

April 19, 2004

The Honorable Bill Purcell, Mayor
Ms. Nancy Whittemore, Director
General Services Department
222 3rd Avenue North, Suite 350
Nashville, TN 37201

Report of Internal Audit Section

Dear Mayor Purcell and Ms. Whittemore:

We have recently completed a performance audit of printing and postal operations in the Department of General Services and in other Metro agencies. *Government Auditing Standards* issued by the Comptroller General of the United States define performance audits as follows:

Performance audits entail an objective and systematic examination of evidence to provide an independent assessment of the performance and management of a program against objective criteria as well as assessments that provide a prospective focus or that synthesize information on best practices or cross-cutting issues. Performance audits provide information to improve program operations and facilitate decision making by parties with responsibility to oversee or initiate corrective action, and improve public accountability.

A performance audit is different than a financial statement audit, which is limited to auditing financial statements and controls, without reviewing operations and performance. In performing this audit, we retained Maximus to work under our direction. Their final report dated April 2004, *Performance Audit of Printing and Postal Services*, accompanies this letter and is hereby submitted to you.

The General Services Department serves all of Metro's general government departments through a system of support services including building maintenance, radio communications, fleet management, security, postal pick-up and delivery, photography and printing. The focus of this performance audit was on the divisions of Central Printing and Postal Services. The purpose of Central Printing is to provide printing, publication, reproduction and consultation products to Metro departments and agencies so they can have professional printed products to efficiently and effectively meet their business objectives. Central Printing had a total of 9 budgeted positions for fiscal year 2003. Actual revenue was \$542,484, and total expenses were \$656,222, which included personnel expense of \$406,230. The total number of annual impressions printed by Central Printing is approximately 11 million.

A few other Metro departments – including Schools and Health - have sizable printing operations producing annual impressions of 31 million and 4 million, respectively. Additionally, a significant volume of Metro's printing needs are met by outside vendors who collectively produce 16 million impressions annually. Including both in-house printing and outside printing purchased through various vendors, Metro spent over \$1.5 million for printing in fiscal year 2002.

The purpose of Metro Postal Services is to provide mail processing, delivery and mail consultation products to Metro departments and agencies so they can receive and send mail in a timely manner. Metro Postal Services has a total of 6 budgeted positions for fiscal year 2003. Actual revenue was \$846,166, and total expenses were \$869,078, which includes personnel expense of \$235,230. Several Metro departments also use contracted delivery services, and the total spent on in-house and outside postal and delivery services exceeded \$1.7 million in fiscal year 2002.

Objectives, Scope, and Methodology

The primary objectives of this performance audit were as follows:

- Determine whether there are industry best practices, benchmarks, or peer group comparisons that could be used to assess Metro's printing and postal operations.
- Obtain and assess all relevant planning and performance measurement data currently captured and used to manage all areas of printing and postal operations.
- Determine which functions are performed centrally, at the department level, and which are outsourced; determine whether the current arrangements represent best practices in terms of business risk and cost.
- Evaluate the operational feasibility and potential cost impact of further centralization, further de-centralization, employing more advanced technical solutions and/or further outsourcing.
- Assess the cost effectiveness of purchase and maintenance contracts in place for copiers and network printers and printer/copiers.
- Compare the total cost of printing and postal operations to similar entities and industry benchmarks; consider costs associated with copiers and network printers, outsourcing printing, and central operations.
- Determine the effectiveness of existing interactions between the central Postal Services functions and other postal agencies, such as the U.S. Post Office and State of Tennessee Postal Services.
- Review the printing and postal equipment and technology used throughout the Metro departments and assess whether this functional capability most appropriately meets the needs of Metro.

This audit focused primarily on fiscal year 2002 and 2003 financial transactions and on performance and processes in place during the audit. Certain analyses required the consideration of financial results, performance and operations outside of that time period.

The methodology employed throughout this audit was one of objectively reviewing various forms of documentation, including written policies and procedures, financial information and various other forms of data, reports and information maintained by Central Printing and Postal Services and including data collected from other Metro departments through a survey instrument. Management, administrative and operational personnel, as well as personnel from other Metro departments and other stakeholders, were interviewed, and various aspects of printing and postal operations were directly observed. Data obtained from various sources were analyzed, and various aspects of performance, cost and practices were compared to those of peers and to best practices.

We performed the audit procedures in accordance with generally accepted government auditing standards.

Findings and Recommendations

The accompanying Maximus report addresses the printing and postal operations and the resulting findings and recommendations in detail. Following is an overview of some of the more significant findings and recommendations surrounding Metro's printing and postal operations.

1. Because Central Printing's costs per impression are excessive, their machinery and equipment are outdated, and the majority of Metro's printing needs are currently being met by 57 different outside vendors, Maximus recommends an entirely new model for printing services. They recommend a fully contracted printing operation – including convenience copiers throughout Metro buildings - which would require a small contract management staff to administer the contract and standardize internal policies relating to printing functions. This model would include master contracts that would be competitively bid, and would require all Metro departments to go through the contract management staff for all of their printing needs. Exceptions could be made for Schools, Health and other departments with high-volume printing capacity, provided the cost of those in-house printing operations is less than the cost of contracted printing, as determined by OMB's cost accountant. The anticipated annual savings resulting from implementation of this new model for printing services is approximately \$196,000.

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2. Metro should maintain the postal operations in the General Services Department, with two notable operational changes. The first is that Metro should reduce the level of delivery and pick-up currently provided. Current levels are high and can be reduced to achieve cost savings without a significant impact on meeting customer needs by limiting deliveries and pick-ups to once per day and by providing those delivery/pick-up services at one central location in each building, as opposed to making deliveries to the various offices in each building. The second operational change is the recommended use of contract services to process the mail for postage so that Metro can achieve the savings available from postal pre-sorting. These actions are estimated to result in annual savings of approximately \$62,000.
3. Maximus also recognized that much of what is currently printed and mailed could be done electronically once additional technology infrastructure is in place. Examples include expanded use of the intranet site for forms, posting more citizen information to the web, electronic routing of contracts for approval and of vouchers for payment, expanded electronic payments to vendors, and increasing the use of direct deposit for active and pension payroll.
4. In addition to Maximus' work, Internal Audit staff reviewed procedures and controls surrounding financial and other operations and have two primary recommendations resulting from that work. The first is that we noted errors in payroll processing and record keeping, particularly with regard to leave accounting. We have provided staff with the specific exceptions noted. These errors should be corrected, and the payroll process should be more closely supervised and reviewed in the future. The second is that we noted several inefficiencies and inconsistencies surrounding billing and collection of photographic services, which is currently being done through the Parks Department. We recommend that this process be streamlined and brought into the Shared Business Office as soon as practical.

Detailed explanations of the above findings and the related recommendations, as well as several other findings and recommendations, are included in the Maximus report. A detailed review of printing and postal operations can be found in Chapters II and III of the Maximus report.

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Management's response to the audit recommendations is attached to this report.

We appreciate the cooperation and help provided by all printing and postal staff members throughout several Metro departments.

This report is intended for the information of the management of the Metropolitan Government of Nashville and Davidson County. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Internal Audit Section

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Internal Audit Manager

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