



RON GALPERIN
CONTROLLER

January 27, 2016

Honorable Eric Garcetti, Mayor
Honorable Michael Feuer, City Attorney
Honorable Members of the Los Angeles City Council
All Angelenos

Colleagues and Fellow Angelenos:

Re: Inefficient Inventory and Warehousing Practices

The Department of General Services (GSD), which functions as the City's central arm for purchasing and distributing supplies, used to have warehouse shelves stacked with boxes of paper clips, post-it notes and pens.

But in recent years, City departments served by GSD have been allowed to take office supplies into their own hands. They take advantage of just-in-time delivery opportunities and purchase their own supplies, through contracted vendors, online. This has saved warehouse space and related costs of carrying inventories that are unnecessarily large.

Unfortunately, however, the practice of online ordering for just-in-time deliveries has not extended to most other goods used by City workers. The City's auto mechanics, janitors, electricians and others go through a more cumbersome and increasingly antiquated process. They send paper forms to GSD, which places purchase orders with vendors, receives supplies, stockpiles inventory in various warehouses and, finally, distributes the inventory items to the departments that ordered them.

GSD, which serves the City's nonproprietary departments, maintains a warehouse inventory with an estimated value of \$30 million. It stockpiles goods in 61 warehouses, ranging from small storerooms for auto parts at police stations to gigantic, football field-sized areas with 40 foot ceilings at the C. Erwin Piper Technical Center, less than a mile east of City Hall.

Nearly \$16 million of the inventory consists largely of automotive repair parts and fluids, electrical equipment, tools and construction and custodial supplies. The rest consists of supplies needed to run the City's four wastewater treatment plants, including the Hyperion Treatment Plant.

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My office is currently working with other City agencies to replace and improve the computer system that the City uses to procure and manage its inventories. This is a large project targeted for mid-2017. There are steps, however, GSD can take to improve its operations before then.

An audit that I am releasing today found that, in supplying City departments, GSD has been too slow to embrace the advantages of electronic commerce and instead relies on inventory and warehousing practices that are fast becoming obsolete. Auditors found that GSD's current inventory methods involve assigning warehouse workers to count goods manually to make certain they have not disappeared. The City has not yet implemented the technology of bar coding, which would allow it to track goods' movement more efficiently, electronically.

Other inefficiencies in inventory management were also identified. For instance, auditors found that, of \$5.4 million in goods stored by the Los Angeles Police Department and GSD's own fleet services section, \$3.2 million were duplicate items stored at multiple locations.

Good inventory management achieves a delicate balance of having enough supplies at hand, but not too many. The City's current system drives departments to have more supplies on warehouse shelves than they need to have at the ready. Auditors identified \$1 million in goods that had sat unused on City warehouse shelves for two years or more. The goods included 20-year-old brake parts for police vehicles no longer in use--clearly a waste of valuable space.

The audit calls on the City to update its practices. It urges the City to:

- **Reduce inventory and rely more on delivery on demand.** This is not revolutionary. Nine of ten government agencies surveyed were using--or were in the process of implementing--more just-in-time purchasing than used by the City.
- **Consolidate stocked parts.** Multiple City warehouses stock the same parts. But the warehouses are separately administered and the parts are not shared. Consolidation of storage facilities themselves should also be considered.
- **Make better use of technological advancements,** such as warehouse shelves that can automatically count items by weight, change spacing to reduce wasted space and move items for easy access by staff, industrial vending machines that can distribute inventory to employees who scan ID badges and enter work order and part numbers, and use of Bluetooth technology and real-time bar coding. Technologies such as these can reduce costs by freeing wasted space, increasing accountability and improving service.

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- **Bolster coordination.** In addition to the audit observations about GSD's practices, I recommend that the City ask GSD and the three proprietary departments that GSD does not serve--Los Angeles World Airports, the Port and the Department of Water and Power (DWP)--to explore whether increased coordination in purchasing, storage and technology would lead to better opportunities for economies of scale. DWP, which manages its own warehouses, is moving to install an automated storage system in one of them. DWP is also moving to install unattended industrial "vending machines" that can dispense protective gear to workers who need them during off hours.

GSD shared statistics with my office that show it is taking greater advantage of money-saving opportunities through economies of scale by engaging in cooperative purchasing arrangements with other cities and counties. As the City's purchasing agent, GSD has a seat on the governing board of a nonprofit cooperative, U.S. Communities, which was founded in 1996 by the National League of Cities, the United States Conference of Mayors, the National Association of Counties, and the Association of School Business Officials. The cooperative operates by assigning a member government's purchasing agent to find the best price for a specific commodity through competitive bidding. The same price is then made available to all other members of the cooperative, who can piggyback on the lead agency's work, without having to conduct their own separate competitive bidding processes.

GSD officials told my office they routinely review prices other government agencies are paying and piggyback when prices are favorable and product specifications meet the City's needs. Statistics GSD provided show that it used cooperatives to piggyback on \$35 million in purchases in Fiscal Year 2014-15, which represented 9.4% of the dollar value of all of its purchases. That was up from 6.3% the year before, 4.9% the year before that, and 2.7% the year before that.

The City should also explore the legal and practical implications and opportunities of allowing employees to take fuller advantage of online purchasing through websites such as those of EBay and Amazon, where many suppliers vie to offer the lowest prices, as time-saving substitutes for more elaborate competitive bidding processes.

In a separate but related matter, auditors checked on the City's responses to a 2010 Controller's audit critical of the City's ability to account for fixed assets--defined as equipment with an acquisition cost of more than \$5,000. Auditors found that the same, out-of-date City-wide systems in use then to account for these items are still in use. A number of City departments have devised their own mini-systems to track their own assets. This has made it challenging for my office to capture accurate information for the City's official financial statements. My office is currently supporting a budget request by the City's Information Technology Agency for funds to implement a more advanced City-wide system that will promote more accurate record-keeping and minimize the potential that expensive City equipment is mislaid or misused.

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In summary, the City's inventory and warehousing practices are not as up to date as they should be. They are overdue for an overhaul.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ron Galperin", with a long horizontal flourish extending to the right.

Ron Galperin
CITY CONTROLLER