Office of
Multnomah County Auditor

Steve March
County Auditor

501 SE Hawthorne Room 601
Portland, Oregon 97214
Phone: (503) 988-3320

Fran Davison
Judith DeVilliers
Nicole Dewees
Shannon Grzybowski
Craig Hunt
Amanda Lamb
Mark Ulanowicz

Date: January 11, 2012

To: Chair Cogen; Commissioners Kafoury, Smith, Shiprack & McKeel
           District Attorney Schrunk; Sheriff Staton

From: Steve March, County Auditor

Subject: Spending Analysis Report to Management

The County is transitioning to strategic sourcing, which involves critically analyzing spending and using the information to acquire commodities, and services, more effectively and efficiently. We reviewed and downloaded spending data from the County's systems to (1) assess the availability and quality of the data, and (2) provide the data to Purchasing and the Strategic Sourcing Team. We worked closely with Purchasing in these efforts.

Our analysis focused on three general categories: office supplies; software and communications; and, medical supplies and drugs. Generally we found good information available about the County's spending as well as a few areas that should help in the strategic sourcing efforts. While there were some issues with the data these shouldn't mitigate the information that is available.

We also found that a majority, though not all, of the County's spending in office supplies and software, was done through Central Stores or IT. We believe the information provided will assist the County in improvements to procurements and purchasing in these areas.

This report was done by Principal Auditor Judith DeVilliers and builds upon previous work in Accounts Payable and Procurement Cards. We wish to thank Purchasing for their help and cooperation with this work.

Steve March
Multnomah County Auditor
501 SE Hawthorne, Room 601
Portland, Oregon 97214
503-988-3320

Audit Staff
Judith Devilliers

Spending Analysis Report to Management
December 2011

Executive Summary

Our objective in doing the spending analysis was to assess the availability and quality of County data and to review spending areas that may be candidates for strategic sourcing. The purpose of this report to management is to summarize the results of our process. We turned over the actual results of the spending analysis, which consists of summaries and detail data, to management on November 17, 2011.

The Office of Federal Procurement defines strategic sourcing as "the collaborative and structured process of critically analyzing an organization's spending and using this information to make business decisions about acquiring commodities and services more effectively and efficiently."[1] The first step in a strategic sourcing process is to assess a company or organization's current spending. Our analysis focused on selected spending categories based on best practices and generally corresponded to those mentioned in the recent Coraggio study. These categories were: (a) office supplies (b) software and communications, and (c) medical supplies and drugs.

We found the County has a great deal of information that, when put together, provides a fairly good idea of who, what, when, where, why and how for County spending. Although we found issues in some areas, we do not believe those issues would mitigate the usefulness of the data for strategic sourcing. We also identified a few categories that might be good candidates for strategic sourcing, and found other information that can be useful to purchasing, though some data input improvements could be helpful.

---

[1] "Memorandum for Chief Acquisition Officers, Chief Financial Officers, and Chief Information Officcrs, from Clay Johnson III, Deputy Director for Management, Office of Management and Budget, May 20, 2005, subject "Implementing Strategic Sourcing.".

Many governments have used strategic sourcing as a purchasing method for some commodities. One of the shortcomings for some of these is not accounting for the cost of implementing strategic sourcing and a failure to measure the results of strategic sourcing as a purchasing method. The data provided by this analysis can provide a good baseline for measuring future results.

Background

The County is looking for ways to become more efficient by transforming some of the County's business practices. The Coraggio Group's report in January 2011 suggested one opportunity might be in purchasing and strategic sourcing. We reviewed a number of definitions of strategic sourcing to get an understanding of the spending data that would be most useful for that purpose.

Strategic sourcing generally involves a relationship with selected vendors that provide various benefits beyond the concept of "lowest price" for goods and services. We worked closely with purchasing to provide an analysis that would (a) evaluate the availability of County data, and (b) provide spending information useful to purchasing for the first step in the strategic sourcing process for selected spending categories.

We used accounting and purchasing data recorded in SAP (the County's enterprise system) and purchase card data in WORKS (data from our purchase card provider, The Bank of America). We limited our review to fiscal year 2011. In total, we included over 500,000 records in our analysis. See the Appendix for details of our scope and methodology and for a summary of the data sources included in the analysis.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Appendix also has a list of the analysis, reports, and details we turned over to management. The analysis was done using County data imported into ACL, an analytical software. We imported SAP tables and reports and WORKS data into ACL; and exported the results of our analysis to Microsoft Excel. With ACL we created a process so that the spending analysis can be easily replicated for additional spending categories or time periods.

Results of Spending Analysis

The County's budget provides spending information, by fund, by department, by program, and by spending categories. The budget focus is primarily on the "why" or reason and purpose for the spending. The focus of our spending analysis was to look at spending data on a lower level.

We found the County has good data, and although we found issues in some areas, we do not believe those issues would mitigate the usefulness of the data. We summarized and provided management with spending information useful to purchasing and for strategic sourcing in selected areas.

Availability of Spending Data:

We found the County has a great deal of information, that when put together provide a fairly good idea of how, when, who, what, where and why for County spending. This data can be used if the County decides to use strategic sourcing in some form for efficiencies in its purchasing. The analysis can also provide a base-line for evaluating changes and improvements. The Countys SAP system combined with purchase card information can provide the following:

1. Who - All of the systems indicate who made the purchase. Purchases generally can be identified and summarized by department, division, program, WBS, or fund.
2. What - Identification of what was purchased is the most challenging; areas for improvement are in the next report section. In our analysis we used some of the following to identify what was purchased:
    • The budget category used
    • The name of a vendor
    • The vendor business (identified in the vendor master file)
    • Merchant Category Code used for purchase card vendors
    • The materials group identified in the SAP MM system
    • The text description entered by departments in SAP transactions
    • The detail descriptors used by some purchase card vendors
3. When - All of the systems have dates of purchases recorded.
4. Where – The vendor master and purchase card data have addresses for vendors, though some of these may be payment addresses rather than the location of the place of business.
5. Why – The department, program, WBS, and fund provide information as to the purpose of many purchases. Also we found text descriptors, when these are used, provide additional information.
6. How - These County systems have information on how the purchase was made, such as by contract, purchase order, direct pay, central stores or inventory transfer or purchase card.

Usefulness of spending data:

Strategic Sourcing Information and Possible Candidates

We did not evaluate whether or not the County should use strategic sourcing as a purchasing method for some areas of spending. But if that decision were to be made, we believe the County has good information and data necessary for the first step of the process.

We included the budget category "supplies" for our analysis. This category effectively covers all spending not included specifically in other budget categories. Spending recorded in supplies includes the purchase of both commodities and services, and purchases range from over $100,000 on a construction contract down to a few dollars for a cup of coffee.

We identified several potential areas that might be considered for strategic sourcing or other evaluation of the County's purchasing methods. A few of these include purchases of (1) Office supplies including office furniture, (2) electrical and hvac parts and supplies, and, (3) automotive parts and supplies.

- **Office Supplies and Furniture** We believe most of the office supplies purchased by departments come from central stores but there are exceptions for items not available in central stores. Office furniture is purchased from a number of vendors.

  The County is currently in the process of exploring alternatives to the central stores as provider of office supplies. We found that this category is one most often best served using strategic sourcing because of the common need for these types of items throughout the organization.

- **Software and Communications** We included software and communications in our analysis because these are more commonly one of the first areas organizations include in strategic sourcing concepts, in addition to office supplies. The County, unlike some organizations, already has most of the purchasing for these areas concentrated in Information and Technology department. Data on smaller purchases done by departments may be useful to IT so they can verify departments are following County rules for these kinds of purchases.

- **Medical Supplies and Drugs** We included these areas in our analysis primarily because many of these purchases go through the County's central stores and because we were interested in determining which departments, other than the Health Department were making these type purchases. Nearly all medical supplies and drugs in these budget categories were from the Health Department. We found some departments such as Department of Human Services and Department of Community Justice may make

purchases for medical supplies and drugs for clients. The County may consider whether some of these purchases might be more efficient if done through the County clinic pharmacies rather than independent drug stores.

Other Uses of Spending Data:

A spending analysis also provides Purchasing with information useful for evaluating (1) compliance with County purchasing rules, (2) evaluating contracts with vendors and how the County is using them, (3) evaluating spending patterns and trends, and (4) assessing risk for some more sensitive areas of spending such as food for meetings or gift cards.

Areas for Improvement:

Although we found issues in some areas, we do not believe those issues would mitigate the usefulness of the spending data for strategic sourcing. Some areas that may need clarification or improvement in recording transactions include the use of budget categories, text fields and materials codes in SAP. Examples of some areas where details of purchasing transactions could be improved are listed below.

- Budget categories – Although the budget has separate spending categories for some purchases for things such as library books, food, medical supplies, software, printing, and communications, we found that departments sometimes record purchases for these items under "supplies." We also found that some purchases in supplies may have been more appropriately recorded as capital purchases.
- Text fields – Some departments use these to describe what was purchased, however the practice is not used consistently by all departments.
- Materials codes – Some departments don't seem to understand the use of materials codes, which provide a summary of the commodity or service purchased. For example we found items such as water purchases shown as "training" indicating the purpose of the water, rather than what was purchased "bottled water".

Implementing Strategic Sourcing:

As noted in this report, we did not evaluate whether or not the County should use strategic sourcing as a purchasing method. However many organizations have implemented this method as a best practice. As auditors, we did look at a number of audits evaluating the implementation and effectiveness of strategic sourcing. A few of the findings of several audits in other jurisdictions that implemented strategic sourcing included (a) inability to measure projected savings, (b) strategic sourcing done with little involvement by purchasing staff, (c) consultant contracts lack scrutiny and oversight, and (d) concerns about the reliability and usability of data. In our opinion the issues noted in these audits can be avoided by the County. We believe the quality of the County's employees and the richness of the purchasing information are advantages if the County should decide to implement strategic sourcing.

Recommendations

Based on our research and our completion of this spending analysis, we recommend the following:

1. The County continue exploring the use of strategic sourcing as a best practice and way to save money,
2. Strengthen its internal resources in purchasing, rather than relying on consultants,
3. Utilize the data the County has available,
4. Provide departments with additional training and guidelines for better recording of purchasing information as to "what" is being purchased.

Appendix

List of data sources used in the spending analysis

Data from SAP and Bank of America for purchase cards was downloaded from those sources and put into ACL software for analysis as follows:

- AP Data is from SAP tables BSAK and BKPF plus a number of related tables to get department names, vendor information from vendor master tables and text from other SAP tables. The data we analyzed had 143,755 records for FY2011.
- SAP FI module reports used were from the report ZF_FM_ D001 for the selected budget categories and consisted of 114,165 records for FY2011.
- SAP table from FI module, the FMIT Table consisted of 108,424 records for FY2011.
- Bank of America WORKS system for FY2011 had 56,482 records for FY2011.
- SAP MM module – direct pay reports ZF_AP_Q006 was 84,938 records for the sample of vendors for FY2011.
- We also looked at other MM reports and explored a number of SAP MM tables with data that was not included in the analysis.

List of Summary Reports to Management

Analysis of AP data:

- List of Vendors with purchases by both direct pay and purchase order/contract
- List of Vendors by County department
- List of one-time vendors payments
- Summary of vendor information

Analysis of SAP FI Module Report Data:

- Selection of Spending Categories for Analysis [higher level budget spending categories]
- Summary of spending analysis for budget category "software Lic/Maint"
- List of all vendors for budget category "software Lic/Maint"
- Summary of spending analysis for budget category "communications"
- List of all vendors for budget category "communications"
- Summary of spending analysis for budget category "drugs"
- List of all vendors for budget category "drugs"
- Summary of spending analysis for budget category "medical supplies"
- List of all vendors for budget category "medical supplies"
- List of all vendors for budget category "printing"
- Summary of spending analysis for budget category "supplies"
- List of all vendors for budget category "supplies"
- Summary spending analysis for each department for spending for "supplies" and listing of vendors for office supply purchases and for food for meetings types of purchases and for software or communications type purchases recorded in the supplies budget category
- Listing by type of purchases in the supplies category reimbursed by the County

- Listing by type of purchases in the supplies category using petty cash
- Listing of text descriptors for supplies recorded as goods issue (inventory, primarily central stores)
- List of vendors in the supplies category by type of purchase
- Listing of large dollar vendors
- List and charts of spending in supplies category by department and type of purchase
- List of all vendors in supplies category by department
- Analysis of spending for selected budget categories by department
- Analysis of spending for selected budget categories by purchase method (document type)
- Listing of purchases for food for meetings or clients
- Analysis of SAP MM Module Report Data (Direct Pay Reports)
- Analysis of materials groups for selected vendors in budget category "software Lic/ Maint"
- Analysis of materials groups for selected vendors in budget category "communications"
- Analysis of materials groups for selected vendors in budget category "drugs and medical supplies"
- Analysis of materials groups for selected vendors in budget category "supplies"

Analysis of Purchase Card Data
- Summary of purchasing by department and by card type
- Summary of purchasing by MCC (Merchant Category Code)
- Analysis of spending by purchase card for each department to include list of all vendors, and summaries by card types, MCC, and other
- Summary of spending by GL account (account in WORKS, note a journal entry may change the budget category)
- List of possible strategic sourcing candidates
- List of "gift cards" purchased with purchase cards

Budget Categories Included in the Spending Analysis[2] :
- Communications – 60200 "Telecommunications equipment and miscellaneous communications charges should be budgeted here. NOTE THAT most costs for telephones, County issued cell phones, blackberries, and other communication devices are budgeted in cost element 60370, Telecommunications. Use past monthly billings from the phone company to predict future charges. For further information, call the CountyTelecommunications Section at x85300." [pg 60]

---

[2] Budget Preparation Manual FY2011-Multnomah County, Oregon, December, 2009

- Software Licenses & Maintenance - 60290 "Charges for data processing services performed under contract with non-County organizations are budgeted here.
  Costs of data processing services provided by the County Information
  Technology Division are budgeted in cost element 60380 – Data Processing Services. See also cost element 60380, IT Services." [pg 62]
- Medical and Dental Supplies – 60246 "Medical and dental supplies is limited to supplies related to or used for patient treatment. Examples include needles, syringes, cotton balls, bandages, tape, thermometer covers, gloves, normal saline, suture kits, qtips, etc. This category also includes durable items with unit costs of less than $5,000, such as electronic thermometers, blood pressure cuffs, and stethoscopes. Durable items that cost $5,000 or more per item are capital and are budgeted under cost element 60550, Equipment." [pg 61]
- Drugs – 60310 "Use this cost element for all drugs and vaccines purchased by the County, either from external   sources or through the County's store supplies. Note that supplies used to administer drugs (syringes, needles, etc.) should be budgeted under cost element 60246, Medical & Dental Supplies." [pg 62]
- Supplies – 60240 "This cost element is to be used for all supplies whose original unit cost is less than $5,000, including such items as office supplies, janitorial supplies, operating supplies, minor equipment and tools, clothing and uniforms, repair and maintenance supplies, and computer equipment and software that is not capital. The maximum cost per item is $5,000. Items that cost $5,000 or more per item are capital and are budgeted under cost element 60550, Equipment."

Response

Date: January 10, 2011

To: Steve March

From: Sherry Swackhamer

Subject: Spending Analysis Report: December, 2011

Management Response:

We have read the report and have met with the Auditor's Office to discuss the work performed in regard to the Spending Analysis Report dated December, 2011. The report is very timely given the analysis that the Multnomah Evolves project team is doing related to Strategic Sourcing and the data provided is useful and relevant. We agree with the recommendations and will address each recommendation in the Multnomah Evolves Strategic Sourcing Implementation Plan.