** | ☐ **4** | ☐ **1** | ☐ | ☐ |
| VDC's handling of complaints from your organization | ☐ **2** | ☐ **4** | ☐ **2** | ☐ | ☐ |
| Overall quality of VDC's services | ☐ **1** | ☐ **7** | ☐ | ☐ | ☐ |

Please describe the specific reason(s) for any "dissatisfied" or "very dissatisfied" responses. *(If additional space is needed, please attach additional sheets to the end of the survey.)*

33. If applicable, please identify the reason(s) why you do not currently purchase food and housekeeping products from the VDC.

34. Please identify any “best practices” in the purchasing of food and housekeeping products that you think may be useful to the Commonwealth of Virginia.

35. The following space is provided for additional comments you may have about procurement of food and housekeeping products, the prime vendors and/or other vendors that your organization uses, or any topic you feel may be related to this study. (*Attach additional sheets if necessary*.)

**THANK YOU FOR YOUR TIME AND ASSISTANCE.**

**PLEASE RETURN THE COMPLETED SURVEY BY SEPTEMBER 25, 2000 (USING THE ENCLOSED, POSTAGE PAID ENVELOPE) TO:**

**JLARC**
**SUITE 1100, GENERAL ASSEMBLY BUILDING**
**RICHMOND, VIRGINIA 23219**
**ATTENTION: APRIL KEES**

## Appendix D

# JLARC Market Basket Survey Methodology

JLARC staff conducted a market basket survey to compare the Virginia Distribution Center's (VDC) prices to those charged by various wholesale distributors that are serving as prime vendors. First, JLARC staff requested listings of the products used by a State correctional facility and a mental retardation facility. (The mental retardation facility purchases food and janitorial products for both the mental retardation facility and a mental health hospital.) The correctional facility did not have the computer capabilities to prepare a list of all food products purchased. Instead, it provided JLARC staff with a listing of the top 25 food products purchased in terms of total expenditures. Of the 25 food products listed, 15 were purchased from the VDC. (The remaining ten products were purchased from the DOC agribusiness operation.) JLARC staff then identified all the products in the top 20 percent of food products purchased by the mental retardation facility that were supplied by the VDC. There were 24 VDC-supplied products. The 24 VDC products supplied to the mental retardation facilities were then added to the 15 VDC products supplied to the correctional facility to obtain an unduplicated listing of 38 of the VDC products which these facilities purchase most frequently.

Next, JLARC staff attempted to obtain current prices paid for the equivalent products by various governmental agencies that use prime vendors. Two sources for identifying agencies with prime vendor contracts were the JLARC staff survey of current VDC customers and survey of local governments and non-profit organizations (non-VDC users). In following up with several survey respondents who reported having prime vendor arrangements, it was found that several of these respondents did not, in fact, have arrangements that would be classified as prime vendor arrangements. These were not included in the comparison. Further, there were so few products on the JLARC-developed list that were purchased by the local school systems contacted that JLARC staff did not conduct a full price comparison with these entities. However, VDC's prices were typically lower for the few products for which valid comparisons could be made. (In many cases, the local school systems did not use the same package size or grade as the VDC products in the comparison.)

While not obtaining prices for all 38 products from any of the prime vendor users, JLARC staff obtained a sufficient number of prices to make comparisons with three prime vendors. Two of these prime vendors have contracts serving large State agencies and the third has a contract with the federal military. Tables 1, 2, and 3 provide the results of the price comparisons. The price charged for each product was multiplied by the product's annual volume of usage by the two agencies. This approach ensured that products used the most were weighted more heavily than products with lower usage.

The study team followed-up with the prime vendor users providing the prices to ensure that it compared prices for the equivalent products between the various sources. This would include comparing products packaged in the same way (for example, quantity or weight per package and packages per case), but not necessarily of the same brand name.

## Table 1

| Product Description | Quantity Purchased | VDC Price | VDC Total Cost | Prime Vendor Price | Prime Vendor Total Cost |
|---|---|---|---|---|---|
| beef ground 80/20 meat;fat, frozen, 5/10 lb/case | 637 | $ 60.37 | $ 38,456.96 | $ 62.50 | $ 39,812.50 |
| cheese, american, processed, sliced, 4/5 lb/case | 809 | $ 29.45 | $ 23,826.34 | $ 30.60 | $ 24,755.40 |
| fruit cocktail, canned, natural juice, USDA Grade B, 71.15 oz minimum drained weight, 6/10/case | 847 | $ 24.94 | $ 21,121.81 | $ 30.42 | $ 25,765.74 |
| beans, green, canned, cut 1.5", USDA Grade A, 60 oz min. drained weight, 6/#10/case, 56 cases/pallet | 1683 | $ 10.91 | $ 18,358.16 | $ 13.80 | $ 23,225.40 |
| eggs, frozen, whole pasteurized, 6/5 lb/case | 1180 | $ 13.55 | $ 15,993.72 | $ 23.91 | $ 28,213.80 |
| margarine, soft spread, vegetable, sealed cups, 900/5g/case, 10 lb/case | 1802 | $ 8.57 | $ 15,437.01 | $ 17.73 | $ 31,949.46 |
| coffee, instant, decaf, freeze dried, 12/8 oz/case | 240 | $ 55.91 | $ 13,418.78 | $ 119.04 | $ 28,569.60 |
| applesauce, unsweet, diet, canned, USDA Grade A, regular style, 6/10/case | 1141 | $ 11.47 | $ 13,086.81 | $ 18.72 | $ 21,359.52 |
| fish, pollock, frozen, 4 oz, raw, unbreaded, natural fillet, 6/6 lb/case | 259 | $ 43.93 | $ 11,379.01 | $ 63.72 | $ 16,503.48 |
| beef, patties, frozen, 40/4 oz portion, 80/20 lean; fat ratio, 1/10 lb/box | 683 | $ 16.44 | $ 11,226.88 | $ 13.50 | $ 9,220.50 |
| beef, diced chunks, frozen, 5/10 lb/case | 120 | $ 87.70 | $ 10,523.52 | $ 90.00 | $ 10,800.00 |
| potatoes, mashed, dehydrated, complete mix, 6/5.5 lb/case | 340 | $ 28.93 | $ 9,837.29 | $ 48.84 | $ 16,605.60 |
| margarine reddies, vegetable, tray pats, 90 count/lb, colored, 1/12 lb/case | 1180 | $ 8.31 | $ 9,802.73 | $ 10.92 | $ 12,885.60 |
| juice, cranberry, canned, 12/46 oz/case | 640 | $ 13.48 | $ 8,626.18 | $ 20.16 | $ 12,902.40 |
| bologna, frozen, all beef, 10-12 lbs avg/roll, 4rls/cs, 1/40 lb/case | 205 | $ 38.88 | $ 7,970.99 | $ 68.00 | $ 13,940.00 |
| tomatoes, canned, diced, in tomato juice, USDA Grade B, 63.5 oz minimum drained weight, 6/10/case | 756 | $ 10.52 | $ 7,952.52 | $ 15.12 | $ 11,430.72 |
| juice, orange, canned, unsweetened, U.S. Grade A, 12/46 oz/case | 627 | $ 12.64 | $ 7,922.77 | $ 17.52 | $ 10,985.04 |
| tuna, canned, chunk, solid, light, in water, dolphin safe, 6/66.5 oz/case | 395 | $ 17.81 | $ 7,034.63 | $ 27.24 | $ 10,759.80 |
| spinach, canned, leaf chopped, USDA Grade A, 58.4 oz minimum drained weight, 6/10/case | 488 | $ 11.69 | $ 5,702.57 | $ 15.54 | $ 7,583.52 |
| coffee, regular, freeze dried, instant, 12/8 oz/case | 125 | $ 41.73 | $ 5,216.40 | $ 109.80 | $ 13,725.00 |
| margarine, solids, vegetable, 30-1 lb solids/case, colored, 1/30 lb/case | 658 | $ 7.68 | $ 5,054.76 | $ 10.80 | $ 7,106.40 |
| | | | $ 267,949.86 | | $ 378,099.48 |
| | | State would have paid 41% more to the prime vendor than the VDC | | | |

Table 2

| *Product Description* | *Quantity Purchased* | *VDC Price* | *VDC Total Cost* | *Prime Vendor Price* | *Prime Vendor Total Cost* |
|---|---|---|---|---|---|
| beef ground 80/20 meat;fat, frozen, 5/10 lb/case | 637 | $ 60.37 | $ 38,456.96 | $56.00 | $ 35,672.00 |
| cheese, american, processed, sliced, 4/5 lb/case | 809 | $ 29.45 | $ 23,826.34 | $24.36 | $ 19,707.24 |
| beans, green, canned, cut 1.5", USDA Grade A, 60 oz min. drained weight, 6/#10/case | 1683 | $ 10.91 | $ 18,358.16 | $13.66 | $ 22,989.78 |
| eggs, frozen, whole pasteurized, 6/5 lb/case | 1180 | $ 13.55 | $ 15,993.72 | $18.41 | $ 21,723.80 |
| peaches, sliced, canned, yellow clingstone, in juice, USDA Grade B,68.5 oz minimum drained weight, 6/10/case | 773 | $ 20.56 | $ 15,895.35 | $20.66 | $ 15,970.18 |
| margarine, soft spread, vegetable, sealed cups, 900/5g/case, 10 lb/case | 1802 | $ 8.57 | $ 15,437.01 | $17.06 | $ 30,742.12 |
| beef, patties, frozen, 40/4 oz portion, 80/20 lean; fat ratio, 1/10 lb/box | 683 | $ 16.44 | $ 11,226.88 | $11.58 | $ 7,909.14 |
| beef, diced chunks, frozen, 5/10 lb/case | 120 | $ 87.70 | $ 10,523.52 | $89.95 | $ 10,794.00 |
| flour, bread, enriched, 1/50 lb/bag | 1100 | $ 9.18 | $ 10,098.00 | $11.50 | $ 12,650.00 |
| tuna, canned, chunk, solid, light, in water, dolphin safe, 6/66.5 oz/case | 395 | $ 17.81 | $ 7,034.63 | $25.17 | $ 9,942.15 |
| sugar, white granulated, 8/5 lb/bale | 535 | $ 11.55 | $ 6,176.68 | $12.99 | $ 6,949.65 |
| margarine, solids, vegetable, 30-1 lb solids/case, colored, 1/30 lb/case | 658 | $ 7.68 | $ 5,054.76 | $9.69 | $ 6,376.02 |
| pineapple, canned, coarse, crushed, USDA Grade B, 65.75 oz min dried weight 6/10/case | 340 | $ 13.98 | $ 4,751.57 | $17.59 | $ 5,980.60 |
| cups, small, hot, 8 oz., 1000/case | 427 | $ 9.94 | $ 4,244.38 | $11.05 | $ 4,718.35 |
| beans, dried, Navy Michigan, 1/20 lb/box | 413 | $ 5.65 | $ 2,332.79 | $8.72 | $ 3,601.36 |
| | | | $ 189,410.77 | | $ 215,726.39 |
| | | | | *after rebate:* | $213,784.85 |
| State would have paid 13% more to the prime vendor than the VDC, after taking into account a sales rebate. | | | | | |

Table 3

| *Product Description* | *Quantity Purchased* | *VDC Price* | *VDC Total Cost* | *Prime Vendor Price* | *Prime Vendor Total Cost* |
|---|---|---|---|---|---|
| beef ground 80/20 meat;fat, frozen, 5/10 lb/case | 637 | $ 60.37 | $ 38,456.96 | $63.50 | $ 40,449.50 |
| coffee, instant, decaf, freeze dried, 12/8 oz/case | 240 | $ 55.91 | $ 13,418.78 | $83.47 | $ 20,032.80 |
| applesauce, unsweet, diet, canned, USDA Grade A, regular style, 6/10/case | 1141 | $ 11.47 | $ 13,086.81 | $12.79 | $ 14,593.39 |
| cups, small, hot, 8 oz., 1000/case | 427 | $ 26.19 | $ 11,183.13 | $27.37 | $ 11,686.99 |
| beans, green, canned, cut 1.5", USDA Grade A, 60 oz min. drained weight, 6/#10/case | 1683 | $ 10.91 | $ 18,358.16 | $13.29 | $ 22,367.07 |
| juice, cranberry, canned, 12/46 oz/case | 640 | $ 13.48 | $ 8,626.18 | $25.30 | $ 16,192.00 |
| tuna, canned, chunk, solid, light, in water, dolphin safe, 6/66.5 oz/case | 395 | $ 17.81 | $ 7,034.63 | $24.28 | $ 9,590.60 |
| turkey roll, frozen, white meat, for sandwiches, fully cooked, 4/10 lb. rls/case | 284 | $ 74.48 | $ 21,151.41 | $75.60 | $ 21,470.40 |
| hot roll mix, yeast blended, 1/50 lb/bag | 1880 | $ 15.66 | $ 29,440.80 | $34.41 | $ 64,690.80 |
| cheese, american, processed, sliced, 4/5 lb/case | 809 | $ 29.45 | $ 23,826.34 | $32.45 | $ 26,252.05 |
| margarine, soft spread, vegetable, sealed cups, 900/5g/case, 10 lb/case | 1802 | $ 8.57 | $ 15,437.01 | $17.29 | $ 31,156.58 |
| margarine, solids, vegetable, 30-1 lb solids/case, colored, 1/30 lb/case | 658 | $ 7.68 | $ 5,054.76 | $9.62 | $ 6,329.96 |
| flour, bread, enriched, 1/50 lb/bag | 1100 | $ 9.18 | $ 10,098.00 | $9.29 | $ 10,219.00 |
| | | | $ 215,172.99 | | $ 295,031.14 |
| | | State would have paid 37% more to the prime vendor than the VDC | | | |

While JLARC staff focused the market basket survey primarily on food products, it also developed a listing of the housekeeping products used most by the same correctional and mental retardation facilities. VDC's prices for these products were then compared to the prices charged by a national industrial supply company with which the State maintains a statewide contract. Table 4 (page D-5) presents the results of that comparison.

**Table 4**

| *Product Description* | *Quantity* | *VDC Price* | *VDC Total Cost* | *Prime Vendor Price* | *Prime Vendor Total Cost* |
|---|---|---|---|---|---|
| towels, paper flat, single fold, unbleached, 4000/case | 3079 | $ 13.72 | $ 42,231.56 | $ 17.65 | $ 54,338.19 |
| liner, can, extra heavy duty, plastic, 1.0 mil. 40-45 gallon, black, 125/case | 3200 | $ 10.91 | $ 34,905.60 | $ 16.42 | $ 52,531.20 |
| toilet tissue, 1000, 1 ply sheets/roll, 96 rolls/case | 675.7 | $ 33.90 | $ 22,907.04 | $ 46.12 | $ 31,163.28 |
| handrinse w/ hand pump dispenser attached, antimicrobial, waterless, for use between regular hand washing. Contains no soap, 12/8 oz./case. Brand: Purell 9652 | 435 | $ 35.59 | $ 15,479.91 | $ 33.64 | $ 14,633.40 |
| cleanser, skin, liquid lotion for general purpose usage, 10/950ml/case. VDC Brand: Epicare | 445 | $ 23.76 | $ 10,573.20 | $ 39.88 | $ 17,746.60 |
| detergent, laundry, powder, medium duty, general-purpose cleaning agent for washable fabrics, 18 loads/box, 12 boxes/case, VDC Brand: All | 291 | $ 30.35 | $ 8,831.27 | $ 43.92 | $ 12,780.72 |
| stripper, floor nonammoniated, for effectively stripping films of water emulsion, floor finishes from asphalt tile, linoleum, and other floor surfaces, also for routine stripping of sealed asbestos tile. VDC Brand: Bravo, 4/1 gallon/case | 310 | $ 25.27 | $ 7,834.32 | $ 36.19 | $ 11,219.52 |
| liners, plastic, extra heavy duty+, 2.0 mil, 56 gallon Glutton can, black, 100/case | 352 | $ 18.35 | $ 6,458.92 | $ 32.60 | $ 11,475.20 |
| towels, paper flat, multi fold, bleached, 4000/case | 340 | $ 15.02 | $ 5,107.75 | $ 20.44 | $ 6,949.60 |
| towels, multi fold, unbleached, 16 bundles/case, 250 towels/bundle, 4000/case | 153 | $ 12.93 | $ 1,977.92 | $ 16.01 | $ 2,449.22 |
| disinfectant, pine scented, concentrate, a minimal claim disinfectant cleaner, 4/1 gallon/case | 37 | $ 20.95 | $ 775.22 | $ 40.90 | $ 1,513.15 |
| bowl cleaner, non-acid, liquid, general purpose use, 12/1 quart/case | 30.3 | $ 19.50 | $ 591.00 | $ 27.26 | $ 826.10 |
| sponges, fine, cellulose, 144 sponges/container | 5.4 | $ 99.58 | $ 537.71 | $ 77.18 | $ 416.79 |
| | | | $ 158,211.43 | | $ 218,042.98 |
| | | State would have paid 38% more to the prime vendor than VDC | | | |

## Appendix E

# Agency Responses

As part of an extensive data validation process, the major entities involved in a JLARC assessment effort are given an opportunity to comment on an exposure draft of the report. Appropriate technical corrections resulting from the written comments have been made in this revision of the report. Pages numbers in a response refer to an earlier exposure draft, and may not match page numbers in this final version of the report.

Appendix E contains a written response from the Department of General Services.

DEC 4 2000

# COMMONWEALTH of VIRGINIA

*Department of General Services*

Donald C. Williams
Director

D. B. Smit
Deputy Director

William G. Poston
Deputy Director

December 4, 2000

202 North Ninth Street
Suite 209
Richmond, Virginia 23219-3402
Voice/TDD (804) 786-6152
FAX (804) 371-8305

Mr. Philip A. Leone, Director
Joint Legislative Audit and Review Commission
Suite 1100
General Assembly Building
Richmond, Virginia 23219

Dear ~~Phil:~~ Phil:

Thank you for meeting with us to discuss the JLARC draft report, *Review of the Virginia Distribution Center*. The work your staff performed, particularly Linda Ford and Walt Smiley, was fair, professional and helpful. We believe the findings will help us improve an already outstanding program at the Virginia Distribution Center (VDC).

The VDC has been studied many times over the past four years. Objective evidence from the studies performed by professionals has always shown that VDC is the low cost alternative for the purchase and distribution of food and janitorial supplies to state agencies and institutions. However, your study is the first that has provided extensive information that we can use to continue improving VDC.

The cornerstone of VDC's success is our ability to produce savings for our customers. Your analysis validates that volume buying produces the best prices and maximum savings for the Commonwealth. You found that the Department of Correction and the Department of Mental Health, Mental Retardation and Substance Abuse Services should continue to use VDC as their major supplier of food and janitorial supplies. In support of that finding, we intend to improve our operational efficiencies and delivery options to better serve these very important customers.

As evidenced by the charts found on pages 62 and 63, your report shows a high level of customer satisfaction with the overall VDC program. While experiencing a high level of satisfaction, we nonetheless intend to implement JLARC recommendations that will enhance our customers' approval. Along with delivery options and more product selections, we will improve communications with our customers.

Your analysis finds that some customers have purchasing criteria that are broader than choosing the lowest priced product. For instance, some institutions of higher education are operating food facilities that are similar to "retail" establishments. As we discussed, their relationship with food distributors may be complex and involve benefits the VDC cannot bestow. We also understand the universities' need for branded products and some selections that VDC may not carry. However, we wish to remain available to institutions, if and when we can fulfill their need for high quality, lowest priced goods. We believe there will continue to be needs that VDC can meet, and we will work with institutions to identify and service those needs.

The report recommends a revision to the mandatory source rule. We have exempted institutions of higher education from using VDC; despite the potentially negative impact this exemption may have on volume purchasing. Notwithstanding these exemptions, the mandatory source rule is apparently an issue with some institutions. Therefore, we will review the rule and work with institutions of higher education to resolve this issue.

The observation that there are additional customers that VDC should approach is a sound one. We are developing an awareness program to focus on facilities, as noted in the report, that may be unfamiliar with the savings opportunities that are presented by the VDC. We recognize that while we may be an intra-governmental service, we need to perform a certain level of "marketing" to increase our public agency customer base. We will launch an effort to expose more public entities to the benefits of utilizing the Commonwealth's volume purchasing power through the VDC, and thus, lower their costs and produce savings for the taxpayers.

I would like to comment on the recommendation that the Department of General Services "should develop the management reports necessary for sound decision making as soon as possible." While we agree that management reporting is essential to any operation such as VDC, we are concerned that this recommendation might be misconstrued by a reader to indicate that DGS does not utilize adequate management reports. As we discussed in our recent meeting, VDC uses ten management reports. Five of the reports are part of VDC's new inventory software we purchased and the other five have been developed internally. Unfortunately, some reports were disrupted due to implementation of new inventory system and were unavailable when JLARC staff requested them.

Of the four reports mentioned in your analysis, three are currently utilized. One of the reports has already been developed and two others are in the final stages of development. VDC has always been operated with the benefit of sound management, financial data and reporting. Our new computer system has not only produced innovations such as "online ordering," it will also produce the very best in management reporting.

Again, I want to thank you and your staff for providing us with the opportunity to discuss this report. We believe you have produced some important information to enhance the operations of the Virginia Distribution Center and provide us with a sound foundation to build for the future.

Sincerely,

Donald C. Williams

c: The Honorable G. Bryan Slater

# JLARC Staff

*Director:* Philip A. Leone
*Deputy Director:* R. Kirk Jonas

● *Division I Chief:* Glen S. Tittermary
*Division II Chief:* Robert B. Rotz

*Section Managers:*
Patricia S. Bishop, Fiscal and Administrative Services
John W. Long, Publications and Graphics
Gregory J. Rest, Research Methods

*Project Team Leaders:*
Craig M. Burns
● Linda Bacon Ford
Harold E. Greer, III
Cynthia B. Jones
Wayne M. Turnage

*Project Team Staff:*
Aris W. Bearse
Kelly D. Bowman
Ashley S. Colvin
● Gerald A. Craver
Scott F. Demharter
Lisa V. Friel
Eric H. Messick
Anne E. Oman
Jason W. Powell
Christine D. Wolfe
Sandra S. Wright

*Fiscal Analysis Section:*
● Walter L. Smiley, Section Manager
Daniel C. Oney
Kimberly A. Maluski

*Administrative and Research Support Staff:*
Kelly J. Gobble
Joan M. Irby
Betsy M. Jackson
Becky C. Torrence
Intern: Melissa L. Vandawalker

● *Indicates JLARC staff with primary assignment to this project*

*Former JLARC Staff Who Contributed to this Report:*
April R. Kees

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**JLARC**
**Suite 1100**
**General Assembly Building**
**Capitol Square**
**Richmond, Virginia 23219**
**(804) 786-1258 Fax: 371-0101**
**http://jlarc.state.va.us**