

Mecklenburg County Sourcing Project Summary

Background

In March, 2010, Mecklenburg County completed a Financial Management Services Assessment (FMSA) conducted by staff. The FMSA resulted in a series of recommended actions steps that were approved by the County's Executive Team to improve the effectiveness of internal fiscal controls and the efficiency of financial management functions. As part of implementing these actions steps, Mecklenburg County contracted with Deloitte Consulting. The agreement between Mecklenburg County and Deloitte Consulting established a partnership whereby both parties invested staff resources in a sourcing (purchasing) project that resulted in sharing the cost savings generated by the project. This sourcing project commenced in March, 2011.

Sourcing Project

Following up on its initial analysis and business case for the sourcing project, Deloitte further analyzed numerous categories of County spending and vendor contracts over the previous year to identify the most promising opportunities for savings. With the concurrence of the County's project steering team and the County's Executive Team (County Manager and General Managers), three project phases (Wave 1, 2 and 3) were established as follows:

Wave 1: facilities and grounds maintenance; temporary labor; DSS transportation services

Wave 2: construction; security services; and supplies

Wave 3: professional services; utilities; information technology

The project phases were established to generate the most savings in the first Wave as a means of validating the business case and determining whether Waves 2 and 3 would be implemented.

The sourcing strategy for the project, designed by Deloitte with the involvement and concurrence of the County steering team, included issuing multiple RFPs using detailed service-level parameters, larger scopes of work, and the inclusion of other government organizations for purchasing within the selected categories (e.g., City of Charlotte, Charlotte-Mecklenburg Schools, Central Piedmont Community College). This process supported a key objective to consolidate similar types of purchasing (e.g., facility maintenance) to attract the largest number of qualified vendors to the bidding. The premise is that more bidders will result in more competition and therefore lower bids. The operating budget for FY2012 assumed savings of \$3 million associated with this initiative.

Preliminary contract award notice announcements were communicated to vendors on August 26, 2011. Deloitte Consulting and County staff did the work of issuing and managing the RFP process. The City of Charlotte Procurement Services Division provided informational support and clarification throughout the process. Considerable time and effort was spent communicating with current and prospective vendors. This included communication before RFPs were issued, pre-bid conferences after the RFPs were issued, follow-up communications with prospective bidders to answer questions about the RFP requirements, technical assistance sessions for those vendors who were not well versed in proposal submission techniques (e.g., the use of Excel), and discussions following the bids to ensure clarity about the bids and to obtain best and final offers.

It was anticipated that some current vendors would be unhappy if they were not successful in retaining or obtaining contracts, so the County responded to any feedback and/or questions from vendors following the notification of the contract award. Considerable time was spent consulting with the County Attorney's Office throughout the project to ensure the process was

managed according to state statutes and in a fair and equitable manner. A primary tenet was to be responsible stewards of taxpayer money in obtaining the best quality goods and services for the best price.

Although Wave 1 generated significant savings, Waves 2 and 3 were not implemented. Because the sourcing categories with the largest ROI were placed in Wave 1, projected savings in Waves 2 and 3 were deemed insufficient relative to the cost of proceeding with these subsequent waves. In addition, one of the key lessons learned in Wave 1 was the need for a new procurement business model (see Procure to Pay Project below), which the project steering committee and Executive Team determined was a higher priority for sustaining the savings generated in Wave 1 as well as increase the efficiency and effectiveness of the County's procurement activities going forward.

Sourcing Project Results

At the outset of the project, the initial annual savings projection ranged from \$2 million to \$2.75 million, depending on the volume of services purchased in each category. This range represented approximately 19 percent savings on a combined spending total in FY2010 of \$14.3 million in these three categories (facility maintenance, temporary labor and DSS transportation). After the project was implemented, which included some modifications in scope, the actual projected savings is \$2.24 million annually over the life of the service contracts (e.g., three or five years, depending on the service). Therefore, the cumulative cost savings/cost avoidance over the next three to five years will be \$6 to \$10 million. It should be noted that a portion of the savings realized are not county funds, but federal funds provided to the County for the provision of transportation services. For its investment in the project, Deloitte Consulting will earn approximately \$1.2 million, per a pre-determined payment structure. County staff is monitoring and tracking actual spending each month to verify actual savings.

Spending Category	Final Savings Estimate
County Grounds Maintenance	\$172,085
Total Facility Management	\$895,431
Jail Central	\$68,613
Transportation	\$746,021
Temp Labor	\$190,000
CMS	\$134,674
CPCC	\$42,153
TOTAL	\$2,248,977

Savings were driven through the following three strategic sourcing processes:

- Aggregation of spending across County departments and business partners, such as CMS and CPCC. Essentially, the County was able to attract more vendors and more favorable pricing by having more work to bid.
- A rigorous competitive bidding process with aligned specifications and standardized bid templates. This means vendors were required to provide very specific and detailed bids in a consistent format for each element of the work being offered. This resulted in vendors providing very detailed estimated costs, enabling more clarity in evaluating the

bids, while ensuring the bids were made in a highly consistent manner across all bidders.

- Dedicated resources and strong cross-departmental team. This project required considerable staff time and the expertise of many staff and subject matter experts across many departments and agencies. In short, the sourcing project was very time-intensive and time-consuming for numerous County staff, in addition to the extensive work provided by Deloitte.

In some cases, existing vendors were able to lower their current price to retain the business. In other instances, the competitive process attracted new vendors that provided the lowest bid. The number of mowing vendors, for example, was reduced from 14 to six with lower rates and simplification for the staff who process contracts and invoices.

Minority, Women, and Small Business Enterprise (MWSBE) participation was significant across the categories. Therefore, the County was able to meet, and in some cases exceed, the targeted percentage of MWSBE vendors.

Lessons Learned

Several lessons learned have increased Mecklenburg County's awareness of and commitment to efficient and cost-sensitive procurement practices.

- First, while savings were generated in some categories, the project confirmed that in most procurement categories County staff and The City of Charlotte Procurement Services Division staff had done a good job in obtaining the most cost-effective goods and services.
- Bidding and contracting processes can be improved with more specificity and standardization. This would enhance consistency in bids and the evaluation of bids and the selection of the qualified low bidder. It also would enable more specificity in contracting for services, particularly in setting clear performance standards and service specifications, as well as making it more clear that any contract is subject to a competitive bid process on a recurring basis.
- A third lesson learned is the value of leveraging spending across the largest scope possible, including other government organizations. The partnerships in this project revealed the impact upon prices and how multiple entities are more effective as one, rather than as a collection. Vendors reported that the larger packages of work were appealing. There are also opportunities to accomplish this through greater inter-departmental efforts within the County. While this takes place today, it was shown that greater diligence could be put to ensuring that all other city, county, state and federal contract rates are explored before using existing resources to implement extensive processes going out to market separately for goods and services.
- The project revealed a need to build more internal procurement and contracting expertise. While the City of Charlotte's Procurement Service Division (PSD) has provided procurement services for a number of years, Mecklenburg County may benefit from a procurement model that enables greater oversight/monitoring and consistency in procurement standards throughout the organization. In addition, currently Mecklenburg County does not have or use a procurement technology system that enables automated procurement solicitation, tracking or monitoring.

- Generating and sustaining additional savings required considerable, dedicated resources. As mentioned, this project took a considerable amount of staff time in addition to the resource provided by Deloitte Consulting. Sustaining this approach is not feasible with the current decentralized and outsourced procurement operating model that also lacks the automation necessary for cost-effective e-procurement, contract management and compliance. There is a need to explore and identify more efficient procurement operating models and automation.

Procure to Pay Project

Based on the key lessons learned from the sourcing project, the County Manager and Executive Team approved a subsequent project to identify options for a new procurement business/operating model. The project will focus on a model that enables Mecklenburg County to replicate and expand on the processes implemented in the sourcing project as a continuous way of doing business. This project is being conducted by the County's Business Process Management team of Six Sigma Black Belts. The initial assessment report is due in February 2012, which will present recommended best practices and options for a desired future state.

The Project Team

More than 60 Mecklenburg County employees worked to make the Sourcing Project possible. The project required a considerable amount of time, including having a full-time project manager and the ongoing involvement of numerous staff from several departments and agencies. Members of the Steering Team representing Mecklenburg County in the sourcing initiative were:

Executive Sponsor: John McGillicuddy, General Manager (Mecklenburg County)

Project Sponsor: Dena Diorio, Finance Director (Mecklenburg County)

Project Sponsor: Christina Dorfhuber, Principal, Public Sector Strategy and Operations (Deloitte Consulting)

Project Coordinator: Bill Battaile, Senior Process Consultant (Mecklenburg County)

Project Coordinator: Brent Griffith, Senior Manager, Supply Chain Practice (Deloitte Consulting).

Steering Team Member: Gwen Simmons, Chief Technology Officer (Mecklenburg County)

Steering Team Member: Janet Payne, Assistant to the County Manager (Mecklenburg County)

Steering Team Member: Suzanne Jeffries, Public Information Specialist (Mecklenburg County)