



STATE OF WASHINGTON

October 28, 2016

The Honorable Troy Kelley
Washington State Auditor
PO Box 40021
Olympia WA 98504-0021

Dear Auditor Kelley:

Thank you for the opportunity to respond to the State Auditor's Office (SAO) performance audit report on "Ensuring Economical and Efficient Printing for Washington." The Office of Financial Management worked with the Department of Enterprise Services (DES) to provide a coordinated response.

DES acknowledges that the recommendations, in concept, are reasonable because they align with the agency's current best practices, specifically those in Printing and Imaging (P&I). The P&I program offers a variety of services to more than 432 state and local government agencies, Native American tribes, and public nonprofit organizations. DES staff consults with customers to determine the most cost-effective and efficient service. These services include but are not limited to:

- Digital printing
- Traditional offset printing
- Print job consulting and procurement support for private sector services
- Fulfillment storage and distribution services
- Envelope manufacturing and printing
- Integrated/accountable print and mail services
- Quality control and integrity for sensitive data

Since the SAO's 2011 performance audit of printing services, the law creating DES ([Chapter 43.19 RCW](#)) changed long-standing state printing requirements in two ways:

1. RCW 43.19.736 no longer requires state agencies to use the state printer and allows flexibility for customers to seek bids from other entities while requiring that DES be included in the bid solicitation for bids that exceed direct buy limits.
2. RCW 43.19.739 added a requirement that "For every printing job and binding job ordered by a state agency, the agency shall consult with the department on how to choose more economic and efficient options to reduce costs."

In calendar year 2013, agencies were authorized to purchase goods and services up to a cost of \$10,000 (excluding sales tax) directly from a vendor and without competition (a "direct buy" purchase). This threshold is increased to \$13,000 (excluding sales tax) for purchases made from a

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microbusiness, minibusiness or small business as defined by [RCW 39.26.010](#). In state fiscal year 2016, we determined that more than 98 percent of state print jobs that P&I produced in-house fell within direct-buy thresholds. Less than 2 percent of the jobs would have been required to be competitively bid.

These changes in law and policy placed P&I in a competitive free market and set the expectation for delivering maximum value at a competitive price. In fiscal year 2016, P&I has experienced steady revenue growth and higher customer satisfaction. P&I also increased production of confidential and/or sensitive jobs for customers, an area historically dominated by the private sector. These results demonstrate that P&I consistently delivers to customers high-quality work and on-time delivery at a competitive cost.

Sincerely,



Chris Liu, Director
Department of Enterprise Services



David Schumacher, Director
Office of Financial Management

Enclosure

cc: David Postman, Chief of Staff, Office of the Governor
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OFFICIAL STATE CABINET AGENCY RESPONSE TO THE PERFORMANCE AUDIT ON ENSURING ECONOMICAL AND EFFICIENT PRINTING FOR WASHINGTON – OCTOBER 28, 2016

This coordinated management response to the State Auditor's Office (SAO) performance audit report received on October 10, 2016, is provided by the Department of Enterprise Services (DES) and Office of Financial Management (OFM).

SAO PERFORMANCE AUDIT OBJECTIVES:

The purpose of SAO's audit was to build on the findings of its previous audit and to follow up on its recommendations.

1. Does the DES Printing and Imaging (P&I) competitive bidding process ensure economical and efficient printing for the state? If not, why not?
 2. Is DES promoting print management strategies to all state agencies?
 3. Have any agencies merged their in-house print shops with P&I?
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SAO FINDINGS:

- Printing and Imaging needs more vendor-pricing and performance information to fully demonstrate its print prices are competitive.
 - P&I has attracted new and repeat business.
 - DES is already promoting print management with agencies and could do more.
 - Agencies have not merged their in-house print shops with P&I.
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To ensure it provides the state with the lowest cost or with the best balance of cost, timeliness and quality, SAO recommends that P&I:

SAO Recommendation 1: Collect performance information on vendor product quality and delivery.

STATE RESPONSE: DES already collects high-level vendor performance information on jobs outsourced by P&I. All orders are scored on a 1-4 rating (1 being the best and 4 being the lowest), with 2 being the default performance score. Any quality or delivery issue identified by DES or its customers pushes the scoring to a 3 or 4, depending on the severity of the issue(s). Collecting additional vendor performance data to clarify and inform our overall performance metrics will require additional time, resources and expense for DES and our customers.

P&I is already competing for our customers' work on the free market. If our customers are not satisfied with our quality, timeliness and price, we will not earn their business. Therefore, DES is assessing the return on investment of collecting more data at the recommended level of detail.

Action Steps and Time Frame:

- DES will determine the return on investment for this additional data. What we learn will help us be more efficient. *By June 30, 2017*
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SAO Recommendation 2: Analyze and benchmark P&I's performance against vendor performance in these areas.

STATE RESPONSE: This is dependent on future data collected as a result of Recommendation 1.

P&I focuses on delivering customer value. Therefore, our key metric is customer satisfaction related to P&I's overall performance and price. If P&I is not competitive with vendors on both of these measures, it will be reflected in the satisfaction metrics. In addition, if customers are unsatisfied, P&I will not earn their future business. This could result in less revenue.

Action Steps and Time Frame:

- DES will determine the return on investment for this additional data. What we learn will help us be more efficient. *By June 30, 2017*
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SAO Recommendation 3: Explore ways to collect additional pricing information to identify trends and adjust business strategies accordingly. Possibilities include:

- Performing its market analysis more than once annually
- Comparing prices to other government print shops that provide centralized print and imaging services

STATE RESPONSE: P&I annually evaluates its budgeted hourly rates. This information is used to compare P&I's costs to those in the private sector, giving DES a benchmark against which to compare P&I's prices and to ensure its competitiveness for similar services.

Performing additional market analyses on already-completed jobs will require additional time, resources and expense for DES and its customers. In addition, this recommendation will increase the burden and expense for private sector vendors who will be asked to provide pricing on jobs that will yield no new revenue. Despite these added costs, DES will assess whether this recommendation has a positive return on investment.

Action Steps and Time Frame:

- DES will determine the return on investment for this additional data. What we learn will help us be more efficient. *By June 30, 2017*
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SAO Recommendation 4: Randomly select jobs for its market analysis in addition to recurring orders it includes in every review.

STATE RESPONSE: In fiscal year 2016, 82 percent of the jobs (less than \$1,000 per job) performed in-house by P&I represented just 13 percent (\$1.6 million) of its overall revenue, while 5 percent of the jobs (greater than \$5,000) composed 70 percent (\$8.4 million) of overall revenue. If P&I were to randomly select jobs for its market analysis, it would fail to assess the jobs of greatest impact to customers.

Currently P&I selects recurring work that covers its four major job types: offset, digital, variable information, and envelopes. This selection method allows P&I visibility into every aspect of its operation and ensures that P&I assesses the jobs with highest impact to our customers.

P&I market analyses gather information to make informed, data-driven business decisions. In addition to these analyses, our competitiveness is validated by customer satisfaction, growth of our customer base, and rising revenues.

Action Steps and Time Frame:

- DES will determine whether our current selection method needs to be modified. *By June 30, 2017*
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To improve agencies' implementation of print management, SAO recommends that DES:

SAO Recommendation 5: Publish each agency's progress at implementing the state's print management requirements so that the Governor, Legislature and public can monitor their progress.

STATE RESPONSE: Prior to the start of the audit, DES was already implementing the first agency survey on print management, which then closed on June 30, 2016. DES is now clarifying certain customer responses prior to publishing this information. In addition, DES is reaching out to agencies that did not complete the first survey. These efforts will improve the statewide summary information; provide transparency to the Governor, Legislature and public; and guide agencies' improvement efforts.

Action Steps and Time Frame:

- DES intends to publish the results from the first survey. *By March 31, 2017*
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SAO Recommendation 6: Continue to reach out to agencies to ensure they are aware of the state's print management requirements and guidelines.

STATE RESPONSE: Over the past year, DES has met monthly with partner agencies to obtain feedback on the rulemaking required by law and to reach consensus on what data should be included in the initial survey. The print management strategies team will continue to meet quarterly to provide technical assistance and outreach to requesting agencies. To assist all state agencies and institutions of higher education, DES provides assistance, training and other guidance. DES intends to continue this effort, including outreach and publication of all survey information, with available resources.

Action Steps and Time Frame:

- DES will conduct quarterly meetings starting in January 2017. We will also continue to provide outreach and technical information as requested. For example, in October 2016, DES conducted outreach with the State Board for Community and Technical Colleges at its purchasing council meeting.
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SAO Recommendation 7: Request that agencies report their baseline printing costs and how those costs have changed over time as a result of print management efforts.

STATE RESPONSE: DES can request this information but since reporting is not mandated by statute, we rely on cooperation from state agencies and institutions of higher education to provide

the best information available. To improve baseline information, DES will conduct a second survey in 2017.

Action Steps and Time Frame:

- DES will conduct, compile, and publish a second survey. *Survey results from agencies will be due to DES by August 1, 2017. DES will publish results by September 30, 2017. This schedule will be followed annually.*
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SAO Recommendation 8: Continue to offer training and assistance to agency personnel on print management.

STATE RESPONSE: Please refer to our response to Recommendation 6. In addition, as we learn best practices, we will modify our practices accordingly.

Action Steps and Time Frame:

- DES will establish quarterly meetings to provide outreach and assistance. *By January 2017.*
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