



PROCUREMENT, OUTSOURCING, PRIVATIZATION

The Procurement, Outsourcing, & Privatization Subcommittee believes that the Charleston County Procurement Department is both efficient and effective in carrying out its mission, and is highly innovative in its approaches to maximizing the value of taxpayer dollars spent on goods and services for the County. However, the subcommittee examined a number of cost saving and efficiency increasing measures designed to streamline and simplify the procurement process. Many of these approaches are currently in practice, but several refinements could yield significant savings and make the process more accessible to small and minority business vendors. The subcommittee also found that significant potential savings could accrue through the leasing of many County vehicles, the continued privatization of non-essential County services, and the implementation of business ‘best practices’ such as activity-based costing to determine further privatization opportunities.

MISSION

The task force on Procurement, Outsourcing and Privatization determined its mission to be to review the practices of what has established itself as a highly effective Procurement Department, and compare the County’s purchasing methods with the best practices of both the private sector and with other governmental entities. The task force also looked for ways the Procurement Department could more efficiently serve all offices and departments within County government, and looked for ways to increase opportunities for minority- and women-owned businesses. We further sought to evaluate an opportunity to save money through leasing fleet vehicles and sought to evaluate the use of activity-based accounting in appropriate applications to compare County services against those available through the private sector.

County Procurement Services

OVERVIEW

The Procurement Department for Charleston County operates as perhaps one of the most efficient departments in County government. The office is very progressive in getting the most for the taxpayer’s dollar, even with some very cumbersome restrictions and ongoing staffing turnover. The Director of Procurement is nearing possible retirement, but wants to stay to see that more progress is made to make the department more efficient. The Director sees many possible approaches to the idea of saving the County money. However, he also experiences resistance to many of his cost saving ideas.

The task force reviewed in detail the current practices of the Procurement Department, and compared them with those of various successful and efficient business sector procurement departments. We also compared County procurement activities to those of numerous other governmental entities, including state, county, and municipal. The task force met with the Director and members of the County Procurement Department on many occasions, and any information requested by the task force was provided immediately by the Director. After reviewing the best practices of public and private sector procurement and meeting extensively with our own County staff, we make the following recommendations.

Recommendation 1: The County should move to total adoption of purchasing cards throughout all departments as well as throughout the offices of all elected and/or appointed officials.

Recommendation 2: The County should increase the maximum for a single use of a purchasing card to the current Federal Government limit of \$2,500.

Background: The Director of Procurement oversees the purchasing card program currently in place for much of County government. The County makes excellent use of purchasing cards and is ranked among the top counties in the state to do so. The Procurement Department has excellent control over the program. Currently, however, there are several departments and elected/appointed officials who do not participate in the program. Those not currently participating include the departments of Budget, Business License User Fee, and Economic Development, as well as the offices of the Clerk of Court, RMC, Master in Equity, Library, Medical Examiner, and Veterans Affairs. All other departments and elected/appointed officials make use of the program.

In the current fiscal year, the Director estimates that there will be some 4,000 purchase orders processed, and from a recent study, the Director estimates the administrative cost for each purchase order to be \$85.00. Therefore, the total cost of administering purchase orders will come to around \$340,000 this year.

Currently the threshold maximum for purchasing card use is \$1,000 for the County. The State of South Carolina maximum is \$1,500, and the Federal Government maximum is \$2,500. The Director estimates that 70 percent of the 4,000 purchase orders this year will be for goods and services totaling less than \$2,500 per purchase order. By completely implementing the purchasing card program throughout County government, and by revising the current procurement code to increase the threshold maximum for purchasing card use to \$2,500 could result in an estimated administrative cost savings of well over \$200,000 annually. The Director is confident that purchase orders for goods or services costing under \$2,500 could be virtually eliminated with little loss of control by the Procurement Department.

Recommendation 3: The County should raise the threshold for its formal bidding procedure from the current minimum of \$10,000 to \$25,000.

Background: Currently the thresholds in place for the County to procure goods are as follows: For purchases under \$1,000, there is no competition, but rather a “just buy based on good common sense” approach. For goods from \$1,000 to \$10,000, three quotes must be obtained before a purchase can be made. For goods over \$10,000, the formal bid process must be undertaken. From recommendation number 2 above, the \$1,000 minimum threshold for three quotes would be raised to \$2,500. The final result, in total, is for purchasing cards to be used for purchases of goods under \$2,500, three quotes be obtained for purchases of goods from \$2,500 to \$25,000, and the formal bidding procedure be used for the purchase of goods above \$25,000. The State of South Carolina currently uses a minimum threshold of \$25,000 for the formal bidding process to occur. The Federal Government minimum threshold for formal bidding procedures varies by agency, but is at or well above the State level. This recommendation places the County in line with other levels of government regarding minimum thresholds for the formal bidding process, and the Director believes much greater efficiency would be realized as a result.

Recommendation 4: The County should eliminate the requirement of County Council for the Director of Procurement to appear and obtain final approval on purchases exceeding \$50,000 unless the bids come in over budget.

Background: One particular area where the Director himself loses time and productivity is when there is a County purchase for goods over \$50,000. In the annual budget, County Council approves these expenditures. However, each time an expenditure of over the Council-set limit arises, the Director must appear before County Council to get a second approval to proceed. Note that this step is only necessary for goods, not for service contracts. This step appears unnecessary for bids that come in at or under budget. It would seem that the Director should be required to appear before Council only when bids come in over budget. The Director estimates that dozens of trips before Council could be eliminated each year, resulting in a much more efficient use of his time to focus on more strategic efforts of the Procurement Department. Also, the procurement ordinance should not differentiate between goods and services, as it currently does, regarding the established threshold. Therefore, we recommend that any purchase of either goods or services for over \$50,000 that only returns bids over budget need be brought before Council by the Director before he may proceed.

Recommendation 5: The County should eliminate the requirement for advertising solicitations to bid in the Post & Courier, the Chronicle, the Black Pages, and various other print publications, and seek more effective methods to attract minority bidders for County contracts.

Background: Charleston County must advertise all bidding situations in keeping with the County Procurement Ordinance. However, in today's technological environment, few potential bidders rely on the local newspapers for this information. Rather, they get their information online or from other sources. The County currently spends approximately \$35,000 annually advertising invitations to bid in the various print publications. The Director believes the bidding public would easily be served if this print advertising were no longer necessary. The Procurement Ordinance states the County must advertise, but does not direct where the advertising must take place. A recent poll of bidders on Charleston County contracts indicates clearly that the vast majority of bidders no longer rely on print media for information on County contracts. The Director also notes that a directive from County Council itself forces him to seek minority bidders by advertising in The Chronicle. Virtually all minority bidders questioned indicate that they do not use print sources such as The Chronicle for information on County contracts. Eliminating this overall print advertising requirement would result in an annual savings of at least \$35,000.

Recommendation 6: The County should fill the position of Minority Ombudsman within the Procurement Department, fully fund the department, and have the department responsible for attracting more minority business to the County.

Background: To replace the ineffective print advertising, the Commission recommends that the current position of Minority Ombudsman be filled (it is currently unfilled), that the Procurement Department be fully funded to accomplish its mission, and that this department be responsible for attracting more minority business to the County. Many counties and municipalities employ such an individual, usually resulting in a greater percentage of minority-owned companies acquiring business with the county or municipality. The County currently participates in events such as the Black Expo, and the Minority Ombudsman should seek new and innovative approaches to remove obstacles (if any are present) for minority business owners to sell their goods and/or services to the County.

The Director of Procurement emphasizes that the vast majority of minority businesses in the area contract for services and very few sell actual goods. Therefore, most current County contracts with minority businesses are for services, not goods. The Director also indicates that it is very difficult for the County to persuade minority businesses to even bid on goods or service contracts, as the many other governmental entities in the local area are also attempting to increase their minority participation for goods and services with their own programs. A representative survey of local minority business owners verified this statement. Of the 23 minority businesses contacted, 18 indicated they had virtually all the governmental business they could handle and were currently not even bidding on new business with governmental entities. Essentially, there are only so many minority businesses in the area, and most of them are very busy fulfilling orders and service contracts for the many governmental entities in the Tri-County. As stated above, the Minority Ombudsman should contact other governmental entities both in and outside the immediate area to better understand and adopt the innovative methods they are using to attract minority business to bid and be awarded contracts with Charleston County.

Recommendation 7: The County should continue to increase centralization of core procurement functions, and consolidate the task of contracts administration solely to the Procurement Department.

Background: Currently the vast majority of contracts entered into by Charleston County are administered by the Procurement Department. However, several departments of County government administer their own contracts, including, among others, Facilities Management and the Detention Center. (See Appendix 16 for a list of outsourced services under County contract.) There exists a clear duplication of effort in this regard. It is definitely among the responsibilities of the Procurement Department to administer contracts entered into by the County. It is not necessarily among the responsibilities of, for example, employees at the Detention Center, to administer contracts entered into by the County on the Detention Center's behalf. The Director of Procurement is worried that there may well be a lack of professional expertise regarding contracts administration outside the Procurement Department.

In addition to the expertise issue is the potential for financial liability for the County. Essentially, the County enters into a service contract on behalf of a County department. The contract is carried out by the contractor. If, during the term of the contract, the service work is not being performed correctly or there is a quality issue regarding the service, currently the department where the service is being rendered may attempt to contact the service provider and seek a remedy. If a remedy cannot be found, the issue is turned over by the department receiving the service to the Procurement Department for problem resolution. However, by this time in the process, the Procurement Department's ability to solve the problem may well have passed. In a large majority of governmental agencies surveyed, this scenario would never occur because Procurement would be involved from the beginning in administering the contract, not the department receiving the service. Procurement's ability to positively affect value in any transaction declines the later they become involved in the process. Most experts consider the concept of contracts administration through Procurement a 'best practices' approach. Therefore, the current practice of allowing other departments to administer their own contracts should be abandoned and the Commission recommends that all County contracts be administered by the Procurement Department.

Recommendation 8: The County should conduct an ongoing review of exemptions in the County Procurement Code and revise exemptions in the Code where necessary.

Background: Some time ago, the County eliminated most exemptions to the Procurement Code in an effort to simplify the way vendors do business with the County. More recently, several exemptions were added back to the Code for various reasons. The task force believes that any exemptions to the Code that act as barriers to competition from vendors wishing to do business with the County should be eliminated. The list of exemptions needs to be reviewed periodically

- to eliminate outdated exemptions;
- to add exemptions to make selected purchasing more cost effective;
- to add exemptions to guard against and prevent potential abuse.

Any exemptions in the Code that allow for potential abuse by driving down competition cost the County dollars and possibly prevent some qualified vendors from participating in the procurement process. For example, an exception that forces a 'sole source' situation (i.e., a situation where the exemption creates a single source vendor that would qualify as winner of a bid on goods or a contract on services without competition) should clearly be avoided. County Procurement has done an excellent job in continually evaluating the exemption list, and we recommend this practice continues.

Vehicle Leasing Programs for Fleet Management

OVERVIEW

Charleston County purchases and maintains a vehicle fleet of approximately 625 sedans and light trucks. Monthly mileages on these vehicles range from 100 to 4,342. The majority of the vehicles is assigned to departments or elected/appointed offices; approximately 16 are maintained in motor pool situations at the downtown office locations and at the Public Services Building in North Charleston. The vehicles are kept in the fleet for an average of 104 months, and are replaced based on criteria as evaluated by a cross-department Vehicle Utilization Evaluation Team.

The General Services Division of the South Carolina Budget and Control Board, State Fleet Management Office, has a lease program for all sizes of automobiles and light trucks. The program is available to all state and local governments. Presently, the state fleet leases over 2,400 vehicles to various state agencies. The state lease program offers a turn-key approach to vehicle operation. The monthly lease and mileage rates include all costs for insurance, fuel, maintenance and repairs.

Private sector opportunities to lease fleet vehicles also exist. Programs typically include vehicle maintenance and repair, with fuel and insurance the responsibility of the leasee.

RECOMMENDATION

Recommendation 9: Charleston County should evaluate and participate, when cost-effective, in vehicle leasing programs for County vehicles driven over 9,000 miles.

Background: The County can lease a range of vehicles from the state, including compact cars, vans, pickup trucks, and police cars. The lease rate for all cars, and mileage charges, are set by the State Fleet Management Office, and vary by type of vehicle. There is a minimum charge for 750 miles per month, thus the program becomes practical only for vehicles driven over 9,000 miles per year. The rates include vehicle, insurance, fuel, maintenance, and repair. The state retains the right to adjust rates periodically to reflect current costs.

Various vehicles have a life cycle range of 100,000 to 150,000 miles. The County trades the vehicle at the end of the life cycle or it can keep the vehicle for a reduced mileage fee (in most cases approximately 50 percent). If the vehicle has too many repairs (lemon) the state has the right to trade the County a new vehicle for the troubling one. There is no extra cost to the County in this event.

Local vehicle dealers also offer fleet lease programs. The Commission feels leasing offers some advantages in eliminating large up-front capital costs, allowing more flexibility in resolving high maintenance or poor performance issues, and providing opportunities to test new vehicle technologies (eg., hybrid vehicles) with a lesser commitment than full purchase. It is our recommendation that County Procurement, Budget and Fleet Operations evaluate leasing programs, and participate as appropriate.

Privatization of County Services

OVERVIEW

America has grown and prospered in large part because of competition and private enterprise. Private enterprise brings down costs. It encourages innovation and efficiency. Competition also encourages businesses to constantly reevaluate and reinvent themselves so that customers will buy and use their products and services. In a free market, customers who are unsatisfied with a product or service, or who are made to wait for assistance, will take their trade to other businesses. Just as important, competition results in a change of attitude. Customers expect to be greeted with a friendly voice by a receptionist and sales staff and to be treated with a “can do” approach.

Strangely enough, the same governments created to protect our free market system often are exempt from competition. As governments expand and take on services traditionally offered by private businesses, free enterprise is shut out. Private businesses are barred from competition in areas where they may have expertise and have been successful. Small businesses run by minorities and women are barred from competing in areas where they may be able to provide services at a lower rate than County employees.

Competition between government and private agencies has been successful in other areas of the country. In Indianapolis, for example, the city gave a contract to Pitney Bowes to take over certain city services including in-house copying, graphics services, and others. This saved the city about \$6.6 million dollars. Competition for sewer bill collection resulted in that city saving \$3.8 million dollars per year. Trash collection in Indianapolis was broken down into districts and put out for bids. The city's Department of Public Works was guaranteed one district the first year. The DPW workers began putting in longer hours, changing routes, and assigning fewer workers to a single trash truck. Because of increased innovation and efficiency from competition, the DPW later was able to secure contracts for two more districts. The City of Indianapolis saved \$15 million dollars over the first five years of competition. On a smaller scale, but just as important, minority-owned businesses, which traditionally are not always as large as other businesses, were able to compete in areas not previously available. One minority business in Indianapolis was able to secure the contract for courier services based upon his bid. The city saved \$15,000 per year on the business, and, as a by product, the business increased its income by 25 percent because of new contacts with other businesses. Done properly, increased competition between government departments and private companies may save millions of dollars for the citizens of Charleston County.

The MAP Commission believes that County government in many areas can be made more efficient and customer friendly through competition with private enterprise. As for those limited government services already put out for bidding with private businesses, we recommend that this concept be expanded. (See Appendix 16 for a list of outsourced services.)

RECOMMENDATIONS

Recommendation 10: Activity-based costing should be implemented throughout County government in areas where privatization is appropriate.

Background: To decide whether to award a contract to a government agency or a private business, both must be evaluated equally using the same criteria. Government and private services often are not provided from equal bases. For example, although the County's repair shop may have the same personnel, accounting, and materials costs as does a private service facility in the Charleston area, it pays neither taxes nor rent. It is not possible now to compare the cost of government services to that of private businesses in Charleston County because in many cases the cost of providing a specific government service is unknown.

To compare the cost to a private business, for example, of paving a mile of road, to that of a government agency, a different type of accounting must be implemented. This type accounting is called activity-based costing ("ABC"), sometimes called activity-based accounting.

ABC is an accounting method that calculates the cost of an *activity*, rather than calculating *total* costs. Traditional accounting does break down costs, but not to the extent performed in activity based accounting. Moreover, traditional accounting does not break down the costs of a particular activity. Although the analysis is somewhat complex, these are the basics of ABC. Activity-based costing can allow a County agency to make a "real world," non-subsidized estimate about how much profit or loss it would make when bidding for a government contract.

Thus, an important recommendation of the MAP Commission is for the County to decide which areas of government are suitable for privatization, and then hire a consulting firm to introduce ABC to those agencies. This may be done by hiring an independent firm¹⁶ to do the analysis, or be done "in house."

¹⁶ The City of Indianapolis used KPMG Peat Marwick to perform the analysis, but many other firms are available to offer this service.

Recommendation 11: The County should continue to review areas of government that are appropriate for privatization and to pursue privatization opportunities.

Background: Once a system of activity-based costing has been established, how would private competition be implemented? The basic idea is that contracts for government services would be put up for bidding. Both private businesses and government entities would be able to bid for contracts to perform services now provided by County government. It is true that the County does solicit some private bids for services now. However, the MAP Commission recommends that privatization be approached on a more systematic and broader scale.

An example...

Assume the North Bridge needs painting. Further assume that typically the job of painting it would fall to the Public Works Department. However, instead of giving the job to paint the North Bridge to Public Works, the painting project would be put up for bids.

- Certain requirements would be written into the contract, such as the necessity for quality performance, liability or other insurance, a time deadline for completion, a completion bond, certification of expertise in bridge painting, and, of course, the amount for which the contractor could paint the bridge.
- Bidders who have an unacceptable track record would be disqualified. The lowest bidder, government or private business, would get the job.
- Both Public Works and the Consolidated Bridge Painting Company put out bids, and the Consolidated Bridge Painting Company outbids the Public Works by \$50,000 and gets the job. The taxpayers save money, and private citizens are put to work.
- Now assume that the County puts all countywide bridge painting contracts up for bids. Public Works, now more efficient because it streamlined its operations to meet private competition, outbids the Consolidated Bridge Painting Company by \$200,000. Once again, the taxpayers win!

The same might apply to other types of government functions. Further examples are mowing road shoulders, billing and collection for EMS services (see the Public Safety Task Force's Recommendation 10), document copying services, repair of county vehicles, removal of abandoned cars, or other types of non-core government functions.

The suggestions for private services need not emanate from the government agency, of course. Private businesses should be encouraged to come forth with ideas. Thus, in some cases, government agencies may be approached by individuals and private businesses who offer to take over certain aspects of County government business.

To ensure a smooth transition, County agencies in limited situations might be given a period of time to increase their efficiency before bids are offered to the public. In any event, the rewards in increased efficiency and taxpayer savings may be enormous for the citizens of Charleston County.

The Commission recognizes that political, business, and practical considerations may make privatization of certain services inadvisable. For example, there may be an insufficient number of bidders, or the bidders may not be qualified to be entrusted with government services. There also are core government functions that certainly should not be privatized.¹⁷ Law enforcement is one important example. However, for those aspects of County government that are not suitable for competition, there might be areas where private employees or businesses may be utilized at a savings to the taxpayers. For example, the Commission understands that Sheriff Cannon is already using civilians in roles (such as clerical functions) where a highly trained law enforcement officer is unnecessary. This is just one example of how even limited areas of core government functions may be made to operate more efficiently through partial privatization.

The County must know, of course, whether a privatized government service is being performed well. As part of submitting government services to private competition, a system of accurate and comprehensive evaluations must be instituted. Performance goals at all levels (e.g., department, management, employee) must be set forth at the start of the year or contract. These include:

- output goals (for example, the number of deliveries made by a courier or the miles of road shoulder mowed by a business);
- outcome evaluations to determine efficiency and quality of the completed work.¹⁸

Moreover, the successful bidder should be monitored during the course of the contract to ensure that the services are being performed correctly and that good quality work is being done. It is critical that the taxpayers' interests be first and foremost until the end of the contractual period.

An additional way of judging how well services under contract are performed is through "customer surveys" of taxpayers receiving the service. This information should be provided to private and government agencies interested in bidding on the work. In this way, the business or government agency may learn to become more customer-friendly to taxpayers and will make for a more satisfied constituency.

¹⁷ See Tom Olsen, *Choosing which Services to Privatize: Lessons from Indianapolis* (2005) (former Director of Enterprise Development for the City of Indianapolis) at www.privatization.org for a discussion of considerations about deciding which services to offer for private competition.

¹⁸ City of Indianapolis, *The Indianapolis Experience: 1992-1999* at 38 (1999). This publication is an excellent guide and among the sources from which many of the suggestions in the MAP Commission's recommendations regarding this topic were derived.

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