

## Tom's Internal Services Review

### Executive Summary

AFSCME Local 88 engaged me to analyze the business operations of Multnomah County FREDS business unit and the recommendations of the Coraggio report. I have reviewed and analyzed the Coraggio report, information provided to the County by Coraggio as backup data, and the information that was provided to Coraggio by the County related to FREDS. My review of Fleet Services was provided earlier. This review will focus on Central Stores/Materiel Management and Distribution.

The Coraggio report made four basic recommendations related to Central Stores/Materiel Management and Distribution Services. The basics of the recommendations were to: create a three person strategic sourcing team to drive unit prices and support services savings on the three primary product categories; eliminate the County's Central Stores and warehouse operations; provide distribution services through external vendors; and maintain a mail processing room and relocate it to the Multnomah Building.

The Coraggio report was very clear that the County had not asked Coraggio to provide information on how to implement the recommendations, that this would be done utilizing County expertise.

### Analysis

#### Organization-wide

As part of my overall analysis, I reviewed the Coraggio recommendations on the County's higher organizational structure. I was pleased with the recommendation for all of the County departments to report to the Chief Operating Officer (COO) and for the COO to directly manage the Department of County Management. I think this more centralized model moves the County toward a County Administrator model which I believe can provide some long-term stability to the County Organization. Their recommendations on merging some departmental business services and human resource functions also move toward a more centralized and potentially cheaper model. Both of these moves provide an opportunity for more accountability, transparency, and cost containment. They provide an opportunity to develop, and more importantly implement, a set of organization-wide philosophies that can improve the potential for consistent policy implementation throughout the departments.

Coraggio's recommendations related to Materiel Management move in the opposite direction toward a more decentralized model with transactional processing handled in the departments, elimination of centralized inventory controls, and, I believe, a much more expensive model. I think this approach will hinder consistent implementation and enforcement of internal County policies, particularly related to sustainability, inventory control, and product standardization.

#### Materiel Management Analysis

My analysis of Materiel Management was complicated by the lack of sufficient cost comparisons for Central Stores products in the Coraggio report. The only detailed cost comparison was of the top 20 office and janitorial supplies, only 5% of total purchases. **This comparison shows that when unit prices are extended to reflect**

**County purchased quantities, the County Central Stores costs are 37%-45% lower than the outsource vendors' prices.** This is well above what Coraggio describes as the Central Stores breakeven point of 12.99% product cost savings and Materiel Management's current markup of 25%. **I don't see a sufficient economic case in the report for outsourcing Materiel Management. I would recommend against outsourcing Materiel Management.**

#### Distribution Services

It appears to me that an economic case can be made to further study outsourcing at least some delivery services, but there are legal questions about the County's ability to outsource interoffice mail delivery and comply with the US Postal Service's Private Express Statutes. **I would recommend a review of these statutes by the County Attorney's Office to determine if interoffice mail can be legally outsourced without adding postage.**

I would sequence any outsourcing decisions by deciding on Fleet Services before Materiel Management and Materiel Management before Distribution Services. The dependency relationships between them are interconnected and decisions on one will have impacts on the others.

More details and recommendations are included in the following review.

#### **Review**

My review focuses on Coraggio's analysis and recommendations related to FREDS, but also consider how the higher level organizational change recommendations could impact FREDS and other County programs. I also think that how the FREDS recommendations are implemented will significantly impact all County programs including higher organizational levels. I will make a few comments on the broader issues before reviewing the Coraggio analysis of the Materiel Management and Distribution Services.

#### County Philosophy Decentralized vs. Centralized

Multnomah County has never really developed and implemented a consistent philosophy of: whether its support services should be centralized or decentralized; whether service demand should be centrally managed or departmentally defined; whether service level should be based on cost containment or internal customer satisfaction; or whether cost containment should be viewed from departmental or countywide perspectives.

There are legitimate arguments to be made for each approach, but I believe that the lack of clarity and consistency of philosophy can limit the effectiveness of any approach. I think that if you were to ask County employees or program managers which models were used by the County or were desirable for the County, you would get a high degree of contradiction in the responses. This lack of common philosophy makes the common definition of internal services' success unclear and establishing the means to recognized success almost impossible. The County's philosophical inconsistencies around internal services' have at times, in my opinion, created: a general level of dissatisfaction; a climate of mistrust; higher Countywide costs than required; a clear lack of consistent direction for internal support services; and much more administrative effort and political focus on support services than they deserve.

I think the Coraggio report recognized some of these inconsistencies and made some recommendations to improve the overall high level administrative structure to address the concerns. I think that the concepts behind some of the recommendations about reporting relationships are a good and could be useful in further defining where the County wants to go. I was not, however, able to get a very clear and organizationally consistent direction regarding centralization vs. decentralization from the report recommendations. I personally think that the **clarity and consistency of direction should be flushed out before implementation of some of the other recommendations is considered**. This organizational clarity and consistency can provide the foundation for long-term positive change.

From what I understand, the County is implementing the Coraggio recommendation to have all departments report to the Chief Operating Officer (COO) and that the COO would also directly manage the central services remaining in DCM. This is a **huge move toward organizational centralization** and potentially toward a County Administrator model, which I believe has some significant positive aspects for long-term organizational stability.

The Coraggio recommendations relating to multi-department hubs for the finance/accounting and human resources appears to be a positive step toward reducing the costs of the current expensive hybrid structure by **reducing the decentralization** that currently exists.

The recommendations around Fleet Services, Central Stores/Materiel Management, and Distribution programs seem to be moving in the opposite direction **toward decentralization**.

It seems to me that: the departmental reorganizations are recommended to **consolidate decision-making and accountability**; the recommendations for a hub approach (mini-consolidations) for financial and human resources could result in increased consistency and a **consolidation of some transactional processing**; and the outsourcing approach to fleet maintenance, central stores/materiel management, and distribution services move in the opposite direction toward **decentralization of decision-making and more importantly the decentralization of transactional processing, inventory controls, contract compliance, and sustainability policy compliance**. I believe that a more consistent approach throughout the levels of the organization would result in the most overall cost containment, accountability, and transparency.

I think that it will be critical that the Department of Asset Management be provided with clear direction on the County's philosophies related to centralization, service level definition, cost containment, and countywide perspective. Without clear definitions and a common understanding of the desired internal services' balances of control and support, there will be no real way of defining when the plan has failed or succeeded. The COO's guidance in this area will be critical.

I also believe that these decisions should be clearly defined before changes are made to the individual internal support services. **How the operational support services are organized and structured should be based on these defined philosophies rather than having the structure define the philosophy.**

### Funding

The County uses a set of internal service funds to manage FREDS, Facilities, and IT. Over the years, I was deeply involved in the creation of and/or major revisions to these funds. There were a variety of reasons for utilizing

separate funds. At times there has been a need for very detailed cost information as backup documentation for grant fund expenses. At times it was thought that the General Fund Indirect rate was too high, so services that could be directly charged were put into separate funds. At other times, it was felt that setting up rate methodologies that encouraged “appropriate behavior” would help to limit the demand for these services by having departments pay for the service that they wanted. It was seen by some as a method of operating more like a business with independent revenue and expenses. Some funds were used to collect and segregate funds for capital replacement (vehicles, facilities, mainframe computers, etc.). Sophisticated accounting and billing systems were established. Over time more services were added to the separate internal service funds. The Fleet Fund and Data Processing Fund (IT) have been around for a long time. Facilities Management was funded through the General Fund until sometime in the late 1980’s or early 1990’s. The Distribution Fund was created when the County split from the City-County mail system in about 1990. Records Management was a General Fund program until the early 2000’s, when it was rolled into the Distribution Fund. Central Stores was a General Fund program until sometime in the early 2000’s when it was also rolled into the Distribution Fund.

One of the intents of the cost allocations or pricing systems within the funds was to encourage decision-making that would result in the right level of Countywide support services. If you send more mail, you pay more postage, so send only the mail that has to be sent. If you have fewer vehicles, you pay less, so turn in underutilized vehicles. This approach works pretty well when the services and their costs can be broken into small real units, but I think that it fails when addressing large high overhead services. Over time, in my opinion, the focus has been distorted from a Countywide system perspective to a departmental perspective.

When the parking garage at Yeon is left vacant and heavy equipment is left outside, because Transportation doesn’t want (or can’t afford) to pay the perceived high cost of the existing space, there is a problem. When the Health Department is allowed to have departmental staff buy the County’s family planning products rather than pay a cost allocation to Central Stores, there is a problem. When County owned buildings are allowed to be left vacant and their costs are spread Countywide, while the County leases similar space, there is a problem. Perhaps the systems should be adjusted to somehow encourage behaviors that get back to focusing on what is best for the County rather than what is best for a program or department.

In addition to these issues, managing separate funds that include costing and billing systems is more costly than managing within the General Fund. FREDS, IT, and Facilities all have more finance/accounting staff than they would if they were General Fund programs. I think that it may be time for the County to revisit the advantages and disadvantages of using all of these internal service funds. I would, however, recommend that any decision to review use of the internal service funds versus General Fund indirect be tempered by the existing staff’s capacity for change and new projects.

### **Material Management**

Material Management provides, with a few exceptions, all of the County’s commodity procurement, receiving, packing list verification, invoice reconciliation, payment authorization, returns, recalls, outdates, storage and coordinated delivery. In FY10, this involved 16702 orders consisting of 65,183 line items and 1,329,353 units issued worth a total of \$11,016,378. The product range cover office supplies, janitorial supplies, weatherization supplies, computers and supplies, medical supplies, biologics, family planning supplies, public works supplies,

vehicle parts, electronic parts, food, and a wide variety of other items. They perform this service for all County programs and many of these products are available to the County's partners, which include all of the other counties in the State.

As with the previously provided Fleet Services review, my review is intended to: identify whether the analysis behind the Coraggio recommendations is, in my opinion, valid; provide some suggestions on items that should be considered during implementation planning; and provide alternative recommendations.

## **Analysis**

The Coraggio report related to Materiel Management includes so little data that it is not possible to do a very thorough review of their analysis.

- Detailed cost comparisons were limited to listing the top 20 office and janitorial supply products, **5% of total sales.**
- No analysis of the impacts of eliminating services to Central Stores governmental partners is included. The impact on the County of eliminating 68% of the Medical Supply, Biologics, and Family Planning products (or 24% of total sales) purchased by outside agencies is not described. The organizational and financial impacts on the County's partners are hardly even mentioned.
- There is no analysis of the amount of work that will be shifted to departmental staff by eliminating Central Stores and having departmental staff provide the transactional processing. There is also no analysis of the capacity of existing County staff to absorb this workload shift.
- There is no analysis of the impacts on fiscal and inventory controls that result from outsourcing Central Stores.
- There is no analysis of the impacts on the County's ability to respond to emergencies without these programs.
- There is no analysis on the handling, mandates, security and environmental controls required for the medical supplies.

In my opinion, the absence of any described analysis in these areas makes it impossible to validate the analysis behind their recommendations or even to know why they made the recommendation.

## Cost Comparisons

A primary issue in my review is the limited cost comparisons that are provided in the report. Coraggio mentions that "the County has favorable unit pricing based on a high-level review (e.g., big box retailers, reverse auction providers)." They mention that they spoke with a reverse auction provider that would "guarantee" a 5% savings on computer equipment. They provide a detailed cost comparison for the top 20 office and janitorial supplies, but no other commodity cost comparisons.

The only detailed price comparisons are included in the workbook "Materiel Management Analysis V2" and only compare the top 20 office and janitorial supplies. The comparison of these 20 products showed the County's # of orders, # of units ordered, and unit costs; and the unit prices for these products from four vendors. While

they showed the vendors' unit prices for these supplies, they did not extend the unit prices or sum the totals by vendor, a normal bid evaluation tool.

The data from two of the four outsource vendors was insufficient to use their data. When I extended the prices on the other two vendors, Office Max and Staples Advantage, that appear to have most of the same products, I found the **totals to be between 37% and 45% higher than the County's total for the same products.** In the case of the top 20 office and janitorial products, Central Stores cost was \$559,914. Staples Advantage prices amounted to \$766,120 or \$206,206 more than the County costs. After adjusting for a couple of products that Office Max did not sell, their total is \$236,929 more than the County's cost. I think these discounts demonstrate that the County's "favorable unit pricing" is significant. While there may be issues with some of the comparative prices, I can only assume that in general they are accurate or Coraggio would not have included them in the data that they provided.

The same workbook states that the "% savings on purchases necessary to break even on Cost of Cent. Stores Operation" is 12.99%. While I did not attempt to verify either the unit pricing or the break-even point, using Coraggio's information would indicate that the County's Central Stores costs (on these products) after adjusting for the cost of operations (12.99%), are at least 20% lower than the outsource supplier prices. **Why is outsourcing Central Stores being recommended, if the only unit pricing comparison indicate savings of over 37% to 45% and the Coraggio stated savings required to break even on the cost of Central Stores is 12.99%?**

#### Partnerships

One of the significant values that the County had during my 30 year tenure was intergovernmental cooperation. While the political benefits of intergovernmental partnerships are significant, when done effectively these partnerships can have even more positive financial or organizational benefits.

In the past FREDS had a basic view that if a partnership with another government would save them (and their taxpayers) money and not cost the County money, it was worth pursuing. The pricing for services needed to be set above the marginal cost of providing the service to make it worthwhile for the County. Anything above marginal cost will provide some offset to the County's fixed overhead. All of the partnerships that FREDS has with outside agencies do spread some amount of County overhead to the partners and result in a positive financial benefit to the County. This results in offsetting a portion of the County's fixed costs and lowers costs allocated to internal customers, theoretically increasing the funds available for direct services. The previous Chief Financial Officer reviewed and approved this approach to setting pricing for outside customers.

In the case of Central Stores, sales to outside agencies generate income to the County through its 10% markup and help reduce County costs through increased purchasing volume. As mentioned above, outside agencies purchase 24% of the value of all products and 68% of the medical supply, biologics, and family planning products. Eliminating volumes of this magnitude will have an impact on County product pricing. The implementation team needs to understand in detail the impacts on County pricing if Central Stores eliminates services to outside agencies. Estimates of product costs should be made on the lower overall volumes to be purchased.

While I understand that the County is having financial challenges, so are all of the other governments. I am quite surprised that the County's values have changed so quickly, that the additional workloads for the County's (fleet, central stores, and distribution) partners is not even mentioned or considered in the reorganization recommendations. **I believe that the elimination of services to outside agencies is a mistake for the County both politically and financially.** County partners' participation in these services saves them and the County money.

### Workload Shifts

As mentioned above, I believe a **consistent model** of centralization or decentralization should be decided on before decisions are made on what to outsource. The philosophy should determine the organizational structure of support services rather than the structure defining the philosophy.

For example, without even deciding on a centralized or decentralized model of procurement, if Central Stores is outsourced, that will effectively decentralize inventory controls, contract compliance, transactional processing, cost containment, and sustainability policy compliance issues related to commodities. The structure will define the organizational philosophy. **Certainly the costs, in terms of dollars spent, lost productive labor time, and auditability of this decentralization should be fully understood before these decisions are made.**

I would argue that a centralized County Materiel Management that provides: inventory controls; contract compliance; transactional processing; and sustainability policy compliance will result in more overall County cost containment and transparency than a model that decentralizes all of these activities. I also think that going from the current hybrid model that exists with both Central Stores and Departments buying commodities to a primarily centralized model would save the County significant funds that can be directed toward direct client services.

I recently read the Auditor's "Report to Management, Central Stores: External Sales". I found the comment about the Multnomah County Health Department's decision to make purchases directly from suppliers rather than pay Central Stores its administrative markup. **Did the Health Department save money?** They would have spent some additional staff time (or hired staff) to perform the transactional processes required to order, receive, pay invoices, and potentially deliver the products and they would have saved the Central Stores markup. If Health has staff with excess capacity that can perform this work, then Health probably saved some money. (They may have been able to save more by reducing staffing capacity.) **Did the County save money by Health buying products directly? No.** The Health Department's purchases do not amount to enough to reduce Central Stores staff or costs, but do amount to enough work to impact the Health Department staff. Did other departments pay more because of the Health Department decision? **Yes.**

Unlike the portions of finance/budget/accounting and human resources functions that are currently performed in the departments as a result of shared services, commodity purchasing has never been intended to be a decentralized service. The portions of the County that still do significant amounts of commodity purchasing do so, in my opinion, because of historical circumstances more than purposeful County decision making. I believe that the MCSO, Health Department, and maybe still the Library and Facilities do significant commodity purchasing internally. The MCSO organized their independent purchasing, warehousing and delivery systems because of the independence of the elected Sheriff. The County consolidated the Health Department's Health

Supply (a previously separate organization) with Central Stores in the early 1990's to save money, but retained a small group to do special order purchasing. This internal Health purchasing group gradually took on more of the work performed by Central Stores because their staffing level could support additional work (rumor has it). The Library had a long transition from an independent organization to being part of the County organization; some commodity purchasing was retained for many years. (The Library was moving toward more use of Central Stores when I was still working, but I don't know whether this continued.) Facilities Management has had their own commodity buying for a long time, probably because of the large variety of building materials purchased. (Fleet and Electronics used to have their own purchasing staff for similar reasons, but successfully turned that role over to Materiel Management a number of years ago and benefitted from increased inventory controls.)

I think that these commodity procurement exceptions (the MCSO, Facilities, Health, and Library) should be included in the implementation planning for any changes to Central Stores. Complete centralization or decentralization or a hybrid model that is developed through countywide planning will, in my opinion, have better chances for long-term success than independent departmental decision-making.

#### Inventory Control and Commodity Receiving

Coraggio's report shows Materiel Management's FY10 purchases of over \$11 million. This consisted of 16702 orders that included 65,183 different lines consisting of 1,329,353 units of issue. This many commodities worth this much money deserve some serious inventory controls. Materiel Management has an excellent record of inventory control and has expanded services at different times to resolve inventory control issues in the departments. Computers procurements were added to Materiel Management's responsibility to resolve some inventory control and distribution issues during the County's "thin client" experiment. At that time it was also learned that dozens of new computers were stored in an unsecured portion of the Library Administration's garage/warehouse with little control. I understand that Materiel Management also took on the Weatherization Program's procurement and warehousing due to inventory control issues. A number of years ago, County Emergency Management received a significant Federal grant for equipment and supplies for multiple agencies within Multnomah County. They came to Materiel Management to handle all of the ordering, receiving, distribution, and documentation to meet federal requirements. Particular attention will need to be paid to inventory controls during implementation planning. A decentralized order and receiving model presents a huge opportunity for abuse, particularly given the total high dollar value and large volume of products.

In addition to the physical control of the products, the County should pay attention to its total inventory of supplies. Coraggio lists the Central Stores inventory as \$926,000. Inventories have purposes and expenses. One wants enough inventories to meet current needs, to take advantage of volume discounts, to meet immediate emergency needs, and other reasons. Having this inventory has costs, as Coraggio points out.

Without a centralized warehouse will the County inventory shrink? I would argue that a decentralized model will increase the inventory across the County. Currently an employee orders very small orders from Central Stores and has no work to do when the product arrives or needs to be returned for some reason. I believe that if outsourcing is pursued with direct delivery, County staff will make larger orders (or larger orders may be required by the outsource vendors) to avoid the receiving processing that will be required. I think that rather than having a centralized warehouse, dozens of mini warehouses will develop and the total size of the County's



inventories (and potentially storage space) will grow. We won't know this for sure because **there will be no accounting of total inventory size.**

### Outsourcing

Outsourcing significant commodities can easily be part of any type of materiel management model. Materiel Management has in the past looked at going to a stockless inventory for major portions of office supplies. The model would have had the ordering done on the MINT as if it was a Central Stores order, but would actually be placed transparently with a contracted outsource vendor, delivered to Central Stores, received as a ready-to-go order, packing slip verified, invoice reconciled, paid for, and order shipped with Distribution Services, thereby maintaining security in our closed facilities. The goals of this model are to provide the flexibility thought to be desired by departments, less storage space being required, the processing of commodities centralized, and the end user not having to spend time on anything but deciding what to order. Given the County's significant current price advantage in office products, now might not be the time to explore this approach, but if a smaller facility is considered in the future, it is an option worth exploring.

Before pursuing the outsourcing of Central Stores and the decentralizing of all but the buying function, decisions should be made on the County's: workforce capacity to absorb the Materiel Management processing functions; system of controls to protect the tax dollars involved; true costs and benefits of replacing Central Stores; and the impacts on our dozens of governmental partners before decentralizing the Central Stores functions.

### **Distribution Services**

Distribution Services picks up and provides all outgoing US Mail processing for the County, interoffice mail sorting and delivery, Central Stores deliveries, and connections with the City of Portland and State of Oregon interoffice delivery systems. There are seven drivers that operate 5 routes and the outgoing US Mail processing.

Coraggio's recommendations regarding Distribution Services assume that the recommendation to close Central Stores has been implemented. They recommend contracting out any remaining distribution services to an external service provider. They recommend maintaining a mail processing room and moving it to the Multnomah Building and staffing it with 2 drivers to process all of the outgoing US Mail, provide consulting as needed, and coordinate distribution throughout the Multnomah Building.

I believe that any decisions to change Distribution Services should be made after decisions are made on Fleet Services and Materiel Management. The decision on Fleet Services will impact Materiel Management's size and locations. The decision on Central Stores will impact Distribution Services' size and location.

As a first step in implementation planning for outsourcing Distribution Services, the team should have the County Attorney's Office research the US Postal Services' Private Express Statutes. **These statutes do not allow delivery for compensation of anything that could be considered mail without the addition of US postage, unless it is delivered by an employee of the organization.** There are a few exceptions to that rule, but I do not know of any exception that would allow a delivery company to be paid for transporting the County's interoffice mail without adding US postage.

The statute is part of why I understand that there can be no compensation between the City, County, and State related to interoffice mail exchanges and transport. At one time, the County and a group of other governments explored developing a combined interoffice mail system. The Private Express Statutes' provisions prevented us from pursuing that project without getting a change in the federal rules. After somehow hearing about our project and believing that it was already implemented, a postal inspector from San Francisco came to my office to explain and enforce these rules, explain the personal and organizational penalties involved in violations, and to ensure that we immediately stopped the deliveries. The US Postal Service takes these rules and their violations very seriously. **In my opinion, a legal review of these statutes should be performed early on, so that the implementation team can plan accordingly.**

### **Analysis**

The Coraggio workbook, Distribution Option Analysis\_v2, compares what I assume are the current County mail stops and stop charges to the charges from a private delivery service, Senvoy. The Senvoy prices that Coraggio used were \$9 per building stop and \$2 per additional stop at the same address. I discussed the pricing and service capacities with the President of Senvoy. He explained that Coraggio had not specifically discussed Multnomah County with them, but had gathered the pricing data that they thought might be useful for Coraggio clients.

From my discussion with Senvoy, I concluded that the \$9 and \$2 prices were in the ballpark of where they might end up. He explained that complicated stops could raise the costs and that the volume of stops might lower the per stop cost. He explained that the delivery volume for those prices were essentially what a person could easily carry. I think that he might have said a 25 pound limit, but I'm not sure of that limit. When I asked about being able to handle lab samples and drugs that might need to be kept warm or cold, he explained that they do the lab transports for the State of Oregon and completely understand the requirements. Senvoy can do routed deliveries with routes handling only County stops or they could do County deliveries within their existing routes. He said that having the County stops mixed in with the rest of their routes would save some money. If the County finds that they can legally outsource the interoffice mail delivery and chooses to outsource some of the deliveries, I would recommend extensive conversations with Senvoy and other companies to determine the best method of constructing the RFP. These companies also might also be useful for special deliveries or some regular routing as backup or to reduce permanent driver staffing, if Distribution Services is maintained.

Coraggio's comparison used 260 days per year of delivery. Dividing the County annual stop charge of \$3135 by 260 delivery days, results in a County per stop cost of \$12.05. Given the significant difference in stop charges, I think that further exploration of contracting deliveries is worthwhile. **This should not however be pursued until the legal questions around the Private Express Statutes have been resolved.** From what I understand, **the delivery cost portion of Coraggio's analysis appears valid.**

Coraggio's Distribution recommendations assume that their Central Stores recommendations are implemented. If the decision was to outsource Materiel Management, Distribution would need to move from their current location. I think that the current Materiel Management and Distribution manager would have a much better understanding of the pro's and con's of moving to the Multnomah Building than I would. They recommend two staff be retained to process the outgoing US Mail, provide consulting advice, and coordinate distribution within

the Multnomah Building. I don't think that is sufficient staff without some type of backup to handle the presorting requirements at the end of the day. I don't know the expertise or job descriptions of the current drivers, but the consulting role was provided by the Distribution Supervisor when I was there and it was very technical in nature.

I believe that the current system of a combined Materiel Management and Distribution Services is a good one that serves the County and its partners well. The size and location of the warehouse, the number of delivery routes, and how various product lines are purchased and delivered are all adjustable, should be reviewed periodically, and perhaps can be improved, but **the basic system has critical value to the County organization and should be retained.**

## Recommendations

### I recommend:

- Developing a **clear, consistent, and understood set of “philosophies”** regarding the County's internal services. Will these programs: be centralized models, decentralized models, or hybrid models; have service demand centrally controlled or departmentally defined; have service levels based on cost containment or internal customer satisfaction; and have cost containment viewed from departmental or Countywide perspectives?
- Giving some consideration, when staff time allows, to revisiting the decisions on **which programs are funded by the General Fund and which are funded through internal service funds.**
- The **sequencing of the decisions** on outsourcing Fleet Maintenance, Central Stores/Materiel Management, and Distribution Services is made in the above order. The size and shape of Distribution Services will be impacted by the decisions on Materiel Management and the size and shape of Materiel Management will be impacted by the decisions on Fleet Maintenance.
- **Maintaining and growing County partnerships** with outside agencies. In the case of Materiel Management, I would recommend allowing the use of Central Stores by the County's non-profit contractors. This could potentially reduce contractor costs to the County and spread some overhead.
- Understanding the significant cost, service, and organizational **impacts of decentralizing the transactional processing** currently performed by Central Stores before making any decisions to outsource.
- **Not outsourcing Central Stores** unless a strong case can be made that total County costs, including shifted workloads, lower volume discounts, and current commodity cost savings across most product lines can be demonstrated. The Coraggio Report did not make this case.
- **Including both departmentally purchased commodities and Central Stores in any implementation planning** to identify any cost efficiencies from consolidating those into the Central Stores.
- Evaluating the benefits and costs of consolidating the finance/budget/billing functions that come to the new Dept. of Asset Management
- **Strong inventory and fiscal controls be maintained** and restructured if a decentralized model is finally chosen. Materiel Management is the County's expert in inventory control and has grown in responsibility as a result of inventory control issues in other County programs. Determine **who will be**

**responsible and accountable for inventory control** of over 1,329,323 units of issue valued at over \$11,000,000 per year.

- **Talking to the County Attorney's Office about whether the Private Express Statutes** have any exceptions that would allow interoffice mail delivery to be contracted out without adding postage.
- Learning about the State of Oregon's experiences and costs with contracted lab deliveries.
- Giving very **serious consideration** to and planning for emergency management issues. **Fleet, Central Stores, and Distribution Services have been at the heart of emergency response for the County.** Emergency fuel, public works supplies, and medical supplies will be critical in the County's emergency response efforts. Staff from these programs has led the Logistics section in past Incident Command responses. The County should not, in my opinion, rely on contracts for these critical services. There are no acceptable excuses for a lack of adequate response in emergencies. Contract lawsuits after an emergency will not provide forgiveness from the public for inadequate emergency response.