



# Montgomery County Government

MONTGOMERY COUNTY COUNCIL  
OFFICE OF LEGISLATIVE OVERSIGHT

REPORT #85-2

APRIL 9, 1985

## TITLE

A Description and Evaluation of the County Government's Materiel Management Program.

## CONTENTS

## PAGE

I.	Summary and Major Conclusions/Recommendations.....	1
II.	Authority, Scope, and Methodology.....	2
III.	Background.....	2
IV.	Materiel Management Proposals and Accomplishments.....	5
VI.	Conclusions.....	8
VII.	Recommendations.....	9
VIII.	Executive Branch Comments.....	9



## I. SUMMARY AND MAJOR CONCLUSIONS/RECOMMENDATIONS

1. This report evaluates the effectiveness of the Executive branch's centralized materiel management program, which was assigned to the Director of Finance by statute in 1979. It examines the development and implementation of policies and practices to manage inventory and storage activities in the County Government.

2. The initiative for a materiel management program developed as the result of a consultant study performed in 1978-79 by Don Sowle Associates, which concluded that there were substantial inefficiencies in the County's inventory and storage activities. That report identified a potential reduction of \$1,000,000 in County inventory levels as well as excessive staffing levels.

3. The Sowle report recommended a series of specific actions, along with an implementation plan, for the improvement of the County's inventory and storage activities. The key proposals were to:

- o Establish a centralized materiel management function;
- o Develop a detailed plan for inventory management and control;
- o Automate inventory record-keeping and control expeditiously;
- o Consolidate purchasing of common use items where cost-effective;
- o Centralize management of county-owned space;
- o Do not construct a common inter-governmental warehouse facility;
- o Establish general ledger accounts for all inventory commodities;
- o Establish policies and procedures for the reuse of surplus items; and
- o Reorganize the inventory and distribution of office supplies.

4. This evaluation finds that generally the Executive branch has failed to carry out the materiel management responsibilities assigned to it by statute. There have been a variety of piecemeal efforts undertaken, but no systematic centralized program as envisioned in the legislation that established the requirement.

5. The Executive branch has not devoted adequate staff or financial resources to developing and implementing a materiel management program. The program has failed due to a lack of commitment and priority on the part of senior level Executive management.

6. This evaluation recommends that the County undertake to properly implement a materiel management program, including the provision of the needed resources. It judges that the potentially available savings justify the necessary initial expenditure. The report also recognizes, however, that such a judgment may not be shared and it identifies, for such a circumstance, the alternative of terminating the materiel management program requirement.

## II. AUTHORITY, SCOPE, AND METHODOLOGY

1. Authority. Council Resolution 10-559, subject: CY 1984 Work Program of the Office of Legislative Oversight, adopted January 31, 1984.

2. Scope. To evaluate the effectiveness of the Executive branch's centralized materiel management program, which was established by the Reorganization Act of 1979 as a responsibility of the Director of Finance (Section 2-30(f), Montgomery County Code, 1972, as amended).

3. Methodology. This evaluation was conducted during the months of October to December 1984 by Mr. Jonathan B. Weiss, Legislative Oversight Program Evaluator. Information was developed from a review of the legislative history; previous evaluation studies; various Executive branch memoranda and documentation; and interviews with Finance Department staff responsible for operation of the program, personnel from other departments with responsibility for specific inventories, other Executive branch staff involved with this issue, and individuals with responsibilities for materiel management in other local area jurisdictions.

## III. BACKGROUND

1. Introduction. Materiel\* management is the control of all supplies, materials, furnishings, and equipment necessary for the operation of the County government. It begins when items purchased by the County are delivered to a warehouse loading dock or other designated receiving site besides the point of use. It includes stocking items in inventory, dispensing them to the users, and maintaining appropriate inventory levels.

2. Historically, materiel management in Montgomery County has been decentralized. Individual departments have generally maintained their own inventories at various locations without any centralized County control. The independent County and bi-County agencies: Montgomery County Public Schools (MCPS), Maryland-National Capital Parks and Planning Commission (M-NCPPC), Housing Opportunities Commission (HOC), Washington Suburban Sanitary Commission (WSSC); also have maintained their own inventories and storage facilities.

---

\* Note: The term 'materiel' is used throughout this report to refer to "...the aggregate of things used or needed in any business, undertaking or operation..." (Random House College Dictionary) and should be distinguished from the closely related term 'material.' In some documentation, however, the two terms may be used interchangeably. Most often, the more familiar 'material' is inadvertently substituted for the more precise 'materiel.'

For the sake of consistency and clarity, this report always uses the term 'materiel' where that concept is intended. When reference is made to information from other documents, the term 'materiel' is used wherever appropriate, occasionally requiring that it substitute for the term 'material' used in the original. Since this change does not in any way change the meaning of the originals, no citations are provided.

3. Major Consultant Study. In 1978 the County entered into a contract with a consulting firm, Don Sowle Associates, to survey and document the inventory control practices and storage facilities of Executive branch departments, MCPS, and the M-NCPPC Parks Department; to evaluate and make recommendations to improve the organization, management, and operations of these facilities; and to develop a phased plan for implementing the recommendations.

4. Part I of the Sowle report, issued in March 1979, described in great detail twenty-eight different facilities used by thirteen Executive branch departments; three facilities maintained by MCPS; and two Parks Department facilities. Part II, issued in June 1979, indicated that Executive branch responsibilities for inventory control and storage were widely dispersed among departments whose primary missions were not materiel management; that policies, procedures, and standards governing the management of inventory were not uniform; and that much existing storage space was not being utilized effectively. It found that the MCPS inventory system was well-managed, but that the Parks Department system was unsatisfactory due to the lack of physical facilities and absence of proper controls.

5. Sowle developed twenty-nine specific recommendations, which were included in Part II of the report. These recommendations addressed problems and deficiencies that Sowle identified in the County's inventory management operations. The key concept underlying these proposals was that the Executive branch establish a centralized materiel management program, with responsibility for directly operating or actively monitoring all inventory control procedures and storage facilities.

6. This consultant study concluded that such a program could be staffed from existing positions and that ultimately fewer employees would be needed for storage and inventory control operations. It estimated a realistically achievable reduction of \$1,000,000 in inventory levels, with additional savings possible from reducing operating costs and avoiding expenditures on capital improvements.

7. Part III of the Sowle report, also issued in June 1979, included a phased plan for implementing the various recommendations in a practical and orderly manner. It identified actions that could be taken pending appointment of a Director of Materiel Management, an action agenda for the new director, additional actions that are not susceptible to time phasing, actions for the MCPS and M-NCPPC, and a tentative schedule for automating control of major Executive branch inventories.

8. County Government Response. As a result of the above consultant study, the County Executive included in his 1979 Reorganization Plan a proposal to establish a centralized materiel management program in the Department of Finance. This proposal was approved by the Council with language that added the following language to the statute establishing the powers and duties of the Director of Finance:

"(f) Inventory, storage, etc., management. To coordinate the development and implementation of inventory, storage and other materiel management policies and practices of the county."  
(Section 2-30, Montgomery County Code, 1972, as amended).

9. Pursuant to a requirement of the reorganization act (Section 2-11A, Montgomery County Code, 1972, as amended), in 1982 the Office of Management and Budget performed an evaluation of the Executive's 1979 Reorganization, including the establishment of a materiel management program. That study claimed that, although the proposed division had not been established in FY 1981 or 1982 due to budgetary constraints, other significant actions had been taken toward accomplishing the objectives of such a program.

10. The OMB evaluation concluded that substantial progress had been made in the materiel management area; however, it recognized that progress was not being made as rapidly as recommended by Don Sowle Associates. The report included four specific recommendations to further implementation of the County's materiel management program, including establishment of a separate division as previously proposed by the consultant study.

11. The above evaluation study was the subject of a prior OLO report (#82-6, A Critique of the Office of Management and Budget's Evaluation of the County Executive's 1979 Reorganization), which concluded that OMB had not adequately supported its conclusions and recommendations. This OLO report recommended that the County Executive review whether there was adequate justification for the OMB recommendations, address specific concerns raised about the materiel management program, and report back to the Council by October 1983 indicating which recommendations had been adopted; which were in the process of or were planned for implementation; and which were not being adopted and the reason why not.

12. In a memorandum dated July 30, 1982 to all department heads, an assistant Chief Administrative Officer announced plans to establish a materiel management program in FY 1983 as a separate section within a reorganized Purchasing Division (Department of Finance). Attached to the memorandum were a statement of purposes and functions, a preliminary work plan, and an overview of the Don Sowle Associates report.

13. The memorandum set out short term objectives of (1) developing centralized data on County inventories, (2) accelerating expansion of the automated inventory system, (3) increasing cooperation with other public agencies, (4) developing uniform policies, procedures, and standards for materiel management, and (5) assessing whether existing inventories could be reduced, consolidated, or eliminated. It indicated that long term plans would include transferring administrative control of materiel inventories and managing personnel to the Department of Finance.

14. During FY 1983 the Finance Department was reorganized and a new Division of Purchasing and Materiel Management was created on paper by adding responsibility for managing County inventories to the functions of the prior Division of Purchasing. Two work years (2.0 WY) were budgeted for the new Materiel Management Section: an existing stock clerk position and the addition of a Section Chief.

15. The new Section Chief position was filled in May 1983, but became vacant again in January 1984. Additional management changes occurred during this period with the hiring of a new Finance Director and Purchasing Chief. The recruitment and hiring of a new Materiel Management Section Chief was not successfully completed until June 1984. No additional personnel resources were included in the FY 1985 budget.

#### IV. MATERIEL MANAGEMENT PROPOSALS AND ACCOMPLISHMENTS

1. The general consensus among Executive staff familiar with materiel management issues, and the opinion of this evaluator, is that the 1979 Don Soble Associates study presented a sound and sensible plan for improving inventory management in Montgomery County. It was described as "by far the most comprehensive and informative" study of the issue by the then Purchasing Director, who recommended that it "be accepted and implemented to the fullest extent possible." Both the current and prior Materiel Management Section Chiefs indicated that they have relied heavily upon the Soble study in their activities.

2. The major recommendations presented by Soble Associates have been the starting point for all materiel management planning by the Executive branch. The following sections of this OLO report are divided into two columns. One side combines and summarizes the Soble recommendations and the proposals developed by the Executive branch as a result of that study. The other side reports on the accomplishments to date in implementing those recommendations and proposals.

#### SOWLE RECOMMENDATIONS AND PROPOSALS

#### EXECUTIVE BRANCH ACTIONS

##### Establish a Materiel Management function.

The County needs strong centralized direction for inventory control. It should establish a Division of Materiel Management co-equal with Purchasing. A director should be hired at the earliest possible date to plan, direct and coordinate the materiel management function. It should be staffed initially with several analysts and aides; and gradually increased with positions from existing operations.

Materiel management responsibility was assigned to the Finance Director by the 1979 reorganization. The Executive elected not to implement this function in the budgets for FYs 81-82. The program was finally set up in FY 83 and made subordinate to a redefined Purchasing Director. A section chief was hired late in FY 83; but only one stock clerk was provided as permanent staff. An additional position was recently provided by reassignment within the Finance Department of an accountant to manage the fixed asset inventory.

##### Develop a Detailed Plan for Inventory Management.

The County needs to develop a plan to reduce excessive stock levels and control inventories. It should include standards for maintaining inventory levels, procedures to control and record the purchase of additional stockage, and a program to eliminate obsolete and excess inventory items. The CAO should circulate the plan and direct department heads to cooperate with the Director of Materiel Management.

An action plan was circulated in early FY 83, based on a report prepared by OMB. It identified immediate and long term work items, few of which have been accomplished as of this date. No County-wide standards for inventory levels have been established. No additional inventory control or record-keeping procedures have been adopted. No system of eliminating obsolete and excess items has been implemented.

### Automate Inventory Record-keeping and Control Expeditiously.

The County has various materiel inventories that are too large for to be efficiently managed using manual systems of record-keeping and controls. It should follow an accelerated schedule to implement the three modules of the automated MSA inventory management system, which should ultimately include all major departmental inventories.

A computerized inventory control system was purchased in 1978 (prior to Sowle). Initial installation occurred in early 1980. There have been, however, continuing problems in using this system. Only one of three modules has been implemented and only four of thirteen major inventories has been brought on line. There are no current plans to install additional modules nor to expand to other inventories nor to upgrade to an on-line system. The one exception is the Equipment Management inventory, which will be integrated into a new on-line fleet management information system, as recommended in OLO Report #84-3.

### Consolidate Purchasing of Common Use Items Where Cost-Effective.

County government, MCPS, and M-NCPPC could realize savings from joint procurement of certain common use inventory items. The County should identify candidate commodities, determine multi-agency requirements, analyze the costs of joint procurements, and consolidate purchasing and inventory stocks where savings would be realized.

The County government appears to have increased its use of MCPS as a supplier. It currently buys nearly 100 percent of janitorial supplies and about 60 percent of office supplies from MCPS. Heating oil and gasoline are also purchased under joint procurements sponsored by the Council of Governments. Purchasing keeps no data, however, on the extent of County procurement through other public agencies. In addition, no ongoing program exists to identify additional opportunities for savings through standardization of requirements, joint procurements, and inventory consolidation.

### Centralize Management of County-Owned Space.

The County has not effectively made use of available storage space due to the lack of central control and direction. The Material Management Director should be responsible for managing all storage space in the Executive branch and maintaining an inventory of currently available space and extent of utilization.

In 1981 DFS began development of a comprehensive space management program to inventory and control County owned and leased space. An administrative procedure (AP 5-12) governing space allocation was issued in June 1983. Nevertheless, centralized control, specifically over storage space, has not been established.



Do Not Construct a Common Warehouse Facility at this time.

A shared facility had been proposed for inventory of common-use items of the County, MCPS, and M-NCPPC. This facility was not recommended due to the greater return from improving management of existing storage space and inventory.

No common service warehouse has been constructed. There are no current plans for one.

Establish General Ledger Accounts for all Commodities in Inventory.

Many Executive branch inventories have not been included in general ledger accounts; and others have not been broken down in sufficient detail. To establish effective financial and management controls, the County should include all inventories in the general ledger. It should set up separate accounts for each type of commodity.

No changes have been made in the accounting of inventories. Some departments continue to immediately expense the costs of inventory acquisitions against their program budget, while others maintain inventory accounts in the general ledger and only charge the budget when the item is withdrawn from inventory and put into use.

Establish Policies and Procedures for the Reuse of Surplus Items.

The County maintains a rudimentary automated inventory of fixed assets, which is associated with the FAMIS system. It needs an administrative procedure governing the use of fixed assets, which would include centralized inventory records on the type, location, and use of such items; identifying and controlling excess and surplus assets; and requiring reuse of such items in lieu of additional procurement where appropriate.

The County continues to operate with the same inadequate fixed asset inventory, with one staff person maintaining it. The County has not adopted any administrative procedures to identify, control and reuse surplus items.

Reorganize the Inventory and Distribution of Office Supplies.

There is a significant amount of overlap between the County and MCPS inventories of office and general administrative supplies. MCPS has a more efficient operation and already provides substantial supplies to County users. The County should transfer to MCPS the responsibility for supplying all County office supply needs.

Purchases by the Small Stores from MCPS have been increased to about 60 % of inventory. Other than relocation of the facility to the EOB, no additional changes have been implemented.

## VI. CONCLUSIONS

1. Over the past five years relatively little has been accomplished in the materiel management area. At best, the County has undertaken a piecemeal approach to dealing with what is fundamentally a systemic problem.

2. The Executive branch has not devoted the resources necessary to carry out a materiel management program. The Finance Director has not been provided with personnel or budget resources adequate to meet his materiel management responsibility.

3. Although plans were announced by the Chief Administrator's Office at the beginning of FY 1983 to establish a materiel management program, no meaningful actions have occurred to implement such a program.

4. Although the explanation given for the absence of an adequate materiel management program has been budgetary constraints, it is neither a justifiable nor acceptable rationale. The rough estimate made by Sowle Associates of excess inventory in 1979 was \$1,000,000. If that figure is approximately correct, then the County has lost since that time approximately \$100,000 each year in foregone interest. In addition, the Sowle report asserted, although without specific numbers, that the County employed more persons to manage inventories and storage space than would be needed under an efficient setup. If that assessment is correct, then further unquantifiable dollar losses have occurred during that period.

5. There is little current, reliable, and systematic information available about the state of the County's inventory and supply activities, because no comprehensive centralized records are kept. The Materiel Management Section has only incomplete and inconsistent records of supply inventories, fixed assets, and storage space availability or utilization.

6. The quality and utilization of computerized inventory management information systems are inadequate. Most inventory records are manual at the point of storage; and perpetual inventory controls are not always maintained.

7. Increased levels of joint procurements with MCPS and other government agencies has been accomplished during the past five years. However, the inadequacy of available data regarding joint procurements and the absence of a systematic effort to identify additional opportunities precludes a definitive conclusion concerning this effort.

8. ~~The decision not to construct a common warehouse facility~~ continues to appear justified. The DFS space management program has created an initial data base that could be useful to a materiel management program. However, no effort has been made to analyze the availability and utilization of storage space and to identify the opportunities for cost savings through consolidation.

9. Because of the inadequacy of the County's fixed asset inventory, and the absence of policies and procedures for the reuse of surplus items, here exists the possibility that the County may be making unneeded purchases of new supplies, furnishing, and equipment.

#### VII. RECOMMENDATIONS

1. The County should proceed with implementation of a materiel management program, which will require the allocation of adequate resources, both in terms of dollars and staff.

2. The County does not generally need guidance about the range of activities that should be undertaken in a materiel management program. It should rely upon the Sowle report and subsequent Executive branch plans for developing a work program.

3. The development of an adequate information base should be a high priority for a materiel management program.

#### VIII. EXECUTIVE BRANCH COMMENTS

Before submitting this report to the County Council, a draft copy was sent to the Chief Administrative Officer and the heads of all affected departments. Responses were received from the Directors, Office of Management and Budget and Department of Finance. Those comments are included in their entirety in this section of the report.

1. Comments of the Director, Office of Management and Budget.

M E M O R A N D U M

March 12, 1985

TO: Robert K. Kendal  
Assistant Chief Administrative Officer

FROM: Jacqueline H. Rogers, Director  
Office of Management & Budget

SUBJECT: Comments on Office of Legislative Oversight Draft Report 85-2, A Description and Evaluation of the Materiel Management Program

By way of summary, I agree with the three overall recommendations of the report that the County should proceed with implementation of a materiel management program, that the Sowle report provides a definitive evaluation of the general range of activities that should be undertaken, and development of an information base should receive high priority. However, I would like to comment on the problems highlighted by the report and describe recent recommendations made by the County Executive in the FY 86 Operating Budget to address those problems.

Staffing for the materiel management function has proceeded at a slower pace than anticipated. However, a Materiel Management Section Chief was hired in June 1984 and is beginning to develop a detailed work program for implementing a comprehensive materiel management program. A major reason for the slow pace can be attributed to the fact that the Section Chief has devoted substantial time to the General Store. However, transfer of some of these responsibilities to the MCPS should enable the Section Chief to focus on planning the overall materiel function. By the end of FY 85, the Finance Department work program calls for development of a detailed materiel management work program or plan with specific tasks and responsibilities tied to target dates.

Following development of the work program, OMB and the Finance Department will be working together to determine possible staff transfers to the central Materiel Management Section from other agencies. However, care must be taken to avoid disrupting on-going materiel management activities in County agencies outside the Finance Department.

In the interim, to assist the Materiel Management Section in getting started on the major tasks of developing uniform policies and procedures, consolidating purchasing and warehouse space, and automating inventory control, the County Executive is recommending \$50,000 for contractual services in FY 86 to provide advice on choosing and implementing alternative materiel management systems. For example, setting up specific automated inventory

systems requires analysis of the advantages and disadvantages of various systems in use, such as a bar coding system for inventory identification and control. Earmarking these funds for the Materiel Management Section should help in moving ahead with the analysis necessary to set up new central inventory and fixed asset systems. In particular, development of a useful and adequate information base will be emphasized.

While I agree that development of a coordinated and comprehensive materiel management system can save the County substantial sums in the purchase, storage, and disposal of inventories and fixed assets, the implementation of that system should be carefully planned in advance. The report by Don Sowle Associates sets forth the overall actions that need to be undertaken to improve materiel management. The County now needs to proceed deliberately and thoughtfully in choosing appropriate systems and putting them into effect.

2. Comments of the Director, Department of Finance.

M E M O R A N D U M

March 12, 1985

TO: Robert K. Kendal, Assistant Chief Administrative Officer  
FROM: Max R. Bohnstedt, Director, Department of Finance *MRB*  
SUBJECT: OLO Report 85-2

The central thrust of the report is supported by the history of the program's development.

1. There is a need for a central Materiels Management program within the County.
2. There has not been an active development program undertaken.
3. It is time to begin the development of the program.

We have begun a program of development and implementation which includes:

1. Employing a Materiels Management Section Chief with the required background and skills to coordinate the function.
2. Developed a work program, a summary of which we have attached.
3. Transferred the tangible property inventory control function from Accounting to Materiels Management as the first consolidation effort.

4. Requested and received approval of \$50,000 of contractual services funds during FY 86 for assistance in developing systems descriptions and drafting policies and procedures as well as identifying opportunities for consolidation of functions which may yield reductions in positions required. The commitment to reassign any current decentralized positions which can be eliminated to a central Materiels Management program has been made.

The following actions are illustrative of what we have done over the past year:

1. Begun developing a needs assessment statement as a guide for program development.
2. Begun negotiations with MCPS to consolidate approximately 75% of our central stores inventory into theirs.
3. Begun a survey of all inventory points and tangible property locations within the County.
4. Consolidated Purchasing and Materiel Management's involvement in property disposal actions in the Materiels Management Section to provide more consistent practices and an outreach capability.
5. Cleaned up the operation of current systems and practices. This action has enabled us to reduce the central stores inventory by 50%.

The actions taken to date are a beginning, but don't represent the progress which may have been anticipated or will be required to complete implementation.

We have reviewed both the Sowle Report and OMB's report. While we find they provide a starting point, they are narrowly focused on inventory operations, not addressing the breadth of Materiels Management, and they are outdated. Because of their age and their representation of a particular perspective, they cannot be viewed as a fixed implementation guideline. As an example, Sowle recommends consolidation of all inventory functions into one separate division. We believe this goes beyond what would be functional for the County, both from direct Stock Clerk supervision and appropriate storage practices for the diverse materiels we carry in inventory. A part of our program development will include designing an appropriate organization structure which will focus policy and procedural controls in a centralized function, consolidating only those positions which are required for administration and large inventory operations.

MRB/mla

DEPARTMENT Finance	REPORT ITEM Materiel Management Program		ITEM NUMBER 90	AS OF 2/28/85
INDICATOR	STATUS/PROGNOSIS			
	<u>Original Target</u>	<u>Revised Target</u>	<u>Current Target</u>	<u>Comments</u>
Materiels Management Program: Develop a strategy to evaluate the opportunities and benefits available from a centralized materiels management system and implement those elements found appropriate on a cost and control basis.				
Complete needs assessment and program description	4/85			Draft needs assessment, due 4/30/85, is on schedule.
Complete staffing adjustments	6/85	12/85		County committed consultant contract dollars as a trade-off to position in FY 86. Part of consultant work will be to identify positions available from consolidation.
Draft Materiels Management Policies and Procedures	12/85			Draft Materiel Management policies and procedures will be part of the Consultant contract.
Complete inventory control conversion	6/87			
Begin implementation of tangible property inventory system, FY 87	6/87			

