Evaluation of FDIC Regional Copier Program

Evaluation Report No. 99-007

September 30, 1999

Office of Congressional Relations and Evaluations

Office of Inspector General

Contents

Objectives

- During our recent evaluation of the FDIC headquarters copier program (EVAL-99-004), the Acquisition and Corporate Services Branch (ACSB) asked us to review copier programs at selected regional offices.
- We initially selected the Dallas Regional Office (DRO) for review.
- Subsequently, a San Francisco facilities representative asked us to review the San Francisco Regional Office (SFRO) copier program.
- Our objectives were to determine whether:
  - ✓ Copiers were being utilized at appropriate levels,
  - ✓ Program costs were reasonable, and
  - ✓ Alternative programs could provide cost savings.

Methodology

- We obtained cost and meter reading information for DRO and SFRO convenience copiers. We did not attempt to verify the accuracy of these readings.
- We interviewed DRO and SFRO facilities representatives via telephone to understand their copier programs.
- We determined utilization levels and per copy charges for all convenience copiers.
- We estimated program costs using alternative copier scenarios.
- For the purposes of this report, all references to “DRO” and “SFRO” include all convenience copiers in the regional office buildings and in all associated field office locations, unless otherwise noted.
- We performed our field work from May through July 1999 in accordance with the President’s Council on Integrity and Efficiency’s *Quality Standards for Inspections.*

Results in Brief

Dallas Regional Office

- We found that most DRO copiers were significantly underutilized. On average, 92 percent were operating at less than 40 percent of their monthly optimal volume levels.

- As a result, DRO was paying an average of $.05 per copy for machines under Lease to Ownership Plans (LTOP). A General Services Administration (GSA) representative told us $.03 is the most agencies should pay for copies.

- Accordingly, FDIC could reduce copier costs by pursuing other lease options. Over a 5-year period, we estimated DRO could save:

  - ✓ $213,000 by using a GSA schedule distributor as Atlanta CSB has done,

  - ✓ $980,000 by transferring to a GSA schedule flat-rate plan, or

  - ✓ $430,000 by signing an interagency agreement with the Franchise Business Activity (FBA).

Results in Brief

San Francisco Regional Office

- Most SFRO convenience copiers were significantly underutilized. On average, 82 percent of SFRO copiers were operating at less than 20 percent of their monthly optimal volume levels.

- As a result, SFRO was paying an average of $.06 per copy, not including supplies, twice what the GSA recommends.

- We also concluded that SFRO's inventory of copiers did not match SFRO's true copier needs.

- SFRO could reduce copier costs by pursuing other lease options. Over a 5-year period, we estimated SFRO could save:

  - ✓ $206,000 by using a GSA Schedule distributor as Atlanta CSB has done,

  - ✓ $469,000 by transferring to a GSA Schedule flat-rate plan.

  - ✓ $343,000 by signing an interagency agreement with the FBA.

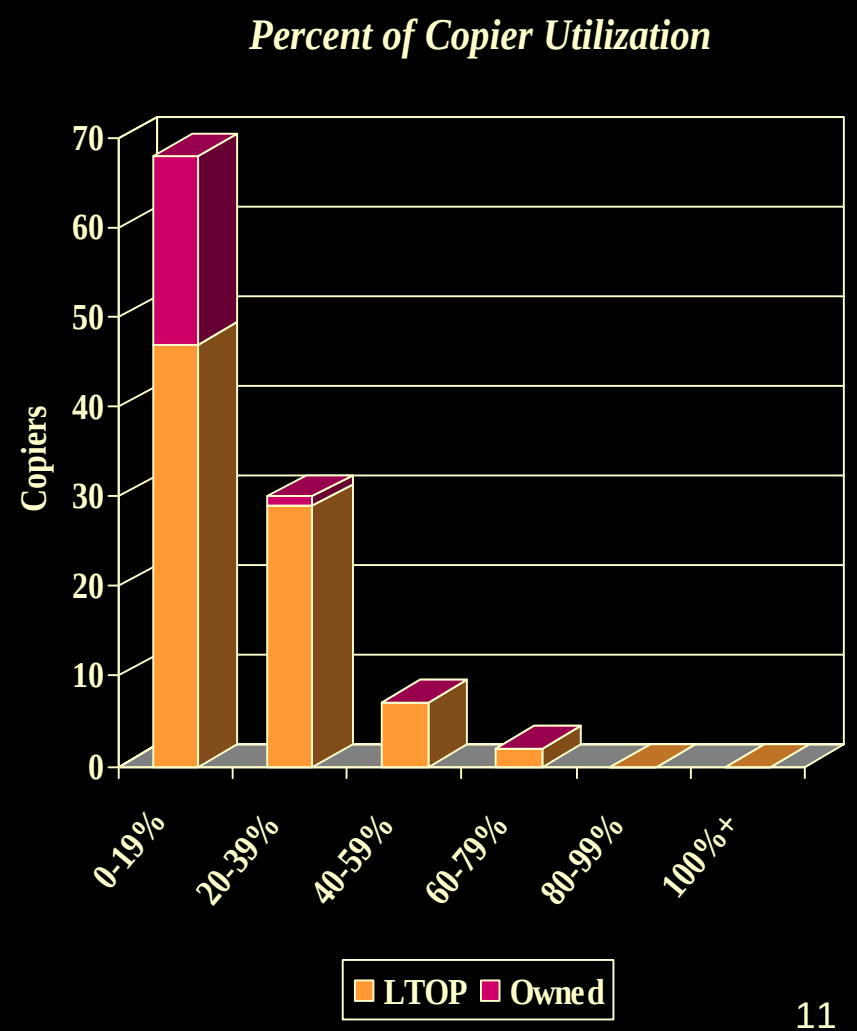
Results of Analysis: Dallas Regional Office

Background

- As of February 1999, DRO had 107 convenience copiers.
- Of the total, 85 convenience copiers were under LTOP. Most of these copiers were Xerox 5352 machines. DRO also had eight Oce´ copiers, one Sharp copier, and one Canon copier.
- Over 93 percent of DRO's copiers were located in two regional office buildings (Pacific Place and One Dallas Center). The remaining eight machines were in DRO’s eight field office locations.
- As of February 1999, DRO was paying approximately $493,946 annually for its convenience copiers, or $41,162 a month.

Copier Utilization

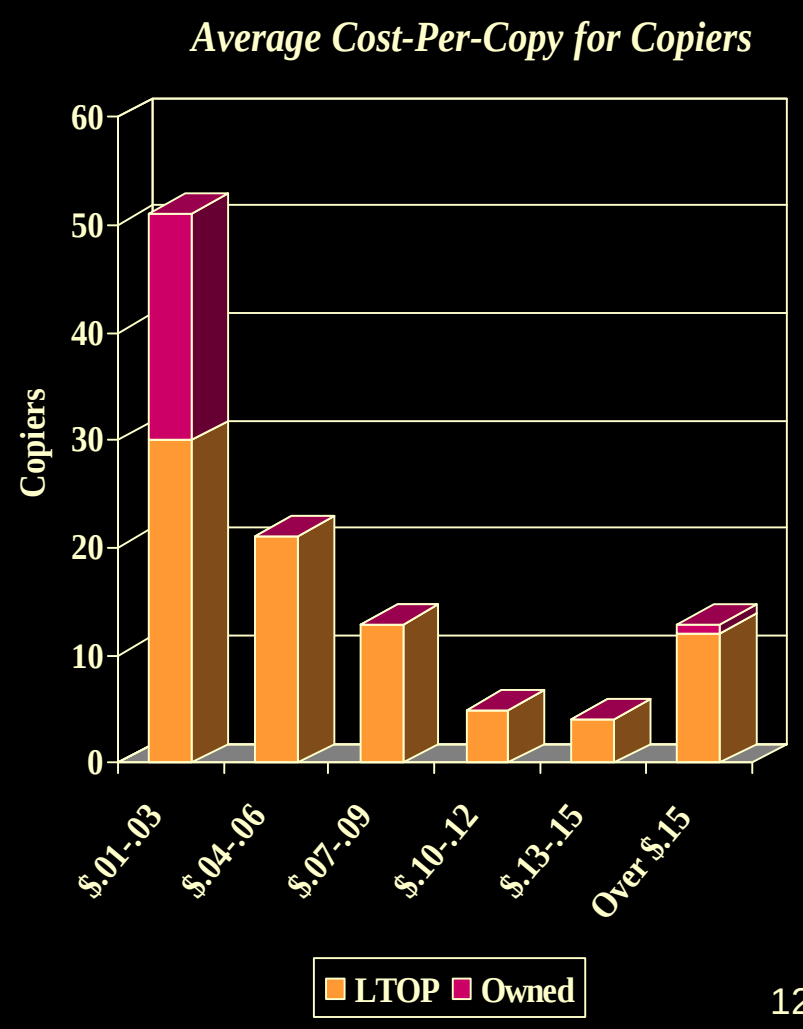
- Based on our analysis, we concluded that most of DRO copiers were significantly underutilized.
- On average, 92 percent of DRO convenience copiers operated at less than 40 percent of their monthly optimal volume levels.
- 64 percent of the DRO copiers operated at less than 20 percent of their optimal volume levels.
- Only two copiers had a utilization level greater than 60 percent.



Copier Cost-Per-Copy

- According to a GSA representative, $.03 per copy is realistically the most that government agencies should be willing to pay for copiers. Per copy rates include LTOP, maintenance, per copy charges, and supplies.

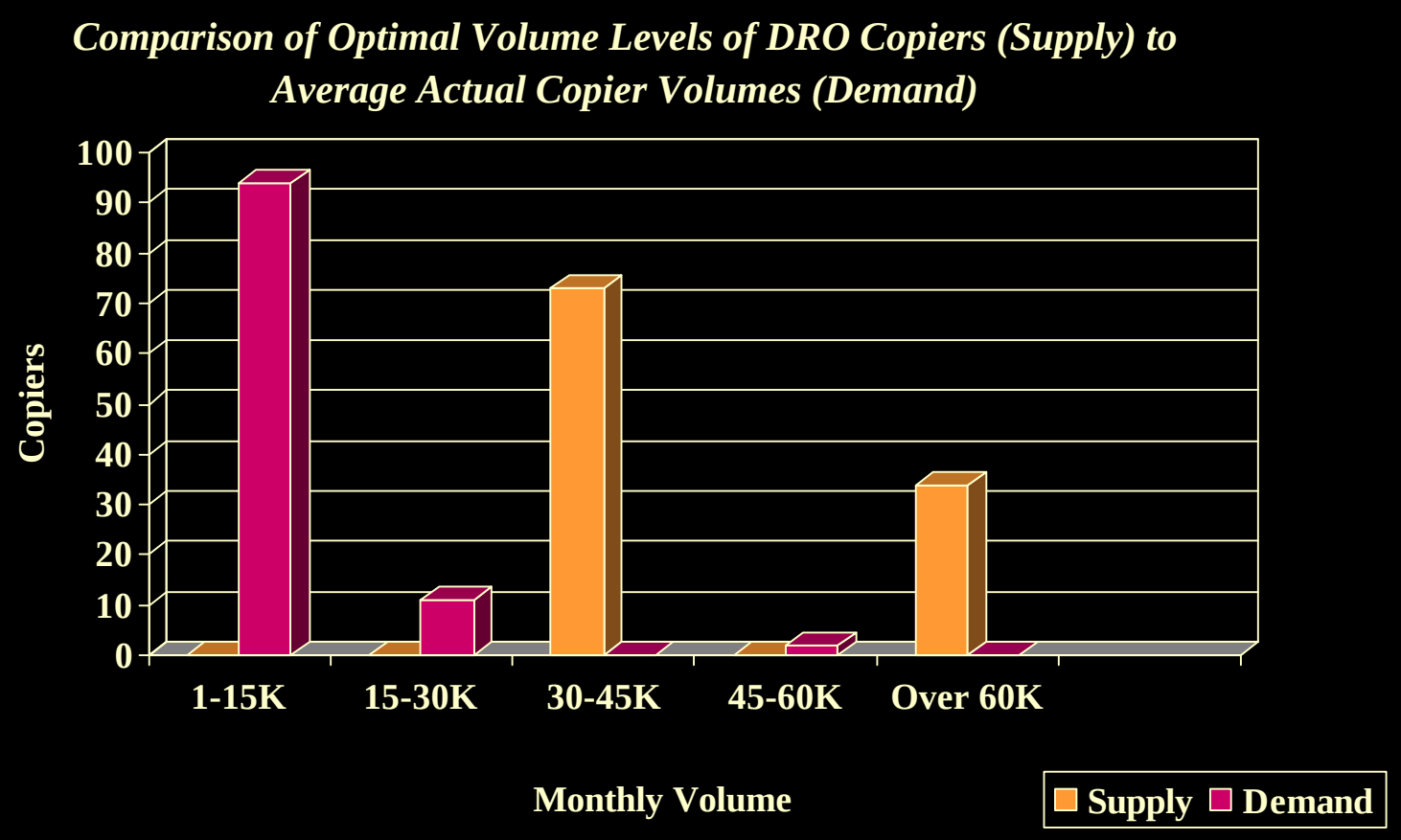
- DRO was paying more than $.03 per copy for 52 percent of its convenience copiers. On average, DRO was paying $.04 per copy overall, and $.05 per copy for equipment under LTOP agreements. These figures did not include supplies cost.



Copier Supply -vs- Demand

- Officials from other agencies and other FDIC offices told us monthly meter readings are crucial to assessing the placement and type of machines that are needed.
- DRO convenience copiers offered volume levels as low as 40,000 copies a month to as much as 350,000 copies a month.
- To its credit, DRO was taking consistent meter readings.
- However, we concluded the copier models that DRO had in its inventory did not match DRO's true copier needs.
- As the figure on the following page shows, the optimal monthly volume levels of DRO's copiers (supply) far exceeded DRO's actual monthly copying volumes (demand).
- Generally, the DRO field offices had a greater disparity between copier supply and demand than copiers located in the regional office buildings.

Copier Supply -vs- Demand



Lease-Ownership Alternatives

- We identified a number of lease-ownership options for procuring copiers. This report presents our analysis of three options:
  - ✓ FDIC Atlanta CSB lease of copier equipment,
  - ✓ GSA Schedule Flat-Rate Monthly Fee (FRMF) plan with Canon, and
  - ✓ FBA Cost-Per-Copy (CPC) Plan.
- All scenarios assume keeping the 22 owned machines and explore alternatives for replacing the remaining 85 leased machines.
- All scenarios include penalties for the early termination of LTOP.
- Scenarios also include a factor for the trade-in value associated with LTOP machines.
- Finally, some plans include supplies cost, while other plans, such as LTOP and the Atlanta lease, do not.

Atlanta Office Scenario

- Atlanta Corporate Services Branch (CSB) signed a contract, effective February 1998, with a distributor, Ikon Office Solutions, Inc., to lease copiers for the Atlanta and Memphis offices and 25 field offices. The lease had one base year and four 1-year options.

- Ikon placed 49 Ricoh Aficio 500 copiers throughout the region at an annual expense of about $230,000. The Aficio 500 was a digital copier with an optimal monthly volume level of 85,000 copies. It was comparable to the Xerox DC265, but cost about $660 a month less.

- We calculated the costs of DRO converting to the terms of the Ikon Atlanta contract. Including termination costs, we estimated DRO could save approximately $213,000 over a 5-year term.

- DRO could achieve greater savings by consolidating underutilized machines. For example, DRO could save an additional $156,000 over a 5-year term by eliminating 10 of its Xerox 5352 machines. However, such actions should only be taken after considering clients' needs and analyzing copier placement.

Atlanta Office Scenario

- Atlanta awarded the contract from the GSA schedule. Thus, the contract had the standard GSA terms and conditions, or better terms. For example, Atlanta paid 3 months of the lease amount to terminate copiers during the contract, or no penalty if termination occurred at the end of the contract or option year. We found that most commercial leases had no termination options or imposed severe penalties for early termination.
- Further, the Aficio 500 was a digital machine. All of DRO's copiers were analog machines which did not employ digital technology.

Scenario	***5-Year Cost***	***Total Monthly Volume***
Current LTOP	$1.8 million	5.7 million
Atlanta Office Distributor	$1.6 million	7.2 million

GSA Flat-Rate Scenario With Canon

- A number of vendors also offered FRMF programs under the GSA Federal Supply Schedule (FSS).
- FRMF programs offered copier configurations in several volume bands and charged a FRMF for each machine which included the lease and maintenance fee, CPC charges, and non-paper supplies.
- Canon offered FRMF terms of 36, 48, and 60 months with seven volume bands and 16 copier models, including two digital models.
- Including termination costs, we estimated FDIC could save $980,000 under the Canon FRMF program over a 5-year term.

Scenario	*5-Year Cost*	*Total Monthly Volume*
Current LTOP	$1.8 million	5.7 million
Canon FRMF	$0.8 million	3.2 million

FBA Scenario

- The FBA is a government-wide program sponsored by the U.S. Department of the Treasury to provide consolidated administrative support to participating agencies.
- At the time of our review, approximately 65 agencies used FBA's CPC program to procure copiers.
- Further, FDIC had signed interagency agreements with FBA for its HQ convenience and production copier program.
- For the purposes of our analysis we used a rate of $.0295 per copy, based on the pricing that FBA quoted FDIC HQ. This rate could change given DRO's average monthly volume levels.
- Including termination costs, we estimated that FDIC could save $430,000 over the 5-year term.

Scenario	*5-Year Cost*	*Total Monthly Volume*
Current LTOP	$1.8 million	5.7 million
FBA (@ $.0295)	$1.4 million	3.9 million

Results of Analysis: San Francisco Regional Office

Background

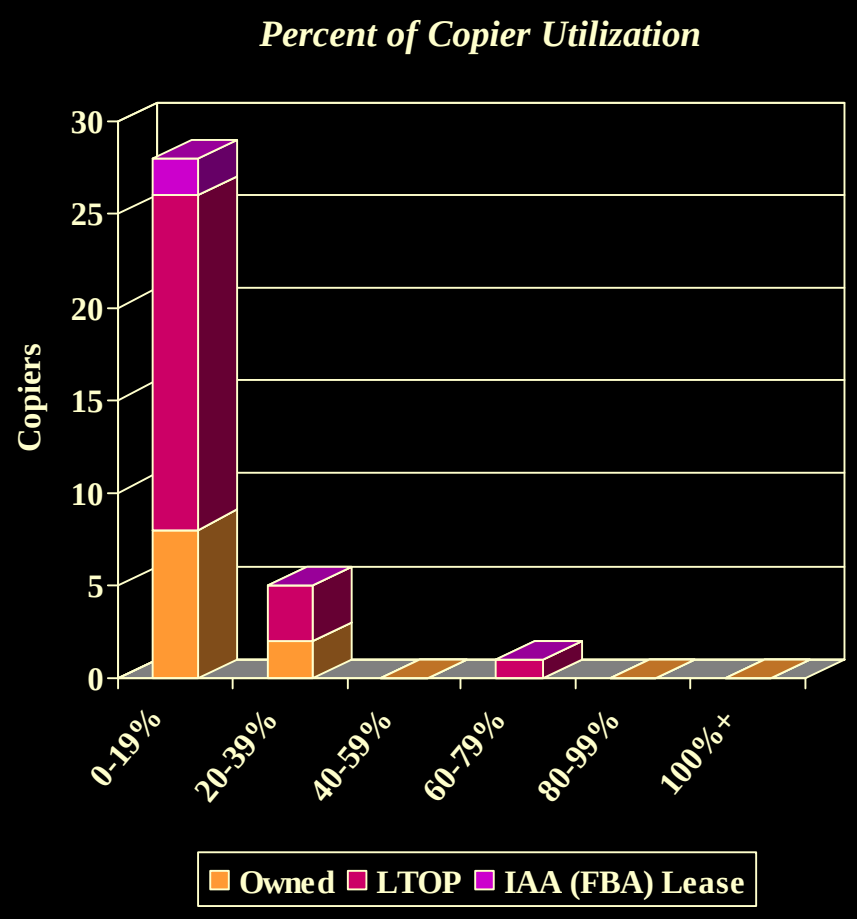
- As of March 1999, SFRO had 34 convenience copiers of which 10 were owned. Two copiers were leased on a cost-per-copy basis through an inter-agency agreement (IAA) with the FBA. The remaining 22 were under LTOP with Xerox (10 copiers), Kodak (six copiers), Oce´ (five copiers) and Gestetner (one copier).

- Eight of the LTOP copiers were located in the regional office. The remaining 14 machines were located in the field offices.

- As of March 1999, the SFRO was paying approximately $161,016 annually, or $13,418 per month, for the 22 copiers under LTOP agreements.

Copier Utilization

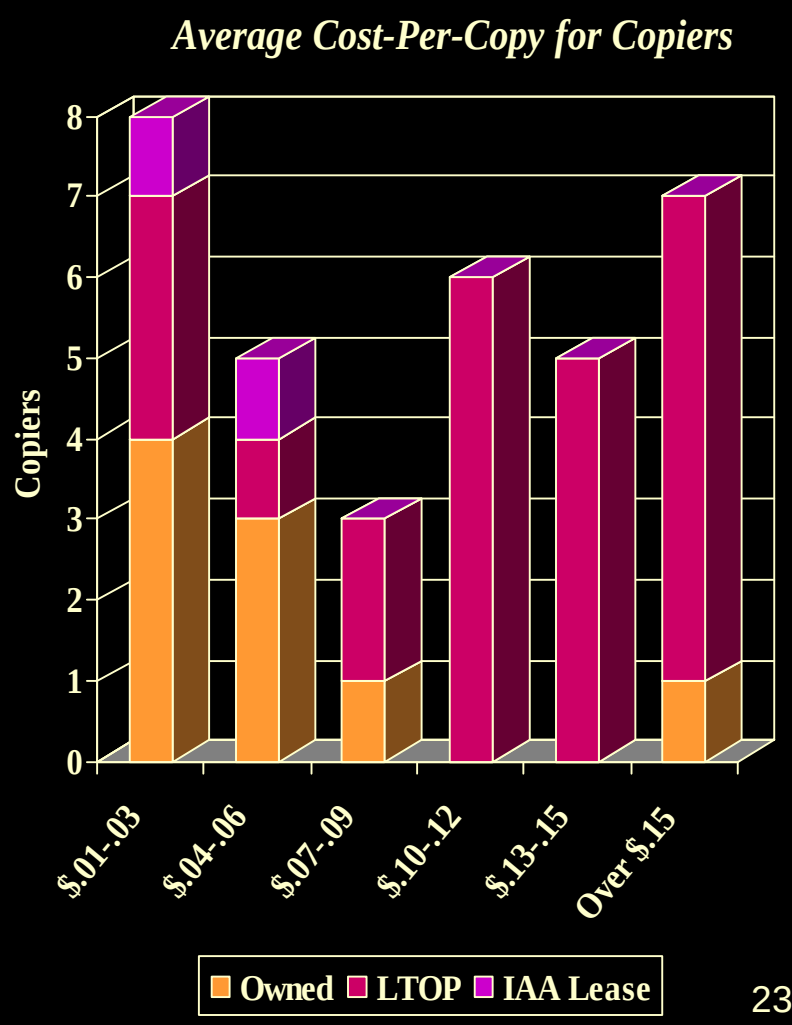
- Based on our analysis, we concluded that a number of SFRO copiers were significantly underutilized.
- On average, 82 percent of SFRO convenience copiers were operating at less than 20 percent of their monthly optimal volume levels.



Copier Cost-Per-Copy

- According to a GSA representative, $.03 per copy is realistically the most that government agencies should be willing to pay for copiers. Per copy rates include LTOP, maintenance, per copy charges, and supplies.

- SFRO was paying more than $.03 per copy for 76 percent of its 34 convenience copiers. On average, the SFRO was paying $.06 per copy overall and $.07 per copy for equipment under lease agreements. These figures did not include supplies cost.



Copier Supply -vs- Demand

- Officials from other agencies and other FDIC offices told us monthly meter readings are crucial to assessing the placement and type of machines that are needed.

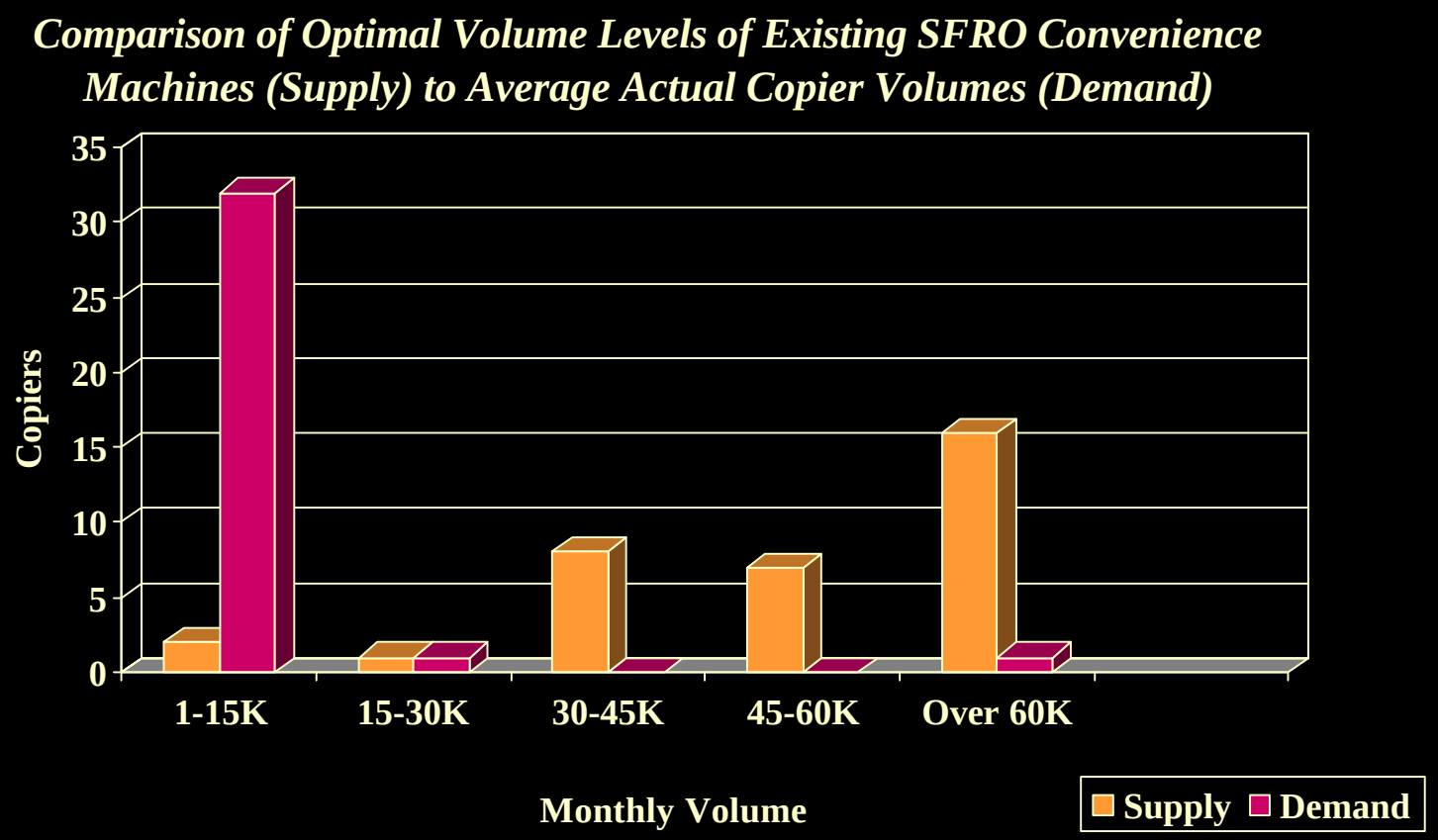
- SFRO convenience copiers offered volume levels as low as 10,000 copies a month to as much as 350,000 copies a month.

- To its credit, SFRO was taking consistent meter readings.

- However, we concluded the copier models SFRO had in its inventory did not match SFRO's true copier needs.

- As the figure on the following page shows, the optimal monthly volume levels of SFRO copiers (supply) far exceeded SFRO's actual monthly copying volumes (demand).

Copier Supply -vs- Demand



Lease-Ownership Alternatives

- We identified a number of lease-ownership options for procuring copiers. This report presents our analysis of three options:
  - ✓ FDIC Atlanta lease of copier equipment,
  - ✓ GSA Schedule FRMF plan with Canon, and
  - ✓ FBA CPC plan.
- All scenarios assume keeping the 10 owned machines and explore alternatives for replacing the remaining 24 leased machines.
- All scenarios include penalties for the early termination of LTOP.
- Scenarios also include a factor for the trade-in value associated with LTOP machines.
- Finally, some plans include supplies cost, while other plans, such as LTOP and the Atlanta lease, do not.

Atlanta Office Scenario

- Atlanta CSB signed a contract, effective February 1998, with a distributor, Ikon Office Solutions, Inc., to lease copiers for the Atlanta and Memphis offices and 25 field offices. The lease had one base year and four 1-year options.
- Ikon placed 49 Ricoh Aficio 500 copiers throughout the region at an annual expense of about $230,000. The Aficio 500 was a digital copier with an optimal volume range of about 85,000 copies per month. It was comparable to the Xerox DC265, but cost about $660 a month less.
- We calculated the costs of SFRO converting to the terms of the Ikon Atlanta Contract. Including termination and supplies costs, we estimated FDIC could save approximately $205,976 over a 5-year term.
- This savings amount assumed replacing all 24 existing LTOP and CPC copiers with Aficio 500 copiers. Because the monthly volume levels on SFRO copiers are rather low, Ikon could likely provide more lower capacity machines at lower costs and achieve additional savings.

Atlanta Office Scenario

- Atlanta awarded the contract from the GSA schedule. Thus, the contract had the standard GSA terms and conditions, or better terms. For example, Atlanta paid 3 months of the lease amount to terminate copiers during the contract, or no penalty if termination occurred at the end of the contract or option year. We found that most commercial leases had no termination options or imposed severe penalties for early termination.
- Further, the Aficio 500 was a digital machine. Most SFRO copiers were analog machines which did not employ digital technology.

Scenario	***5-Year Cost***	***Total Monthly Volume***
Current LTOP	$688,368	2.5 million
Atlanta Office Distributor	$482,392	2 million

GSA Flat-Rate Scenario With Canon

- A number of vendors also offered FRMF programs under the GSA FSS.
- FRMF programs offered copier configurations in several volume bands and charged a FRMF for each machine which included the lease and maintenance fee, CPC charges, and non-paper supplies.
- Canon offered FRMF terms of 36, 48, and 60 months with seven volume bands and 16 copier models, including two digital models.
- Including termination costs, we estimated FDIC could save almost $469,301 under the Canon FRMF program over a 5-year term.

Scenario	***5-Year Cost***	***Total Monthly Volume***
Current LTOP	$688,368	2.5 million
Canon FRMF	$219,067	.8 million

FBA Scenario

- The FBA is a government-wide program sponsored by the U.S. Department of the Treasury to provide consolidated administrative support to participating agencies.
- At the time of our review, approximately 65 agencies used FBA's CPC program to procure copiers.
- Further, FDIC had signed interagency agreements with FBA for its HQ convenience and production copier program.
- For the purposes of our analysis we used a rate of $.0295 per copy, based on the pricing that FBA quoted FDIC HQ. This rate would probably change given SFRO's average monthly volume levels.
- Including termination costs, we estimated that SFRO could save $343,114 over the 5-year term.

Scenario	*5-Year Cost*	*Total Monthly Volume*
Current LTOP	$688,368	2.5 million
FBA (@$.0295)	$345,254	1 million

Analysis of Leased -vs- Owned Copiers

- We understand that SFRO intends on replacing all leased and owned copiers with new copiers over the next 2 years. We analyzed whether it would be more cost effective for SFRO to:
  - ✓ retain its existing owned copiers and replace only leased copiers, or
  - ✓ replace all owned and leased copiers.
- On the surface, it appears more economical to keep the owned copiers and avoid incurring LTOP costs.
- However, we concluded that it would be more cost effective for SFRO to replace all of its owned and leased machines because maintenance and CPC charges for SFRO's owned equipment are more expensive than lease, maintenance, and CPC charges would be for rightsized equipment.
- We estimated that SFRO could save an additional $58,055 to $156,344 over a 5-year period by replacing owned copiers with equipment from one of the three alternatives detailed in this report.

Conclusions

- DRO and SFRO convenience copiers appeared to be significantly underutilized. As a result, on an average cost-per-copy basis, both regions were paying more than what government and industry sources suggest as reasonable.

- Moreover, other lease and ownership plans existed that could reduce DRO's and SFRO's program costs over a 5-year contract period and place machines that more appropriately match the offices' needs.

- Further, DRO could achieve additional savings by consolidating copiers that were significantly underutilized.

- Finally, SFRO could achieve additional savings by following through with its intent to replace its owned machines with rightsized leased machines from one of the alternatives presented in this report.

Recommendations

We recommended that the Director, Division of Administration:

1. Take actions to more closely align the types and placement of equipment in DRO's and SFRO's copier programs with each region's copying demands.

2. Analyze the available convenience copier contract vehicles and scenarios and select the ones that provide the best value for DRO and SFRO.

Corporation Comments and OIG Evaluation

- The Director, DOA, provided the Corporation's written response to a draft of this report. The response is presented as Appendix I to this report. DOA agreed with both of our recommendations. DOA's written response describing actions already taken and planned actions provided the requisite elements of management decisions for both of our report recommendations.
- DOA's written response indicated that DRO and SFRO would review how best to realign equipment and the regions agreed to review alternative programs during 2000. Accordingly, we cannot quantify funds put to better use from our recommendations at this time. Should future DOA actions result in program savings, we will report those monetary benefits in our *Semiannual Report to the Congress* during the appropriate reporting period.

Appendix I: Corporation Comments

FDIC
Federal Deposit Insurance Corporation
550 17th Street, NW, Washington, DC 20429

Division of Administration

September 24, 1999

MEMORANDUM TO: Stephen M. Beard
Director, Office of Congressional Relations and Evaluations
Office of Inspector General

FROM: Arleas Upton Kea
Director, Division of Administration

SUBJECT: Management Response to Draft Report: Evaluation of FDIC Regional Copier Program

The Division of Administration (DOA) has completed its review of the draft report issued by the Office of the Inspector General (OIG) entitled *Evaluation of FDIC Regional Copier Program.* DOA appreciates the intensive study performed by the OIG. As noted in the draft report, DOA's Associate Director for Acquisition and Corporate Services requested that OIG review the copier programs at selected regional offices. OIG examined copier utilization in the San Francisco Regional Office (SFRO) and the Dallas Regional Office (DRO).

We agree with the conclusions of the OIG study and will move promptly to use this information to implement a more economical regional copier service program. The report provides us with the necessary information to continue our efforts to rightsize the copier equipment needs of the Corporation on a prospective basis.

Management Decision:

Recommendation 1: Take actions to more closely align the types and placement of equipment DRO's and SFRO's copier programs with each region's copying demands.

Management Response 1: DOA concurs with the recommendation.

DRO Action(s). DRO has begun the process of realigning the types and placement of equipment to be consistent with the region's copying demands. During the first phase of the realignment, DRO is planning to sell the FDIC-owned copiers. DRO will then realign the GSA LTOP copiers to more appropriately maximize usage. DRO anticipates that copier utilization will improve and the cost per copy will decrease after this realignment is completed.

SFRO Action(s). The SFRO will conduct a review to determine how best to realign the types and placement of copying equipment to reflect with the region's copying demands once the 16-month Ecker Square renovation project is complete. It would be difficult to determine individual copier demands while this project is underway, because of the movement and transition of FDIC personnel to and from permanent office space and temporary swing-space. We expect the

renovation to be completed by December 2000 and a more economical copier program to be implemented by that date.

Recommendation 2: Analyze the available convenience copier contract vehicles and scenarios and select the ones that provide the best value for DRO and SFRO.

Management Response 2: DOA concurs with the recommendation.

DRO Action(s). The current DRO copier arrangement is through a GSA contract that will expire in 2001. DRO does not believe that terminating the existing contract would be beneficial to the FDIC, but DRO will explore the alternatives recommended by the OIG as well as other options available in the marketplace prior to the expiration of that contract. Completion of this analysis will be documented in a memorandum that outlines the options explored and identifies the most cost-beneficial copier lease alternative for the DRO. That memorandum will be completed by December 31, 2000.

SFRO Action(s). SFRO is collecting more specific information on each of the suggested alternatives recommended by the OIG. To date, the Franchise Business Activity (FBA) has provided information on its cost-per-copy programs, and the Atlanta office is in the process of providing copier information on its copier program to the SFRO. SFRO anticipates completing its evaluation of the alternatives by April 2000, and to have a more economical copier program in place by December 2000. Completion of this analysis will be documented in a memorandum that outlines the options explored and identifies the most cost-beneficial copier lease alternative for the SFRO.

If you have any questions regarding the response, our point of contact for this matter is Andrew O. Nickle, Audit Liaison for the Division of Administration. Mr. Nickle can be reached at (202) 942-3190.

cc: Mr. Deshpande
Mr. Gorham
Mr. Rubino
Ms. Yamasaki