



STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

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April 15, 2011

The Honorable Brian Sonntag  
Washington State Auditor  
P.O. Box 40021  
Olympia, WA 98504-0021

Dear Auditor Sonntag:

Thank you for the opportunity to provide this official, coordinated management response from the 13 Cabinet agencies involved in the Performance Audit on Printing Services.

Overall, we are pleased that the audit supports many actions that have already been taken by state agencies to increase efficiencies in printing. For example, it notes that the State Printer has successfully adapted to decreasing demand since 2009. Moreover, the In-Plant Printing and Mailing Association (IPMA) has named the State Printer the best managed in-plant print shop in the nation for 2010. This competitive award – open to both public and private entities – recognizes an operation that excels in efficient management practices to further the objectives of its parent organization.

We acknowledge the rapidly-changing environment of printing and communication, and support competition to drive down costs and improve customer service. We are pleased the audit offers additional support for Governor Gregoire's proposed legislation this session to consolidate the Departments of Printing and General Administration and portions of three other agencies into a single agency to increase efficiency and realize savings.

We also support comprehensive efforts to contain office-based printing costs. The first use of managed print began in 2005 with the Department of Ecology. The Governor's current proposal to consolidate central services mandates managed print for all agencies with more than 1,000 full-time employees (FTEs). In addition, our recent sustainability measures have already paid off. Paper used per FTE is 25 percent below the national average for office workers, as estimated by the U.S. Environmental Protection Agency.

While we support consolidation, we still have questions about the audit's assumptions behind potential cost savings and current use of equipment. As part of our consolidation efforts, we will evaluate more fully key areas, such as peak capacity and possible issues of confidentiality and federal restrictions.

Sincerely,

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Marty Brown  
Director

The Honorable Brian Sonntag

April 15, 2011

Page 2 of 2

Attachment

cc: Jay Manning, Chief of Staff, Governor's Office  
Jill Satran, Deputy Chief of Staff, Governor's Office  
Wendy Korthuis-Smith, Director, Accountability & Performance, Governor's Office  
Kimberly Cregeur, Governor's Liaison on Performance Audits, Accountability & Performance,  
Governor's Office  
Jean-Luc Devis, Director, Department of Printing  
Eldon Vail, Secretary, Department of Corrections  
Ted Sturdevant, Director, Department of Ecology  
Paul Trause, Commissioner, Employment Security Department  
Phil Anderson, Director, Department of Fish and Wildlife  
Mary Selecky, Secretary, Department of Health  
Doug Porter, Administrator, Health Care Authority  
Mike Ricchio, Acting Director, Department of Information Services  
Judy Schurke, Director, Department of Labor and Industries  
Liz Luce, Director, Department of Licensing  
Suzan DelBene, Director, Department of Revenue  
Susan Dreyfus, Secretary, Department of Social and Health Services  
Paula Hammond, Secretary, Department of Transportation

# OFFICIAL STATE CABINET AGENCY RESPONSE TO THE PERFORMANCE AUDIT ON PRINTING SERVICES

APRIL 15, 2011

This coordinated management response is provided by the Office of Financial Management on behalf of the following Governor's Cabinet agencies for the audit report received on April 4, 2011: Departments of Printing, Corrections, Ecology, Employment Security, Fish and Wildlife, Health, Information Services, Labor and Industries, Licensing, Revenue, Social and Health Services, and Transportation, and the Health Care Authority.

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**ISSUE 1:** The state is not receiving the full benefits of an increasingly competitive printing marketplace under the current system.

**RECOMMENDATION:** Allow private printers and the Department to compete for all jobs.

## RESPONSE

We acknowledge the rapidly changing environment of printing and communication, and support competition to drive down costs and improve customer service.

As noted in the audit, the State Printer has successfully adapted to decreasing demand since 2009. Moreover, **the In-Plant Printing and Mailing Association has just named the State Printer the best managed in-plant print shop in the nation for 2010.** This competitive award — open to both public and private entities — recognizes an operation that excels in efficient management practices to further the objectives of its parent organization.

Based on the audit comparison and the State Printer's benchmarking survey, the State Printer often charges lower prices than private sector businesses. For example, the audit compared 17 jobs sent to other print shops for bids. Of those 17 jobs:

- The State Printer was the lowest cost provider on 8 jobs (47 percent).
- The State Printer was among the lowest three bids on 12 jobs (71 percent).
- None of the private print shops had the lowest bid for more than one job.

If the Legislature chooses to remove the prohibition against agencies obtaining bids from private vendors, we would support that change and encourage state agencies to also work with the State Printer to select the best option, which includes factors such as cost, timeliness, confidentiality and quality.

Governor Gregoire has proposed legislation this session that would consolidate the Departments of Printing and General Administration and portions of three other agencies into a single agency to increase efficiency and realize savings. If the legislation passes, contracting and printing functions would be housed centrally. One of the new agency's tasks would be to determine the process for printing procurement, in accordance with the law and other state purchasing practices such as tiered competition.

Although we agree in theory with the audit's general conclusion about competition, we have remaining questions about the assumptions used to estimate possible savings. For example, the assumption that a decentralized approach (agencies manage their own procurement) would be as efficient as centralized procurement is highly unlikely. A decentralized approach would weaken the state's negotiating position by diluting its buying power. It would also require agencies to hire

subject-matter experts for printing procurement or develop redundant knowledge of strategies to reduce printing costs.

In addition, the “potential annual savings” are based on a best-case scenario, or soliciting bids only on those eight job types where it is known that a lower price was available. As mentioned in Appendix D of the audit, costs would be higher if all jobs were put out for bid, especially where strong evidence already exists that the State Printer is the lowest bidder (e.g., envelopes).

We agree that current law unnecessarily complicates the operations of the State Printer, and we support removal of the Franklin Guide price cap. A repeal of this language has been included in the Governor’s proposed legislation to consolidate central service functions.

The State Printer implemented a new cost-finding system approximately three-and-a-half years ago. When the audit began, the State Printer was still using the first-generation version of that tool. It is currently migrating to a more streamlined approach in the new production/financial system that will allow regular updating of its budgeted hourly rate.

### **Action Steps and Time Frame**

- Support current legislation to consolidate central services. *Office of Financial Management and Cabinet agencies*. April 2011 or end of current legislative session.
- Dependent on legislative outcomes, develop criteria, rules and policies for bidding on printing services. *Agency in charge of printing*. Timeline dependent on law.
- Dependent on legislative outcomes, evaluate options for providing printing services and develop processes that best meet agency needs and the intent of competition. *Agency in charge of printing*. By July 2012.

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**ISSUE 2:** In-house print shops duplicate services available from the Department of Printing. As a result, most state printing equipment is used at only a fraction of its capacity.

**RECOMMENDATION:** Reduce the number of print shops to cut costs and duplication.

### **RESPONSE**

We agree that duplicating functions across agencies is often something to avoid. There are many examples of where the state is taking a reasoned approach to consolidation of administrative support services, including small agency accounting, vehicle fleet consolidation, shared email and the State Data Center. Staff members from the Departments of Printing, Information Services and General Administration have been working together over the past 12 months to identify and develop a plan for consolidating print services. The initial work documents the current print capabilities of these agencies. The plan will determine the most cost-effective approach for integrating print services, while minimizing disruption to customers.

However, while we agree with the general premise of not duplicating services, we have concerns about some of the audit’s assumptions and conclusions about the current use of equipment. For example, the audit did not evaluate peak capacity printing needs of the state. The auditor determined capacity based on maximum output under ideal conditions as reported by the equipment manufacturers. This is like saying that if you and your neighbor only use your ovens an hour a day each, you are only using 5 percent of your maximum capacity to heat food, and you should sell one oven and share. Job complexity, operator skill and scheduling will determine

actual capacity. Without understanding when agencies' crunch times occur, we could just as easily end up with too few resources to meet the peak demand as too many.

In addition, some underuse of equipment could be the result of agencies using strategies to reduce printing and paper costs. If equipment is owned, we don't realize many savings by getting rid of it. If equipment is leased, we can stop renewing the leases, but that would not lead to immediate savings. If equipment is on a print-management contract already, the state is paying for the output, not the equipment, supplies or maintenance, so there likely would not be any savings at all.

The cost savings projected from cutting agency print shops assumes the work those print shops currently do is identical to what the State Printer does, in terms of staff time and equipment use per unit of volume. Most of the agency print shops are mainly or exclusively digital, and a large portion of the State Printer's work is not. Therefore, extrapolating data from the State Printer's current workload to what it would be after absorbing additional work from several diverse agencies may not be a valid method for estimating cost savings.

We support the idea of coordinating and/or managing printing services through one entity, such as the Governor's proposed new department. However, before making large-scale changes in agencies, we need to fully understand the ramifications of eliminating certain printing capabilities. It is important to balance the need to contain costs with any unique needs of agencies to meet their statutory obligations and customer needs. Examples of questions that need to be explored further are:

- Do some agency print shops represent "centers of excellence" that are able to more efficiently and effectively provide printing services for certain jobs? Could these print shops be leveraged to assist state printing needs?
- Do certain agency print shops provide additional services that go beyond printing, such as providing specialized quality reviews of technical documents?
- Are the printing functions tightly coupled with other processes in the agency which would result in costs to the agency if the processes changed significantly?
- Would transportation costs for printing in Olympia and shipping to outlying locations outweigh having printed copies done on-site?
- Are there adverse consequences for outsourcing due to federal restrictions or confidentiality/security issues?

### **Action Steps and Time Frame**

- With the agency in-house print shops, evaluate more fully the options for consolidating print shops and/or coordination and management of print shops statewide. *Agency in charge of printing.* By June 2012.
- Transition work under way on consolidation of the largest agency print shop (Department of Information Services) with the State Printer, either independently or as part of the Governor's proposed consolidation of central service functions. By December 2011.

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**ISSUE 3:** Washington does not have an overall strategy to contain the costs of office-based printing, which accounted for 46 percent of the state's printing costs in 2010.

**RECOMMENDATION:** Adopt statewide cost-containment strategies.

## RESPONSE

We support a comprehensive effort to contain the costs of office-based printing. Steps we have taken over the past several years have provided a solid foundation for expanding proven strategies statewide.

We are pleased that the audit validates the use of managed print as one proven strategy for containing printing costs. In 2005, the first managed-print contract was established with the Department of Ecology; current annual savings are estimated at \$360,000. In 2006, print assessments began at state agencies. In 2007, Governor Gregoire encouraged agencies to complete print assessments by including them as a measure in her Government Efficiency accountability forums. Print assessments are the first step toward implementing managed print. Thirty-four assessments have either been completed (32) or are in progress (2), including three for non-state agencies. Estimated annual savings from all assessments for state agencies, as identified by the assessment vendors, is more than \$1.8 million. This legislative session, the Governor's proposed bill to consolidate central services mandates managed print for agencies with more than 1,000 full-time employees.

The state has taken many steps to contain administrative costs, including reducing the use of paper. For example, since at least 2005, agencies have had efficiency goals in place for state operations as a result of an executive order (EO 05-01). According to the most recent [Sustainability Report](#), office printing was reduced from Fiscal Year 2003 to Fiscal Year 2009 by nearly 13 percent. In Fiscal Year 2009, state agencies used about 15 reams of paper per FTE. That figure is 25 percent below the national average for office workers, as estimated by the U.S. Environmental Protection Agency.

Although we support a statewide strategy, we have remaining questions about how the percentage of "office-based" state printing costs was determined. The accounting category used to estimate costs includes expenses such as outsourced printing costs and agency purchases from the State Printer. Using these data to estimate the volume of "office-based" printing and calculate savings estimates likely distorts the possible savings.

### Action Steps and Time Frame

- Develop strategy to meet printing needs across state government. *Agency in charge of printing.* By July 2012.
- See action steps under Issue #1 on competitive bidding.
- Share audit report with higher education agencies and discuss strategies for reducing costs of desktop printing. *Agency in charge of printing.* By August 2011.
- Develop common guidelines for reducing costs of all office printing. *Agency in charge of printing.* By December 2011.