

## Inventory

### SUBJECT

**Inventory Reduction:** The District simply maintains more inventory than it needs. The Task Force found that dead stock (stock not used over a long period) and non-essential inventory can and should be eliminated, especially in the area of Maintenance. However, nothing in the findings or in the Task Force review indicates that either a 25% or 50% reduction of all warehouse inventory is possible or desirable.

Rather than arbitrarily reducing the inventory by 50%, the District needs to address the systemic causes of excess inventory. One clear cause is that the warehouse is viewed as “free” by those who use it. This view distorts cost comparisons against outside vendors and other alternatives in favor of using the warehouse. In some areas, this distortion has led to what may be described as a “Just-in-Case” inventory system. The alternative recommendation views the warehouse as a centralized service that other departments use on a full cost basis. Managers will then have the necessary information to make the most cost-effective use of the warehouse for the District. Used properly, the warehouse provides some advantages over private alternatives including being exempt from inventory taxes. Existing hard copy material planning information reports should be made available electronically to allow for better information analysis and management.

Improvements also can be made in lead-time. Better information systems could help shorten the lead-time for delivery and provide monthly usage reports to track demand. However, just-in-time delivery could increase both purchasing and delivery costs, as there would be smaller orders placed and more deliveries to schools—even with phased delivery. With \$5 million in current inventory, a 10% increase in costs (\$500,000) would wipe out even the most optimistic staff savings projected by KPMG.

The Task Force strongly supports the implementation of a new inventory management information system. Based on our experience alone, it is very difficult to extract the right information to assess inventory demand or other aspects of inventory management. However, the Task Force has spent time with Warehouse, Purchasing, and Information Systems staff and believes that the data flow can be improved even with the existing, inadequate system

Ref#	Type	Recommendation	Discussion	Fiscal Comments	Status
87 VI-13.1	<input checked="" type="checkbox"/> Alt Rec  <input type="checkbox"/> KPMG Rec	<p>The District should allocate all warehousing costs (e.g. receiving, carrying, and shipping) to the end user. Once this is done, The District should determine the optimal amount of inventory needed to enable a more effective and efficient operation of the material management function.</p>	<p>Dead stock and non-essential inventory can and should be eliminated, especially in the area of Maintenance, where over 970 items have not had any movement this year. With more modern inventory information and processing systems, the Annual Purchase by schools may be less important, so central storage of a large amount of inventory may not be required.</p> <p>Rather than arbitrarily reducing the inventory by 50%, the District needs to address the systemic causes of excess inventory. One clear cause is that the warehouse is viewed as "free" by those who use it. This view distorts cost comparisons against outside vendors and other alternatives in favor of using the warehouse. In some areas, this distortion has led to what may be described as a "Just-in-Case" inventory system. The alternative recommendation views the warehouse as a centralized service that other departments use on a full cost basis. Managers will then have the necessary information to make the most cost-effective use of the warehouse for the District. Used properly, the warehouse provides some advantages over private alternatives including being exempt from inventory taxes. Existing material planning printed information reports should be made available electronically to allow for better information analysis and management.</p>	<p>By allocating full costs to the end user, the Task Force believes the right economic incentives will be in place to promote smart spending.</p>	<p>Further District Review Pending</p>

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Ref#	Type	Recommendation	Discussion	Fiscal Comments	Status
88 VI-13.2	<input checked="" type="checkbox"/> Alt Rec <input type="checkbox"/> KPMG Rec	Implement a shortened lead-time for ordering and delivery wherever practical. The District must balance the benefits of reduced time in storage with the increase in purchase and staff handling costs.	Better information systems could help shorten the lead-time for delivery and provide monthly usage reports to track demand. Nutrition Services appears to hold the most promise for Just-In-Time delivery.  KPMG made no cost impact estimates for this recommendation. Just-in-time delivery could increase both purchasing and delivery costs, as there would be more deliveries to schools and smaller orders placed-even with phased delivery. With \$5 million in current inventory, a 10% increase in costs (\$500,000) would wipe out even the most optimistic staff savings projected by KPMG.		Further District Review Pending
89 VI-13.3	<input type="checkbox"/> Alt Rec <input checked="" type="checkbox"/> KPMG Rec	Reconsider the need for constructing additional storage space across from the BESC.	Additional storage space does not appear to be warranted at this time. As warehouse space is freed up, furniture and bulk items should be brought back from Marshall and Madison High Schools.  Should BESC, Madison or Marshall be closed per some of the other recommendations, additional storage might be required.		Further District Review Pending

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**Credit Policy:** While PPS has a written credit policy, it should be strengthened to accurately cover the costs, and clearly capture all existing return practices. Two options were developed for PPS to consider adopting: 1) Charge a restocking fee (e.g., 10% of the item value for restocking), which is on par with the private sector for cost recovery and a penalty to discourage over-buying; or 2) build return costs into the front-end price, like a retail store.

The positive aspect of the restocking charge is that it discourages over-buying and is in-line with other Task Force recommendations. The positive aspect of the retail model is that there is less processing, thus avoiding spending more in staff time than a restocking charge provides for small purchases. PPS should look at both options and select one based on net cost criteria and incentives to save money.

Ref#	Type	Recommendation	Discussion	Fiscal Comments	Status
90 VI-14.1	<input checked="" type="checkbox"/> Alt Rec  <input type="checkbox"/> KPMG Rec	<p>While the District currently has a written return (credit) policy, it should be rewritten to include all current return practices and be more clearly presented. The District should also consider recovering the cost of returns through one of two methods:</p> <ol style="list-style-type: none"> <li>1. Charge a restocking fee (e.g., 10% of the item value for restocking), which is on par with the private sector for cost recovery and a penalty to discourage over-buying; or</li> <li>2. Build return costs into the front-end price, like a retail store.</li> </ol>	<p>KPMG assumed the cost to return items is about 41% of the inventory value. Outside vendors would charge 10% of the item value for restocking, including a penalty on top of the cost of a special trip to and from the site. There is no special trip required for the District because returns are incorporated in the normal delivery schedule. The TF also thought the costs could be recovered by building the return costs into the front-end price, like a retail store. The positive aspect of the restocking charge is that it discourages over-buying and is in-line with other TF recommendations. The positive aspect of the retail model is that there is less processing, thus avoiding spending more in staff time than a restocking charge provides for small purchases. The TF believes the district should look at both options and select one based on net cost criteria and incentives to save money.</p>	<p>The Task Force believes there is internal revenue potential of 10% (currently \$8,300) in the form of a restocking charge.</p>	Plan to Implement

## Inventory

<b>SUBJECT</b> Off-site Storage: Currently, both Madison and Marshall High Schools are used for some types of storage. The space at Marshall is appropriate for long-term storage, as it is more difficult to access. The Madison storeroom is appropriate for shorter-term storage, as it is easier to get in and out of the area. However, as with Marshall, this area is not currently suitable for people. Remodeling or structural changes of unknown cost would be needed to make these areas suitable for use as class or activity space occupied by students.					
Ref#	Type	Recommendation	Discussion	Fiscal Comments	Status
91 VI-15.1	<input checked="" type="checkbox"/> Alt Rec  <input type="checkbox"/> KPMG Rec	<p>The District should consolidate off site storage and make it available for use by the school sites.</p>	<p>Currently, both Madison and Marshall High Schools are used for some types of storage. The space at Marshall is appropriate for long-term storage, as it is more difficult to access. The Madison storeroom is appropriate for shorter-term storage, as it is easier to get in and out of the area. However, as with Marshall, this area is not currently suitable for people. Remodeling or structural changes of unknown cost would be needed to make these areas suitable for use as class or activity space occupied by students.</p> <p>What is currently stored in these two areas is largely furniture, both new and used. In addition, about a third of the space at Madison is used for storing obsolete or surplus material, prior to being sold by the State (the proceeds of which partially return to the District). Just over a third of the space at Marshall is vacant and serves as a back-up, temporary storage area in instances where large amounts of furniture come in from a school.</p> <p>The space at BESC is more valuable and might be better used as a lease-for-cash option. Therefore, use of Marshall and Madison for warehouse needs should be coordinated with the District-wide asset management plan. The District should provide greater oversight of obsolete materials prior to storage, and recommended warehousing charges should apply to any user seeking storage. Marshall should be used for long-term overflow storage in recognition of the difficulty getting in and out of the space with the resulting high cost of moving items to and from the site. Short-term storage should be restricted to BESC or Madison. Overall cost savings, potential income from rental of BESC storage space, and the cost of renovation for human use, should be considered in decisions regarding use of Madison and Marshall for storage.</p>		Further District Review Pending

## Inventory

<b>SUBJECT</b> Purchasing Staff Efficiency: The key to improving staff efficiency is to have appropriate measures for performance. The Task Force did not find the KPMG benchmarking method based on the number of purchase orders to be a compelling method for measuring efficiency. However, the Task Force agrees that benchmarking performance is a good thing to do and that efficiency is important. This benchmarking should be applied to the entire materials management system, and not simply be applied to purchasing staff.					
Ref#	Type	Recommendation	Discussion	Fiscal Comments	Status
92 VI-16.1	<input checked="" type="checkbox"/> Alt Rec  <input type="checkbox"/> KPMG Rec	Enhance the efficiency of purchasing staff utilization.	<p>The key to improving staff efficiency is to have appropriate measures for performance. The Task Force did not find the KPMG benchmarking method based on the number of purchase orders to be a compelling method for measuring efficiency. However, the Task Force agrees that benchmarking performance is a good thing to do and that efficiency is important. This benchmarking should be applied to the entire materials management system, and not simply be applied to purchasing staff.</p> <p>Initially, the Task Force chose to use one quick benchmark that was simple to calculate with existing data: the dollar value of requisitions per purchasing staff person. "Dollar value of requisitions" was measured roughly by total expenditures less personnel costs and bond/other debt service. "Purchasing staff" was defined as central materials management staff plus staff with purchasing responsibility. These definitions were chosen to allow rapid comparison across the districts KPMG used for number of purchase orders. Applied to the past 3 year's purchases, efficiency rose 0.6%, 8.5%, and 15.6% respectively. For longer-term evaluation, however, this measure has at least two drawbacks: it encourages spending, to build up dollars per employee, and falsely shows lower prices as lower efficiency.</p> <p>The Task Force feels that a combination of measures would be most effective, particularly measures that showed speed of processing and adequate numbers of qualified bidders to ensure truly competitive bidding. The Purchasing Department now has a list of purchasing measures from other government entities to use in planning. In addition to efficiency measurements, procurement procedures should be updated district-wide to reduce barriers to efficient operations and prepare the staff for business procedures based on the new information system.</p>		Further District Review Pending

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