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# Performance Audit of Publishing Services

DECLINING WORKLOADS NEED TO BE ADDRESSED TO FULFILL  
MANAGED COMPETITION INTENT

SEPTEMBER 2013

**Audit Report**  
Office of the City Auditor  
City of San Diego



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## THE CITY OF SAN DIEGO

September 9, 2013

Honorable Interim Mayor, City Council, and Audit Committee Members  
City of San Diego, California

Transmitted herewith is an audit report on Publishing Services. This report was conducted in accordance with the City Auditor's Fiscal Year 2013 Audit Work Plan, and the report is presented in accordance with City Charter Section 39.2. The Results in Brief is presented on page 1. The Administration's response to our audit recommendations can be found after page 35 of the report.

If you need any further information please let me know. We would like to thank staff from Publishing Services, as well as representatives from the Business Office and other City departments for their assistance and cooperation during this audit. All of their valuable time and efforts spent on providing us information is greatly appreciated. The audit staff responsible for this audit report are Kevin Christensen, Alicia De La Garza, Matthew Helm, and Kyle Elser.

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## GLOSSARY OF KEY TERMS

Business Process Reengineering (BPR): Program established to improve efficiencies and effectiveness of City government and help City departments prepare for Managed Competition.

Employee Proposal Team (EPT): City employees who are a part of the department currently going through Managed Competition. Members of the EPT formulate and submit a bid to compete for the work through the Managed Competition Program.

Managed Competition Guide (Guide): A document that provides guidelines and processes for the implementation of the Managed Competition Program. The Guide describes a process negotiated by the City with its recognized employee unions.

Managed Competition Independent Review Board (MCIRB): Board comprised of City staff and community representatives, which is established under City Charter section 117 (c) to advise which vendor will provide services more economically and efficiently while maintaining service quality.

Most Efficient Government Organization (MEGO): The key element of the EPT's proposal is the development of the Most Efficient Government Organization (MEGO). In order to develop the MEGO, a Business Process Reengineering, reorganization, benchmarking, or efficiency study will be conducted prior to implementation of the Managed Competition process, pursuant to the Managed Competition Guide.

Pre-Competition Assessment Report (PCAR): If the Mayor determines a City service can be provided more economically and efficiently, the Mayor will prepare a PCAR report setting the rationale for putting the department through Managed Competition. The PCAR documents the type of service provided, identifies available market for service, and describes the risk to both the City and general public if the service is competitively sourced.

Preliminary Statement of Work (PSOW): Document that includes description of function and current or budgeted service levels associated with the function selected for competition. The PSOW is developed by the Business Office using information from the PCAR and input from a committee of Business Office personnel and functional area Subject Matter experts.

Quality Assurance Surveillance Plan (QASP): The QASP describes the process by which the City will monitor the selected service provider against performance standards described in the SOW. The QASP details several methods for quality assurance as well as the frequency for conducting quality reviews.

Request for Proposal (RFP): The RFP includes detailed information about how competition is conducted, specific instructions to potential service providers, and methods of proposal evaluation and cost comparison. The RFP is compiled by the City's Purchasing and Contracting Department.

Statement of Work (SOW): Document that defines the requirements and required service levels to which bidders will respond. The SOW provides information necessary for all bidders to develop an approach and cost for providing the service.

## Results in Brief

The City of San Diego's Publishing Services Division of the General Services Branch of the Public Works Department was the first City program to go through the recently-implemented Managed Competition process. The Employee Proposal Team (EPT), the group bidding on behalf of City employees, won the competition with a bid to perform the print and related services set forth in the Request for Proposal (RFP) for approximately \$2 million per year for 5 years. As a result of Managed Competition, the City implemented the EPT's Most Efficient Government Organization (MEGO).<sup>1</sup> Pursuant to City Charter section 39.2, and as set forth in the Managed Competition Guide, we completed an audit of Publishing Services following its transition through the Managed Competition process.

Some of the issues described in this report may be relevant only to Publishing Services because it has experienced significant declining workloads due to diminishing demand throughout the City for publishing services. For example, FY 2012 Publishing Services workloads were, on average, 58 percent below levels specified in the Statement of Work (SOW). Publishing Services' staffing and budget declined following Publishing Services' transition through Managed Competition. From FY 2011 (pre-Managed Competition) to FY 2013 (post- Managed Competition implementation), Publishing Services' full-time equivalent staffing decreased 60 percent from 25 positions to 10 positions. Over the same period, the total budgeted expenses decreased 42 percent from \$5.84 million to \$3.39 million. Although staffing and budget were significantly reduced as a result of Managed Competition, we identified issues that need to be addressed within Publishing Services regarding workload levels and the need for continued monitoring of budgetary savings as a result of the

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<sup>1</sup> The key element of the Employee Proposal Team proposals is the development of the Most Efficient Government Organization (MEGO). In order to develop the MEGO, a Business Process Reengineering, reorganization, benchmarking, or efficiency study is conducted prior to implementation of the Managed Competition process pursuant to the Managed Competition Guide.

implementation of the MEGO. Further, the oversight issues we identified in the case of Publishing Services may be relevant for current and future City services slated for the Managed Competition process. Specifically, we found that:

Inaccurate workload projections used throughout the Managed Competition process for Publishing Services undermined the cost savings possible with the process. Specifically, inaccurately high workload and service level projections included in the final Request for Proposal (RFP) artificially inflated the cost from competing bids including the one from the EPT, and ultimately resulted in the increase of the per unit cost of services provided by Publishing Services after the Managed Competition process was completed. We further found that staff concerns about the workload levels went unaddressed throughout the Managed Competition process and insufficient vetting of workload numbers contributed to the resulting inaccurate data used in the RFP.

Following the transition through the Managed Competition process, Publishing Services did not fully address declining workloads. Rather than making a necessary adjustment to resource needs based on actual workloads, in FY 2013, Publishing Services increased prices charged to City departments by an average of 15 percent due to a decline in projected workloads and revenues. Notably, the decision to increase prices was made despite the availability of options that would have allowed Publishing Services to make changes to balance its revenues and expenses. Under the City's Managed Competition process, the RFP is intended to be a binding document that locks an outside contractor to terms, including price and levels of service. However, because the EPT is not an independent legal entity, the City does not enter into a contract with an EPT—in this case, Publishing Services. Rather, the City implements the MEGO. Nevertheless, the Publishing Services EPT's response to the RFP states that, although there is no contract between the EPT and the City, the EPT will work under the conditions specified in the RFP. The RFP describes specific processes that could have been utilized to address declining workloads, including adjusting service levels and reimbursement amounts. Further, the City has the



authority to adjust service levels and resources through the budget process.

We make four recommendations. First, in order to accurately determine resource needs based on current and expected workloads, we recommend that the Business Office, in conjunction with Publishing Services, perform an assessment of the current workload demands and resource needs. Second, in order to ensure that the most accurate data is included in the Preliminary Statement of Work, Statement of Work, and Request for Proposal in any future Managed Competitions, we recommend that the Business Office take additional steps to ensure that workload levels are adequately vetted. Third, we recommend that following the completion of the assessment of workloads and resource needs, the Business Office report the assessment to the Mayor and the City Council, so that, through their Charter-authorized budget authority, the Mayor and the City Council may consider making the requisite adjustments to workloads and resource needs as identified in the assessments. Finally, in order to ensure that current and future City programs and services that undergo Managed Competition are operating in the most economical, efficient, effective, and transparent manner, we recommend that the Business Management Reports produced by the Business Office and Publishing Services management, respectively, be made public and presented to the City Council and/or the Budget and Finance Committee on a regular basis.

The Business Office and Publishing Services agreed with all four of our recommendations. Management's consolidated response can found after page 35 of the report. Audit objectives, scope, and methodology are presented in **Appendix B.**

# Background

Publishing Services is the City of San Diego's full-service, in-house reproduction and graphics center. Publishing Services operates from the City of San Diego Concourse in the downtown Civic Center complex. Publishing Services provides a variety of reprographics functions, including graphic design, web design, electronic publishing, lithography, press operations, high-volume reproduction (quick print), bindery (finishing) services, and administration of the City's photocopier program. In FY 2011, Publishing Services went through the Managed Competition process and the Employee Proposal Team (EPT) was the first organization to win the City's Managed Competition process with a bid to provide publishing services set forth in the RFP at a cost of approximately \$2 million per year. Publishing Services transitioned to a Most Efficient Government Organization (MEGO) in FY 2012.

Publishing Services provides services and performs work in the following eight major areas: (1) Operate lithographic lab; (2) Operate presses; (3) Provide reprographic services; (4) Operate bindery; (5) Manage bindery and reproduction activities; (6) Graphic design; (7) Web site design; and (8) Electronic publishing.

## **Publishing Services' Budget and Staff Information**

Publishing Services' budget and staffing information for Fiscal Years 2006-2013 is summarized in **Exhibit 1** on the following page. Publishing Services' staffing and budget declined following its transition through Managed Competition. From FY 2011 (pre-Managed Competition) to FY 2013 (post-Managed Competition), its full-time equivalent staffing decreased 60 percent from 25 positions to 10 positions. Over the same period, Publishing Services' total budgeted expenses decreased 42 percent from \$5.84 million to \$3.39 million. See **Exhibit 1** on the following page.

**Exhibit 1****Adopted Budgets for Publishing Services: Fiscal Years 2006-2013**

Fiscal Years	Pre-Managed Competition						Post-Managed Competition	
	2006	2007	2008*	2009	2010	2011	2012	2013
Personnel Expenses	\$2,283,400	\$1,947,399	\$1,787,226	\$1,766,060	\$1,683,291	\$1,491,455	\$1,114,721	\$816,315
Non-Personnel Expenses	\$2,465,898	\$2,407,702	\$2,406,597	\$2,778,926	\$3,792,571	\$4,352,498	\$4,044,083	\$2,571,836
Total	\$4,749,298	\$4,355,101	\$4,193,823	\$4,544,986	\$5,475,862	\$5,843,953	\$5,158,804	\$3,388,151
Full Time Employees	35.01	35	25	25	25	25	14.33	10

\*Note: Publishing Services went through Business Process Reengineering in 2007, which resulted in FY 2008 budget and staffing reductions.

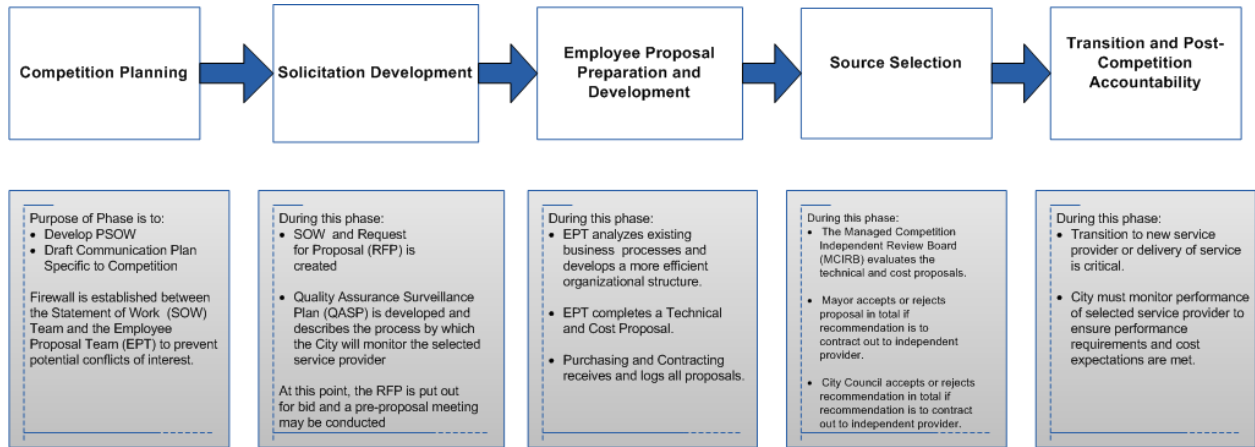
Source: OCA based on City of San Diego Adopted Budgets, FY 2008 – FY 2013.

### Managed Competition Overview

The Managed Competition process was established by San Diego City Charter § 117(c). This section allows the City to outsource services—as determined by the Mayor and subject to City Council approval—that can be provided more economically and efficiently by an independent contractor than by classified employees, while maintaining service quality and protecting the public interest. Under the Managed Competition process, the Mayor designates a City department or function for Managed Competition. Thereafter, a Pre-Competition Assessment Report (PCAR) is created by the Business Office to determine whether the function is eligible and appropriate for competition. If the PCAR finds that the function is eligible and appropriate for competition, the Managed Competition process is initiated. The Managed Competition process is comprised of five phases, which are presented in **Exhibit 2** on the following page. **Appendix C** on page 30 provides a history of the Managed Competition process in the City of San Diego.

**Exhibit 2**

**Managed Competition Process**



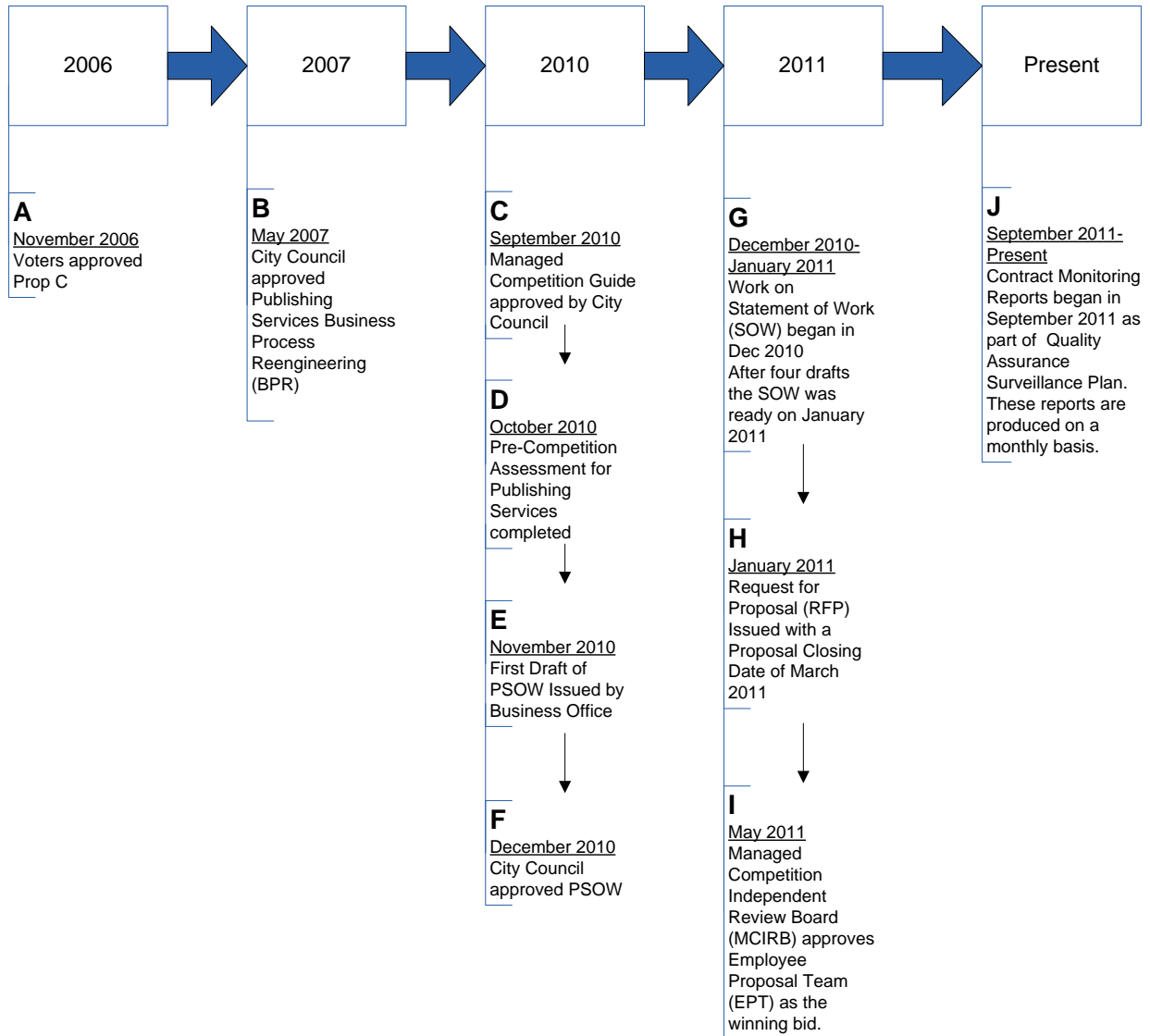
Source: OCA based on Managed Competition Guide.

**Publishing Services' Transition through Managed Competition**

The timeline and process in which Publishing Services went through Managed Competition is summarized in **Exhibit 3** on the following page. See **Appendix D** for a more detailed description of each of the phases.

**Exhibit 3**

**Timeline and Process of Publishing Services' Transition through Managed Competition**



Source: OCA based on review of Publishing Services Managed Competition documentation.

# Audit Results

## ***Finding 1: Inaccurate Workload Data throughout the Publishing Services Managed Competition Process Undermined Cost Savings***

We found that inaccurate workload projections used throughout the Managed Competition process for Publishing Services undermined the cost savings of the process. Specifically, inaccurately high workload and service level projections included in the final Request for Proposal (RFP) artificially inflated the cost from competing bids and increased the costs of services provided by Publishing Services after the competition was completed. We further found that staff concerns about the workload levels went unaddressed throughout the Process, and insufficient vetting of workload numbers contributed to the Statement of Work (SOW) being inaccurately set forth in the RFP. For example, FY 2012 Publishing Services workloads were, on average, 58 percent below levels specified in the SOW.

### **Business Process Re-engineering Report on Publishing Services Identified Declining Workload Production and Annual Deficit**

Publishing Services entered the Business Process Re-engineering program (BPR) in October 2006, and a final report was issued in July 2008. The final report concluded that Publishing Services was operating with an annual deficit for the previous six years and that the fund balance was in deficit during Fiscal Years 2006 and 2007. The report also determined that, from Fiscal Years 2001 to 2005, the workload production dropped significantly due to a decline in service requests. A number of factors contributed to the decline in demand including the "City's fiscal climate, the change in business practices (i.e. sending information electronically), departments seeking outside vendors, and in many instances departments utilizing their internal staff." The BPR served as the initial step for Publishing Services before entering the Managed Competition process.

**Pre-Competition  
Assessment Report  
Identified Uncertainty of  
Publishing Services'  
Workloads Resulting  
From Declining Demand**

The Pre-Competition Assessment Report (PCAR) for Publishing Services was prepared by the Business Office with assistance from a PCAR Team and issued on October 28, 2010. The PCAR addressed potential issues with declining workload and stated that "Publishing Services has expressed concern about being able to project its workload in light of the continued budget reductions across the City and changes in technology that make forecasting future workload somewhat complicated."

**Preliminary Statement of  
Work Underestimated  
Severity of Declining  
Workload**

The Preliminary Statement of Work (PSOW) for Publishing Services was completed between October 2010 and December 2010. City staff tasked with compiling information had limited knowledge of the operations of Publishing Services necessary to establish accurate projected workloads. The team also received limited help from senior level management due to inter-departmental organizational changes within the General Services Department.

The workload projections for the PSOW were based in large part on City budgets for years past. However, as illustrated by City staff reports and communications, there were sizeable fluctuations between workload projections from year to year and concern regarding the accuracy of figures in the budget. There was concern among the PSOW team members about whether workload projections in the PSOW were accurate. Despite the concern, inaccurate work levels were used, and compressed timeframes to issue the RFP further prevented adequate vetting of the accuracy of the workload projections.

Although the workload projections in the final PSOW were significantly lower than workload projections that appeared in past budgets, the workload projections in the final PSOW still did not accurately and completely capture the full extent of the reduction in Citywide demand for work from Publishing Services at the time. As a result, the workload projections in the PSOW were inaccurately high.

The PSOW team made a recommendation to the City Council in early November 2010 to accept the PSOW for Publishing Services to serve as the foundation of the Publishing Services SOW. This is a critical step in the Managed Competition process

because once the City Council approves the PSOW, the workload numbers are locked-in for purposes of the competition by being included in the RFP as part of the SOW and cannot be changed without the further approval of City Council. The City Council unanimously approved the PSOW for Publishing Services on December 7, 2010.

**Inaccurate Workload  
Figures Were Included in  
the Statement of Work  
Despite Internal  
Uncertainty About the  
Accuracy of the  
Information**

The creation of the SOW began in December 2010 and continued throughout January 2011 as members of the SOW team sought to ascertain the workload numbers. SOW team members sent communications illustrating that, while working under the compressed timeframes, they were unsure about workloads.

Based on a review of communication between City staff involved in the process, there was little consensus between SOW team members, who expressed conflicting concerns regarding workload projections being set too high or too low. As late as January 19, 2011 – just three days before the RFP was issued – there was concern on the actual numbers for “work products/volume issues,” and the Business Office was still waiting for responses from representatives of Publishing Services.

The Purchasing and Contracting Department released RFP No. 10014473-11-A on January 21, 2011, to facilitate the receipt of bids for the Managed Competition of Publishing Services. After review by the Technical and Cost Evaluation Boards, on May 11, 2011, the Managed Competition Independent Review Board (MCIRB) voted to recommend approval of the Employee Proposal Team (EPT) proposal.

**Inaccurate Workloads  
Used Throughout the  
Managed Competition  
Process Led to the  
Artificial Inflation of Cost  
Estimates in RFP  
Responses**

The inaccurate workload numbers in the RFP caused bidders, including the EPT, to overbid. This is illustrated by the fact that actual workloads were far lower than workloads stated in the RFP See **Exhibit 4** on the following page which illustrates that Publishing Services workloads were, on average, 58 percent below levels specified in the SOW for all services reviewed as of December 2012.



*Exhibit 4***Publishing Services Statement of Work (SOW) Workload Amounts vs Actual Workload Amounts, Fiscal Year 2012**

<b>Workload Category</b>	<b>SOW Workload Amounts</b>	<b>Fiscal Year 2012 Actual Workload Amounts</b>	<b>Percent of Workload below SOW Level</b>
Corporate Standard	4,240	1,352	68%
Label Services	240,000	23,450	90%
Corporate Standard Envelopes	800,000	439,600	45%
Copy	9,650,000	5,042,388	48%
Large Format Copy	470,000	315,185	33%
Other Media	2,400	700	71%
Photography Service	300	215	28%
Other Finishing Services	19,100	15,050	21%
Four-Color Offset Press	1,344,020	652,000	51%
Pantone Matching System Sport Color Service	1,585,000	760,000	52%
Forms	3,833,400	43,500	99%
Other-Miscellaneous	934,410	627,416	33%
<b>TOTAL</b>	<b>18,882,870</b>	<b>7,920,856</b>	<b>58%</b>

Source: OCA based on Annual Report completed by Business Office in December 2012.

As described earlier, City staff tasked with compiling information had limited knowledge of Publishing Services' operations, which is necessary to establish accurate projected workloads. The Business Office did not hire an outside consultant to assist the SOW team in the formulation of the workload numbers and RFP, as allowed by the Managed Competition Guide. The Managed Competition Guide indicates that the Business Office and consultants, as warranted, shall develop the PSOW, support SOW and Employee Proposal development, and develop the Quality Assurance Surveillance Plan (QASP) among other things. The SOW may have resulted in more accurate workload levels if the Business Office had used an outside consultant.

**Inaccurate Workloads Used Throughout the Managed Competition Process Led to the Increasing Costs of Services Provided by Publishing Services**

Representatives from both Publishing Services and the Business Office, which is responsible for overseeing the implementation of Managed Competition, indicated that Publishing Services was “owed” the work levels stated in the RFP. In other words, despite the fact that the RFP set forth that no contract would be executed if the EPT won the competition, Publishing Services and the Business Office nevertheless claimed that Publishing Services was entitled to the amount of funds it bid for the job whether the amount of work contemplated by the RFP was ever completed. Based on the workload levels set in the RFP, Publishing Services believed that the City required Publishing Services to maintain the necessary capacity to provide the publishing services that were bid out in the RFP, even in the face of decreased and declining demand. According to Publishing Services, this meant that the City would have to pay Publishing Services for services that the Division was not completing because the workload demand was overstated in the PSOW, SOW, and RFP. The effect of this expectation was that the City was paying the full bid amount for less than the full amount of work set forth in the RFP; in other words, the City was paying more for each job completed. It is important to note that, while the City’s budget allocation to Publishing Services did not increase, the unit costs per service increased to make up for lower revenue collections stemming from diminished demand for services. FY 2012 and FY 2013 year-end reports note the ongoing erosion in demand for print shop services, which should have necessitated rebalancing of workloads and resource needs to an accurate amount based on actual demand.

Although options to correct the revenue and expenditure imbalance were available, as discussed in Finding 2, in order to implement any corrective measure the first step is to establish accurate workloads and resource needs.

**Recommendation #1**

In order to ensure an accurate balance between Publishing Services’ actual workloads and resource needs, we recommend that the Business Office in conjunction with Publishing Services perform an analysis that includes an assessment of 1) current and projected demand for print shop services; 2) current and

projected workloads; and 3) staffing and other resource requirements necessary to meet current and projected workload demands. **(Priority 2)**

**Recommendation #2** In order to ensure the most accurate workload data is included in the Preliminary Statements of Work, Statements of Work, and Requests for Proposals in any future Managed Competitions, we recommend the Business Office take additional steps to ensure that workload levels are adequately vetted. For example, the Business Office should consider providing outside consultant support to the Preliminary Statement of Work and Statement of Work teams, as allowed by the Managed Competition Guide. **(Priority 2)**

***Finding 2: Publishing Services Did Not Adequately Address Declining Workloads Following the Managed Competition Process***

Publishing Services deviated from the Request for Proposal (RFP) in several key areas after the Employee Proposal Team (EPT) submitted the winning proposal and implemented the Most Efficient Government Organization (MEGO) through the Managed Competition process.

Under the City's Managed Competition process, the RFP is intended to be a binding document that locks an outside contractor to terms including price and levels of service. However, because the EPT is not an independent legal entity, the City does not enter into a contract with an EPT—in this case, Publishing Services. Rather, the City implements the MEGO. Nevertheless, the Publishing Services EPT's response to the RFP states that, although there is no contract between the EPT and the City, the EPT will work under the conditions specified in the RFP. As a result, Publishing Services is not legally bound by the RFP.

Publishing Services did not adequately address declining workloads and instead resorted to increasing per-unit costs by an average of 15 percent, effective in FY 2013. Notably, the decision to increase prices was made despite the availability of options that may have allowed Publishing Services to make changes to balance its revenues and expenses. Specifically, the RFP provides that the City and the service provider may renegotiate expected volumes and lump sum reimbursements subsequent to the first year of the contract based on accurate assessment of workloads and expenses. Although the overall cost to the City remained at approximately \$2 million per year following the per unit price increase, City departments are now paying an average of 15 percent more per unit ordered, which, in our view, undermines the intent of the Managed Competition process.

**Legal Principles  
Applicable to Outside  
Contractors Involved in  
Managed Competition**

The Managed Competition Guide provides that the RFP will include pertinent information from the final Statement of Work (SOW) in order to provide all information necessary for all bidders to develop an approach and cost for providing services and "Contract Terms and Conditions" that contain the general terms and conditions related to the contract.

Once the winning bidder is selected based on its bid proposal, the RFP document becomes the contract that binds the City and an outside contractor (in the event that an outside contractor wins the competition) to the terms and conditions of the RFP. As it relates to an outside contractor, the RFP specifically provides that the proposal by the Contractor will form the body of the contract once both parties have signed it and further states that, upon award and acceptance of the proposed work, the RFP becomes the contract between the outside contractor and the City. The RFP contains several clauses that discuss the binding effect of the document and clauses concerning renegotiation and breach, including:

"Contractor shall be bound by and shall perform in strict conformity with the terms and conditions of this contract."

*City Attorney Opined on  
City's Relationship with  
the EPT in the Event that  
the EPT Wins the  
Competition*

After the EPT won the competition, representatives of Publishing Services and the Business Office stated that the City Attorney's Office opined that the City could not contract with a City department (or unit thereof) because City departments are not separate legal entities but rather subdivisions of the City itself. The City Attorney's Office has advised that the City cannot contract with itself. According to the City Attorney's Office, when the EPT is the winning bidder, the activity is not outsourced to a private contractor. As specifically set forth in the RFP, the winning EPT does not enter into a contract with the City. The only contract created through the Managed Competition process when the EPT wins is the contract negotiated between management and the City's unions through the meet and confer process.

Despite the inability to enter a legal binding contract, the EPT stated in its winning proposal that, while the MEGO will not

have a contract with the City, the MEGO “will work under the conditions specified in the Memorandum of Understanding (MOU).”

As a result of the foregoing, Publishing Services and the Business Office viewed the RFP as a “guiding document” to be followed. In reality, there would be no repercussions or penalties of a contractual or legal nature when it was violated. As explained in greater detail below, this relationship between the City and an EPT that wins the Managed Competition bid differs from the contractual relationship that would exist between the City and a private vendor that wins the Managed Competition. When the EPT won the competition, the RFP was not a contractual obligation, but rather served to benchmark cost savings and performance expected from the Division.

*Best Practices for  
Managed Competition  
Address the Situation  
Where the Public Sector  
Wins the Competition*

Other municipalities and best practices for Managed Competition address these contractual issues. For example, the Pricewaterhouse Coopers Endowment for the Business of Government, mentions in its report<sup>2</sup> that, when a public-private competition is won by the private sector, a contract is entered into that specifies the duties and obligations of the private sector business or firm. In turn, many governments develop a “memorandum of understanding” (MOU) or some other written document that likewise specifies the understanding of the EPT and City management when the public sector (i.e. EPT) wins a public-private competition. Specifically, the development of an MOU facilitates service monitoring and helps ensure that the public sector (i.e., EPT) is held to the same standards as the private sector to the extent possible. Without an MOU, the duties and responsibilities of the public sector may be subject to dispute and service monitoring may be less stringent. The PriceWaterhouse Coopers report also mentions the consideration of penalties when the public sector fails to perform or exceeds the cost of its benchmark, bid, or proposal. When specific penalties are non-existent, the public sector may lack sufficient accountability for performance failure and for cost overages.

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<sup>2</sup> Lawrence L. Martin, *Determining a Level Playing Field for Public-Private Competition*, (November 1999)

In addition, the Office of the City Auditor in Seattle issued a report<sup>3</sup> that emphasized the importance of comprehensive contract specifications, including specific measures of performance, stating that “The city’s ability to hold both public and private sector bidders accountable for performance quality is only as good as the original contract specifications.” The main concern is that, if the city does not hold in-house providers to the same standards as the private sector, the Managed Competition process could lose credibility.

*Description of How a Private Vendor Would Be Held Legally Accountable*

The RFP, as described above, serves as the binding contract between the City and a private vendor that wins a managed competition. The RFP also includes several sections that set forth penalties for a private vendor that wins the bid, enters into a binding contract with the City, and thereafter breaches the contract. These sections provide clear procedural steps that are triggered when a private service provider fails to perform in accordance with the RFP.

The City, however, does not have these same procedural remedies against an EPT that wins the competition because there is no binding contract. This means that the EPT can fail to perform in accordance with the RFP and no legally-enforceable remedy for breach of contract exists. However, other remedies exist, such as those involving the City’s budget process, as discussed in detail later in the report.

**Publishing Services Increased Prices for Work Performed to Recover a Revenue Shortfall**

Publishing Services did not utilize available processes set forth in the RFP to address declining workloads. In particular, Publishing Services did not utilize the credit system and, more importantly, did not renegotiate the expected volumes and lump sum reimbursement subsequent to the first year of providing the publishing services. Instead, Publishing Services increased per-unit prices for services citywide by an average of 15 percent, effective in FY 2013. Publishing Services management claimed that it had limited options to reduce expenses when confronted with declining revenues. In an effort to balance revenue and expenditures, Publishing Services management made cuts where they were available without

<sup>3</sup> Office of the City Auditor: Seattle, *Making Effective Use of Managed Competition*, (January 11, 1995)

laying off individuals. Specifically, paper costs were cut from \$293,010 in FY 2012 to \$246,203 in FY 2013 and positions within the office were kept vacant. Additionally, several one-time savings measures were implemented, including selling obsolete equipment and transferring expensive equipment and a delivery van to other offices within the City bureaucracy. Even with those cost saving measures, revenues still came below expenditures due to the ongoing erosion in demand, as noted in year-end reports.

Notably, the decision to increase prices was made despite the availability of options that would have allowed Publishing Services to make changes to balance its revenues and expenses while remaining in compliance with the language set forth in the RFP.

*Publishing Services  
Increased Per-Unit Costs  
by an Average of 15  
Percent*

As early as May 2011, the Business Office, as illustrated by Contract Monitoring Reports, recognized deficient revenues and determined that action must be taken to avoid a deficit in Publishing Services. In turn, the management of Publishing Services introduced a plan to remedy the imbalance between revenues and expenses in the unit by increasing prices charged to City departments when the demand for publishing services did not meet the workload level contemplated in the RFP. This action was taken despite the fact that the RFP stated that contractors would not be entitled “to an adjustment in the unit price”. Between June and July 2012, City officials from Publishing Services, the Business Office, the Comptroller’s Office, and the Financial Management Department established an average 15 percent rate increase for Publishing Services work to be implemented in FY 2013.

In light of the above language cited in the RFP, it is doubtful that a private contractor that won the competition would be provided the same opportunity to increase per-unit pricing during negotiations. Rather, as provided for in the RFP and consistent with their contractual obligations, the private vendor and the City would renegotiate the expected workload volumes and lump sum reimbursement, which would likely cause a private vendor to reduce the expense side of its ledger by reducing staff or taking other action to bring its expenses in line with its revenues.



*Contract and Monthly  
Contract Monitoring  
Reports Not Released*

The Business Office made a series of reports to the City Council's Committee on Rules, Open Government, and Intergovernmental Relations (Rules Committee) concerning the progress of different departments and City functions going through the Managed Competition process. Although the Business Office's reports on Managed Competition included information about the status of various departments' progress, including Publishing Services, through the Managed Competition process, the presentations did not contain information about the operational performance of the departments. Further, the reports created as part of the Quality Assurance Surveillance Plan (QASP) by the management of Publishing Services and the Business Office, which evaluated operational performance, were neither presented to the Rules Committee nor to the public. As a result, the City Council, the body with the Charter mandated authority to approve changes to the budget, was not presented with all of the relevant information about the operation of the Managed Competition process. Providing this type of information on a regular basis would better enable the Mayor and the City Council to make informed policy and budgetary decisions related to the Managed Competition process.

*Publishing Services Had  
Limited Options to  
Address Revenue  
Imbalance Short of  
Reducing Staffing Levels*

Without unilaterally reducing staffing levels, Publishing Services management was unable to reduce the Department's personnel expenses to bring the numbers in line with lower-than-anticipated workloads. Rather than unilaterally imposing further staffing reductions, Publishing Services obtained approval from the Business Office, Financial Management, and the Comptroller's Office to implement an across-the-board 15 percent increase in prices for services performed by Publishing Services in order to recover the RFP-stated revenues. These revenues must be recovered because the Department is an internal service fund. The Publishing Services Internal Service Fund provides goods and services to other City departments on a cost reimbursement basis. Internal Service Funds should be self-supporting and receive sufficient revenues to offset their expenditures.

In the case of Publishing Services, the Division experienced workloads that were far lower than what was contemplated and bid for in the RFP. For example, as described earlier, Publishing Services workloads were, on average, 58 percent below levels specified in the Statement of Work for all services reviewed as of December 2012 (see **Exhibit 4** on page 11). The lower-than-expected workloads resulted in revenue levels falling materially lower than revenues projected in the RFP. As a result, the staffing levels and commensurate expenses associated with the level contemplated in the RFP were significantly higher than revenues generated by Publishing Services.

Short of further and unilaterally reducing staffing levels, Publishing Services management had limited options to reduce the expenses in order to bring revenues and expenditures back in line. It is important to recognize that Publishing Services had already been put through the Business Process Re-engineering (BPR) process, which led to a reduction in staff, a reduction in the size of the leased office space, and a reclassification of positions. According to Publishing Services management, there was nothing left to squeeze in order to reduce expenses. Without unilaterally imposing staffing reductions, Publishing Services management stated that it was unable to cut personnel costs in order to bring the number of employees down to a level commensurate with the declining levels of publishing services demand described in FY 2012 and FY 2013 year-end reports.

*RFP Provides Recourse for Revenue Shortfalls*

The RFP for Publishing Services set forth specific procedures that contemplated workloads beneath the amounts stated in the RFP. The RFP states

“If the City uses less than 90 percent of a particular service, the City will receive a credit for said service for future contract years. The City and contractor may also renegotiate the expected volumes and lump sum reimbursements subsequent to the first year of the contract.”

If a private vendor had won the bid and similar events unfolded where the workload numbers in the RFP were too high, creating an imbalance between revenues and expenses, the City could have employed the credit system set forth in the RFP. The City, in that case, would have received a credit in the next year for services associated with workload amounts that were unutilized. For example, the RFP states the contractor will make 100 copies per year. However, over the course of the year only 50 copies were ordered, the City still paid the lump sum that the vendor had bid. Fifty copy credits would be applied the next year to compensate for the overpayment. Now, if the City determined that after a year, the City would not be utilizing the credits from the previous year because of declining demand, the City is able to renegotiate the expected volumes and lump sum reimbursement, thus bringing the workload volumes down and, in turn, the lump sum reimbursement down as well.

However, the City did not employ the credit system set forth in the RFP, which was designed to handle declining workloads involving an outside contractor. If the RFP was awarded to an outside contractor, the City could have received a credit from that private vendor, which would be used in future years of service performed in accordance with the RFP. However, unlike an outside contractor, Publishing Services was provided the full amount of funds that was stated in the RFP, despite a decrease in demand and a decrease in the amount of services provided.

Notably, if the City believed that workload demand would continue to decline, employing the credit system would likely not have been a functional solution. In this scenario, the City would continue to accumulate credits and demand would never rebound in an amount required to recoup the credits. Instead of implementing a credit system, the City should go through the budget process to evaluate and modify as necessary the expected service levels and budget to align everything with true workload demands.

**The City Charter Empowers the City Council to Modify Workloads through the Budget Process**

As noted above, the RFP states that the City and the vendor may renegotiate workloads and lump sum reimbursements. In the case of Publishing Services, adjusting workloads and budget levels would need to be effectuated through the budget process. The City Attorney has opined that the City Council has the authority under the City Charter to increase or decrease service levels, which is accomplished as part of the budget process. According to the City Attorney's Office, this Charter-vested authority also exists within the context of a Managed Competition after the competition has been awarded. Should service levels be adjusted by the City Council through the budget process after a competition has been completed, the City Council must ensure that obligations under state collective bargaining laws to meet and confer with impacted employee organizations are observed.

**Recommendation #3**

In order to provide the City Council with information necessary to make informed budgetary decisions pertaining to Publishing Services, we recommend that, following completion of the assessment of workloads and resource needs outlined in Recommendation 1, the Business Office report the assessment to the Mayor and the City Council so that through their Charter-mandated budget authority, the Mayor and the City Council may consider making the requisite adjustments to Publishing Services' workloads and resource needs. **(Priority 2)**

**Recommendation #4**

In order to ensure that City programs and services that are placed through the Managed Competition process are operating in the most economical, efficient, effective, and transparent manner, we recommend that the Business Management Reports that are produced by the Business Office and the department management, respectively, be made public and presented to the City Council and/or the Budget and Finance Committee on a regular basis. **(Priority 2)**

# Conclusion

In 2006, San Diego voters approved Proposition C, authorizing the outsourcing of City services traditionally performed by classified employees to an independent contractor when the services can be provided more economically and efficiently while maintaining service quality and protecting the public interest. In 2011, the City's Employee Proposal Team (EPT) for Publishing Services won the City's first Managed Competition with a bid of approximately \$2 million per year for five years. In several key areas, the case of Publishing Services illustrates issues that need to be resolved if the Managed Competition process is to proceed in a manner that will most effectively and efficiently further the purpose of Managed Competition to achieve cost savings.

We identified that inaccurate workload projections used through the Managed Competition process for Publishing Services undermined the cost savings possible through Managed Competition. Specifically, inaccurately high workload and service level projections included in the final Request for Proposal (RFP) artificially inflated the cost from competing bids, and increased the costs of services provided by Publishing Services after the competition was completed. We further found that staff concerns about the workload levels went unaddressed throughout the process and insufficient vetting of workload contributed to the resulting inaccurate data. Publishing Services, in conjunction with the Business Office, should undertake an effort to perform an assessment on the current workload demands and subsequently perform an assessment of resource needs based on the current and projected workloads.

We further found that following the transition through Managed Competition, Publishing Services did not utilize available processes, such as those set forth in the RFP, to adjust for declining workloads. Under the City's Managed Competition process, the RFP is intended to be a binding document that binds a private service provider to terms

including price and levels of service. However, based on the fact that an EPT is not an independent legal entity, the City does not enter into a contract with an EPT—in this case, Publishing Services. As a result, Publishing Services is not legally bound by the RFP. Due to a decline in projected workloads and revenues, Publishing Services increased the prices it charged to City Departments for services by an average of 15 percent in order to balance revenue with costs. Notably, the decision to increase per unit prices was made despite the availability of options that would have allowed Publishing Services to make changes to balance its revenues and expenses.

Finally, it is important to note that Publishing Services is operating in a unique context with the City. Specifically, over the past several years, it has committed to moving towards paperless operations, leaving demand for print and related services in steady decline. This continued falling demand—and the failure to accurately quantify it—is one of the key issues at the core of the findings of this report. Although other departments going through Managed Competition may not experience the same issues concerning declining demand, several of the key implementation issues we identified in the case of Publishing Services are relevant for current and future City services slated for the Managed Competition process.

# Recommendations

We made four recommendations intended to ensure that current and future City programs and services that undergo Managed Competition are operating in the most economical, efficient, effective, and transparent manner.

**Recommendation #1** In order to ensure an accurate balance between Publishing Services' actual workloads and resource needs, we recommend that the Business Office in conjunction with Publishing Services perform an analysis that includes an assessment of 1) current and projected demand for print shop services; 2) current and projected workloads; and 3) staffing and other resource requirements necessary to meet current and projected workload demands. **(Priority 2)**

**Recommendation #2** In order to ensure the most accurate workload data is included in the Preliminary Statements of Work, Statements of Work, and Requests for Proposals in any future Managed Competitions, we recommend the Business Office take additional steps to ensure that workload levels are adequately vetted. For example, the Business Office should consider providing outside consultant support to the Preliminary Statement of Work and Statement of Work teams, as allowed by the Managed Competition Guide. **(Priority 2)**

**Recommendation #3** In order to provide the City Council with information necessary to make informed budgetary decisions pertaining to Publishing Services, we recommend that, following completion of the assessment of workloads and resource needs outlined in Recommendation 1, the Business Office report the assessment to the Mayor and the City Council so that through their Charter-mandated budget authority, the Mayor and the City Council may consider making the requisite adjustments to Publishing Services' workloads and resource needs. **(Priority 2)**

**Recommendation #4** In order to ensure that City programs and services that are placed through the Managed Competition process are operating in the most economical, efficient, effective, and transparent manner, we recommend that the Business

Management Reports that are produced by the Business Office and the department management, respectively, be made public and presented to the City Council and/or the Budget and Finance Committee on a regular basis. **(Priority 2)**



# Appendix A: Definition of Audit Recommendation Priorities

## DEFINITIONS OF PRIORITY 1, 2, AND 3 AUDIT RECOMMENDATIONS

The Office of the City Auditor maintains a classification scheme applicable to audit recommendations and the appropriate corrective actions as follows:

Priority Class <sup>4</sup>	Description <sup>5</sup>	Implementation Action <sup>6</sup>
1	Fraud or serious violations are being committed, significant fiscal or equivalent non-fiscal losses are occurring.	Immediate
2	A potential for incurring significant or equivalent fiscal and/or non-fiscal losses exist.	Six months
3	Operation or administrative process will be improved.	Six months to one year

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<sup>4</sup> The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number.

<sup>5</sup> For an audit recommendation to be considered related to a significant fiscal loss, it will usually be necessary for an actual loss of \$50,000 or more to be involved or for a potential loss (including unrealized revenue increases) of \$100,000 to be involved. Equivalent non-fiscal losses would include, but not be limited to, omission or commission of acts by or on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its residents.

<sup>6</sup> The implementation time frame indicated for each priority class is intended as a guideline for establishing implementation target dates. While prioritizing recommendations is the responsibility of the City Auditor, determining implementation dates is the responsibility of the City Administration.

## Appendix B: Objectives, Scope, and Methodology

Pursuant to San Diego City Charter section 39.2, and as set forth in the Managed Competition Guide, an independent audit is to be conducted by the Office of the City Auditor. Furthermore, the City Auditor shall conduct a performance evaluation of the service—determining whether cost efficiencies and performance standards have been achieved and identifying ways for the department to improve contract management. This performance evaluation shall be conducted within the term of services being provided pursuant to the Managed Competition process regardless of whether the EPT or an outside contractor wins the competition.

The objective of this audit was to evaluate the performance of Publishing Services following the Managed Competition process.

To evaluate the process through which Publishing Services went through Managed Competition, we reviewed the Business Re-engineering Report for Publishing Services, the Managed Competition Guide, City Council meeting agendas and minutes, documents supporting the creation of the Pre-Competition Assessment Report (PCAR), Preliminary Statement of Work (PSOW), Statement of Work (SOW), and, subsequently, Request for Proposal (RFP) No. 10014473-11-A. In addition, we interviewed Division staff and management involved in Publishing Services' Managed Competition process.

To evaluate Publishing Services and determine whether cost efficiencies and performance standards have been achieved, we reviewed workload data from the City of San Diego's Adopted Budgets for the past five years, SOW levels as specified in the RFP, the Contract Monitoring Reports prepared on a monthly basis by the Business Office as part of the Quality Assurance Surveillance Program (QASP), and the annual performance audit conducted by the Business Office. We compared the Statement of Work numbers found in the RFP to

the actual numbers in the Contract Monitoring Reports to determine if service levels were being met. We consulted with the City Attorney's Office concerning the contractual duties of a Managed Competition winner. Additionally, we researched different Managed Competition guides throughout the country and best practices for Managed Competition, including best practice recommendations from the Government Finance Officers Association and PriceWaterhouse Coopers.

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 Office of the City Auditor thanks management from Publishing Services, the Business Office, and those involved for their assistance and cooperation during this audit. We appreciate the time and effort spent by staff to provide us the necessary information.

## Appendix C: History of Managed Competition Program

In March 2006, the San Diego City Council approved a proposed Charter amendment to be submitted to San Diego voters authorizing the City to employ an independent contractor as an alternative to City employees under certain circumstances. The item appeared on the November 2006 ballot as Proposition C (Prop C), which San Diego voters approved by a vote of 60.37 percent in favor and 39.63 percent opposing. By approving Proposition C, voters illustrated their intent to “allow the City to contract services traditionally performed by City civil service employees if determined to be more economical and efficient while maintaining the quality of service and protecting the public interest.”

Since the passage of Prop C in November 2006, the City engaged in negotiations with the City’s impacted employee organizations to create a framework in which the Managed Competition process would function, including the drafting of a Managed Competition Guide.

The City Council subsequently authorized the placement of Proposition A on the June 2008 ballot seeking to exempt public safety services from the Managed Competition program. San Diego voters approved Prop A by 67.94 percent in favor and 32.06 percent in opposition.

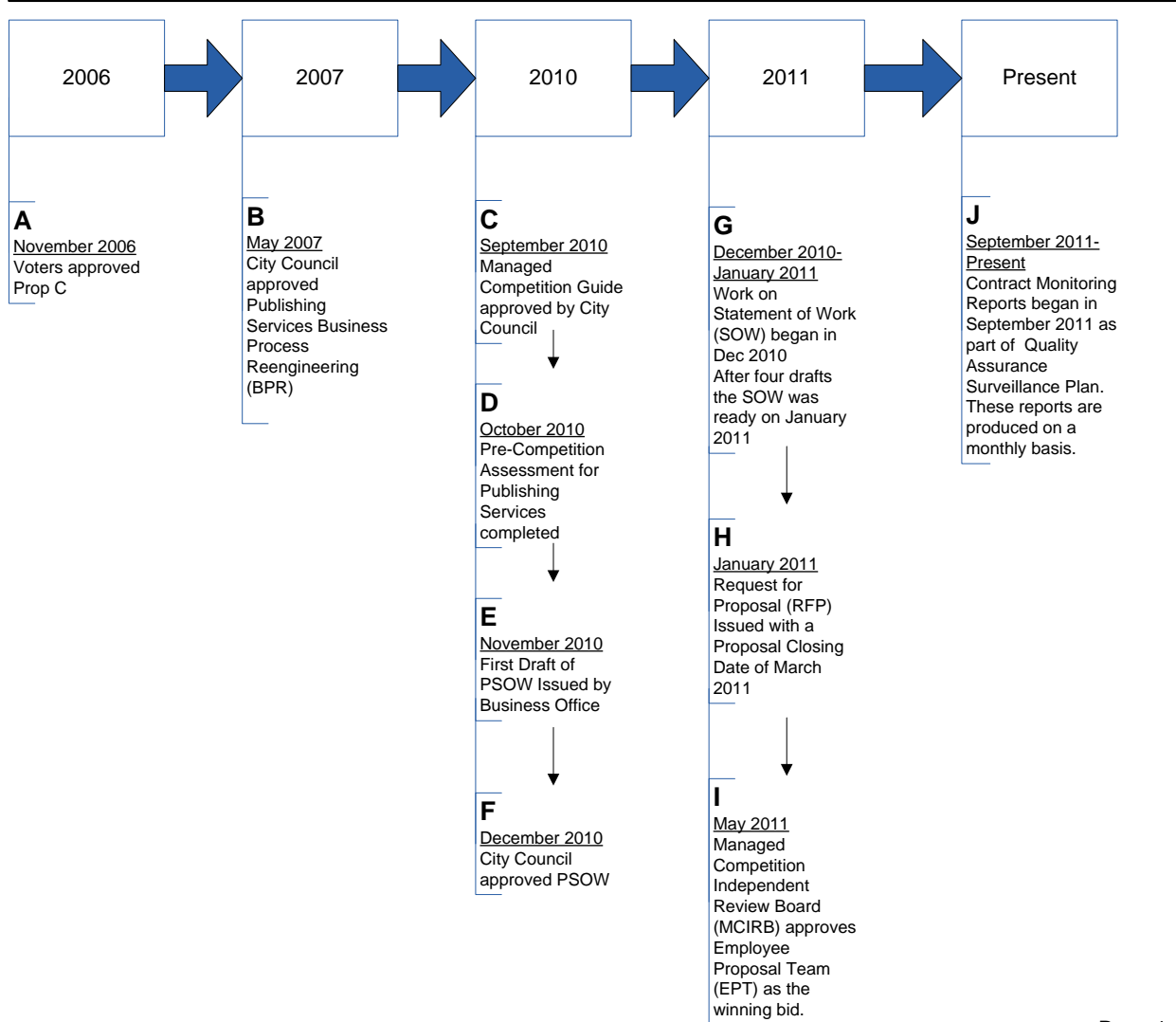
The implementation of the Managed Competition process hit a roadblock when an administrative law judge (ALJ) with the Public Employment Relations Board (PERB) in September 2008 issued a decision related to charges filed by two City employee organizations alleging that the City engaged in unfair labor practices. The ALJ determined that the City negotiated in bad faith and violated numerous provisions of the Meyers-Millias Brown Act. The ALJ ordered the City to re-enter negotiations and follow the City’s impasse procedures.

As a result of the PERB ruling, the City's negotiating team went back to the table with the City's employee organizations. The City again reached impasse in 2009. Notably, a separate City Attorney Opinion stated that when downsizing, reducing the number of employees, or eliminating positions of downsizing work, the City must notify the City employee organizations in writing and allow an opportunity to meet and confer over the impacts of the reduction in force prior to implementation. The City Council held an impasse hearing in October 2009 and rejected the Mayor's last, best and final offer on the Managed Competition Guide and directed the City and labor unions to continue negotiations on the Managed Competition Guide. As a result, the City's negotiating team and labor unions once again re-entered negotiations on the Managed Competition Guide.

After close to a year of further negotiations, the City Council voted in September 2010 to adopt the Managed Competition Guide, which allowed for implementation of the Managed Competition process.

# Appendix D: Description of Phases: Transition through Managed Competition

**Timeline and Process of Publishing Services  
Transition through Managed Competition**



Source: OCA based on review of Publishing Services Managed Competition documentation.

**Phase A** In March 2006, the San Diego City Council approved the submission of a proposition to San Diego voters seeking to permit the City’s “use of managed competition to restructure and achieve efficiencies in City operations and place measures on the November 2006 Ballot for voter consideration.”

**Phase B** The City operates a Business Process Reengineering (BPR) project, which was established in July 2006 to improve efficiencies and effectiveness of City government and help City departments prepare for managed competition by streamlining processes. The BPR process is integral to the Managed Competition program as a department establishes its Most Efficient Government Organization (MEGO) and prepares information for the pre-competition assessment to determine if it is eligible and appropriate to proceed on to a competitive procurement.

Publishing Services entered the BPR process in October 2006, and a final report was issued in July 2008.

**Phase C** The Managed Competition Guide documents appropriate policies and procedures as set in section 117 (c) including minimum contract standards and other measures to protect the quality and reliability of public services. It outlines the competitive bid and award process for government service contracts.

City Council approved the Managed Competition Guide on September 2010.

**Phase D** The Business Office, with support from functional area Subject Matter Experts, develops a report to document the criteria that supported the Mayor's decision on moving a function forward to competition. The Pre-Competition Assessment Report (PCAR) documents the type of service provided, identifies the available market for this service, and describes the risk to both the City and general public if this function were competitively sourced. Additionally, the report provides a rationale for moving a function to competition by examining whether:

- The function is inherently governmental, as determined by the Mayor
- There are legal limitations on external service providers' performance of the function
- Failure to perform the function would be exceptionally detrimental to public welfare.

The PCAR for Publishing Services was issued on October 28, 2010 and broke Publishing Services' functions into nine major operational categories.

**Phase E** The Preliminary Statement of Work (PSOW) document includes the following information:

- Description of the function(s) to be competitively sourced
- Current or budgeted service levels associated with the function(s) selected for competition

The numbers that appear in the PSOW, once approved by City Council, cannot be changed.

The Business Office and representatives of the Public Works Department completed the PSOW for Publishing Services between October 2010 and December 2010.

A draft of the PSOW was issued on November 3, 2010. The PSOW outlined services that must be provided by companies submitting proposals.

The PSOW included a list of the services sought and also included approximations of the work that must be performed annually by Publishing Services. Further, it outlined the standard of performance that would be required by the contractor.

**Phase F** The City Council reviewed and approved the PSOW for the General Services Department on December 7, 2010.

**Phase G** The Statement of Work (SOW) defines the requirement to which the Employee Proposal Team and independent service providers respond. The SOW is performance-based and specifies required service levels. The Purchasing and Contracting Department incorporates the final SOW into the Request for Proposal.

The Publishing Services' SOW Team provided the information necessary for all bidders to develop an approach and cost for providing service. The SOW Team began to work on the SOW in December 2010 and concluded in January 2011.

The Publishing Services' SOW Team, which included employees of Publishing Services, was responsible for compiling information on pricing and workload.

**Phase H** The Purchasing and Contracting Department released RFP No. 10014473-11-A on January 21, 2011 for the Managed



Competition of Publishing Services. The RFP included detailed information describing how the competition would be conducted, specific instructions to potential service providers, and methods of proposal evaluation and cost comparison.

The deadline to submit proposals was March 7, 2011 at 2:00 pm.

**Phase I** The Managed Competition Guide states that the Managed Competition Independent Review Board (MCIRB) be set up to advise whether the proposal of City employees or that of an independent contractor will provide the services to the City more economically and efficiently while maintaining service quality and protecting the public interest.

The Board divided their work into two committees: the Cost Evaluation Board, which analyzed the cost, and the Technical Evaluation Board, which considered the technical capabilities of the proposals as described in the RFP. Both committees made a recommendation to award the contract to the Employee Proposal Team on May 11, 2011.

**Phase J** The Quality Assurance Surveillance Plan (QASP) represents the mechanism by which the City evaluates the service provider's performance. The QASP focuses on examining the end products, services, and outcomes provided by the service provider. The Business Office is responsible for developing the quality assurance surveillance procedures by which the City will monitor the selected service provider against performance standards identified in the SOW. As part of the contract monitoring process, the Business Office reviews a random sample of the total jobs completed each month in order to verify that all performance standards, as specified in the SOW, are being met. The sample size is determined based on the lot size, as indicated in the QASP Guidelines.

The Business Office produced a series of reports used in their annual audit, which analyzed the performance of Publishing Services on a monthly basis from September 2011 through July 2012.

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THE CITY OF SAN DIEGO

MEMORANDUM

DATE: September 5, 2013

TO: Eduardo Luna, City Auditor

FROM: Tony Heinrichs, Director, Public Works Department

SUBJECT: Publishing Services Reply to the July 2013 Draft Publishing Services Audit Report

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This memorandum is the Publishing Services reply to the July 2013 Draft Audit Report: Performance Audit of the Publishing Services Department. Publishing Services would like to add additional detail to the draft findings.

With regard to the draft recommendations, Publishing Services is materially complying with its managed competition proposal. Furthermore, the City's Business Office conducted a performance audit of the Publishing Services managed competition proposal after the first year of implementation of the Most Efficient Government Organization (MEGO). This performance audit resulted in no significant findings and concluded that Publishing Services was satisfactorily complying with the terms and conditions of the managed competition RFP.

Publishing Services agrees that the Statements of Work (SOW) for any future managed competitions must be accurate and that SOW teams should have the resources to produce a high quality RFP. It is also critical that any future RFPs include pricing mechanisms that are consistent with the underlying business practices being competed. In the case of the Publishing Services RFP, the required lump sum pricing should have been replaced by a pricing schedule consistent with printing industry practices, such as a fixed per-unit cost schedule.

**Inaccurate Workloads / Declining Workloads**

While the Statement of Work overstated the level of demand for printed products, Publishing Services has aggressively pursued cost saving measures to mitigate against revenue reductions as a result of declining workload trends and charged the City less than what it was entitled to under the terms of the RFP. The cost saving measures include items such as leaving positions vacant, cutting back on supplies purchases and auctioning surplus equipment.

Publishing Services is researching long-term solutions to manage the declining work levels, such as phasing out offset printing and moving to a smaller work area. Many initiatives to improve efficiency or reduce costs would still be subject to the approval of other City departments (i.e., Real Estate Assets Department for moving to a new location) or meet and confer and other MOU provisions.

It should be noted that the RFP requested the best value proposals from all potential proposers. In its managed competition proposal, Publishing Services stressed the advantages of keeping the work in house in order to provide the City with a degree of security, consistency and convenience that would not necessarily be available if the work was outsourced.

The Audit report discusses the uncertainty over the estimated workload, but at some point the City had to move forward with the submitted proposal in order to achieve the cost savings anticipated with Managed Competition.

### **Lump Sum Pricing**

The Audit Report addresses the inaccurate workload issue in detail but does not take issue with another significant flaw with the bidding process: an inflexible and impractical payment scheme. The RFP called for a fixed annual lump sum amount. This is contrary to actual business practices in the printing industry. Print shops typically charge clients based on fixed per-unit pricing. Even if the workload in the RFP was overstated, per-unit pricing would have accommodated fluctuating levels of demand.

After the Managed Competition Review Board recommendation and the Mayor's decision to award to the Publishing Services Employee Proposal Team, Publishing Services attempted to implement the lump sum pricing as described in the RFP and met with other City staff, including representatives from the Financial Management (FM) and Comptroller Departments to discuss the fixed payment requirement. From these discussions it was determined that a lump sum payment approach was not consistent with City policies, such as the requirement to keep general and enterprise fund expenditures separate. As a result, Publishing Services was obligated to continue to charge on a per-job basis.

### **Price Increases**

After the lump sum payment approach was rejected, Publishing Services evaluated its new cost structure under the Most Efficient Government Operation (MEGO) and adjusted per-unit costs to generate sufficient revenue to cover expenses. Per-unit prices were increased but total charges to the City by Publishing Services decreased significantly due to managed competition.

While the RFP states that contractors are not entitled “to an adjustment in the unit price” it did not permit the submission of any unit pricing, and Publishing Services did not include any in its proposal.

Publishing Services also has expenses, such as UAAL, that were excluded from the bid. As an internal service fund, Publishing Services must generate revenue to cover these expenses regardless of the amount of work it receives.

### **Credits**

As the report makes clear, the credits discussed in the RFP are too impractical to manage the work load decline. Applying the credits would be problematic since the RFP does not describe them in sufficient detail.

### **Contract Issues**

While Publishing Services was precluded from signing a formal managed competition agreement, it has worked to the best of its ability to implement the proposal and has materially complied with the RFP service levels and pricing. The Publishing Services budget was reduced by \$1 million and a Reduction in Force process impacting four employees was implemented immediately after the managed competition proposal was accepted.

Publishing Services is still subject to all applicable City regulations, policies, and procedures and management holds Publishing Services staff accountable for cost overruns or poor performance to the same extent as other City divisions. In addition, Publishing Services is responsible to the Office of the Assistant Chief Operating Officer (ACOO) for quantitative performance targets under the Quality Assurance Surveillance Plan (QASP).

### **Recommendation 1**

**In order to ensure an accurate balance between Publishing Services’ actual workloads and resource needs, we recommend that the Business Office in conjunction with Publishing Services perform an analysis that includes an assessment of 1) current and projected demand for print shop services; 2) current and projected workloads; and 3) staffing and other resource requirements necessary to meet current and projected workload demands.**

Agree. Publishing Services, working with FM and the Office of the ACOO as part of the budget and performance monitoring process, is already implementing measures to balance workload, revenue and expenses. In order to match staffing to workload demands, Publishing Services is performing more work in-house to take advantage of the availability of new, low cost, and high quality photocopier equipment and transferring a more equitable share of facility expenses to the Convenience Copier Program.

### **Recommendation 2**

**In order to ensure the most accurate workload data is included in the Preliminary Statements of Work, Statements of Work, and Requests for Proposals in any future Managed Competitions, we recommend the Business Office take additional steps to ensure that workload levels are adequately vetted. For example, the Business Office should consider providing outside consultant support to the Preliminary Statement of Work and Statement of Work teams, as provided for in the Managed Competition Guide.**

Agree. With the assistance of the Office of the ACOO, future managed competition SOW teams should adequately vet workload levels. Additionally, the City should engage professional consulting firms to assist the SOW teams to prepare well written and accurate RFP documents. Payment schedules specified in future managed competition RFPs should be consistent with industry best practices.

### **Recommendation 3**

**In order to provide the City Council with information necessary to make informed budgetary decisions pertaining to Publishing Services, we recommend that following completion of the assessment of workloads and resource needs outlined in Recommendation 1, the Business Office report the assessment to the Mayor and the City Council so that through their Charter mandated budget authority, the Mayor and the City Council may consider making the requisite adjustments to Publishing Services' workloads and resource needs.**

Agree. Publishing Services monitors work load, expenses and revenues on a monthly basis and makes spending adjustments as required during the annual budget reconciliation process conducted by the Office of the ACOO and Financial Management and will report said assessments to the Mayor and City Council.

### **Recommendation 4**

**In order to ensure that City programs and services that are placed through the Managed Competition process are operating in the most economical, efficient, effective, and transparent manner, we recommend that the Business Management Reports that are produced by the Business Office and the department management, respectively, be made public and presented to the City Council and/or the Budget and Finance Committee on a regular basis.**

Agree. Publishing Services has provided budget reports to FM, the Office of the ACOO, and the office of the City Auditor and present to the City Council and/or the Budget and Finance Committee. It also generates managed competition performance measures that are published in the budget and regularly makes available detailed management, work order, and customer service reports to the Office of the ACOO and has provided input on its managed competition experiences to the ACOO and COO. Publishing Services also conforms to the required managed competition Quality Assurance Surveillance Plan (QASP), which provides a standard of surveillance for monitoring work and the approach the City uses to conduct surveillance over work performance. In addition, the QASP covers other contract provisions

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Eduardo Luna, City Auditor Publishing Services Reply to the July 2013 Draft Publishing Services Audit Report

related to data security and cost control. The Office of the ACOO completed a comprehensive audit of Publishing Services with satisfactory results. All of this information is available upon request.



Tony Heinrichs  
Director, Public Works Department

cc: Scott Chadwick, Assistant Chief Operating Officer