



Department of County Management
MULTNOMAH COUNTY OREGON

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To: Steve March, County Auditor

From: Garret Vanderzanden, Materiel Manager

Date: November 23rd, 2009

RE: Central Stores: External Sales Report to Management

The Department of County Management and FREDS appreciate the work the County Auditor's completed in evaluating our External Sales business and whether or not we are recovering our costs in providing these services. We recognize the value the recommendations bring to the program. We will be working with both our internal and external customers on how these can strengthen both business relationships. We wanted to also take this opportunity to speak to some of the specifics in the report and the work currently being done.

Central Stores agrees that there is risk involved in external customers leaving the program and recognizes the need to mitigate that risk. We are working with our partners at the State who manage the Family Programming, the large majority of our external customers, to identify improvements to the systems currently in place. These include but are not limited to:

- Moving to an electronic payment processing protocol to streamline accounts receivable.
- Improvement in invoicing processes by implementing SAP Sales Module.
- Roll out of online ordering tool in calendar year 2010. This will be done by leveraging Shopping Cart functionality implemented in FY10 for internal customers.

Each of these will gain efficiencies for our customers in their business interactions with Central Stores. The business relationships we have with our external clients are currently very strong due to the accuracy, efficiency, expertise and professionalism delivered daily. These changes will serve to further strengthen those relationships. While we currently do not have any plans in place related specifically to creating discount incentives for our external customers, we recognize the value this may bring and will be evaluating it as a retention strategy.

The auditor's report also recommended evaluation of potential disincentives created by the current Central Stores rate structure. Central Stores is evaluating the Allocation Methodology, the basis for the rate structure for internal customers, on an ongoing basis to improve the model. The intent is to achieve a fair and equitable rate for each of our customers based on the work done on their behalf. It is recognized that the current model, solely based on total dollars purchased, does not adequately capture nor describe the complexity of the work performed. This is demonstrated by the Cost Allocation models contained in the auditor's report and the wide disparity when looking at a Sales Dollar amount methodology vs. a Work Performed methodology.

We acknowledge that improvements to the current rate structure are needed. However, the assertion that the current model provides a disincentive to purchase commodities from Central Stores is an area we feel warrants further exploration. The report notes a single example within the County as the basis for this assertion, but the comparisons made between purchasing the supplies through Central Stores vs. purchasing outside appear to include different elements to arrive at the total cost. For example, the cost of purchasing supplies through Central Stores includes certain fixed and administrative costs, yet the example used for purchasing supplies directly from vendors appears to include only the purchase price of the item itself. By using a single example the report missed those programs that Central Stores has worked with to improve their commodity management: