

**REPORT OF THE  
DEPARTMENT OF MENTAL HEALTH, MENTAL RETARDATION AND  
SUBSTANCE ABUSE SERVICES  
THE DEPARTMENT OF CORRECTIONS  
THE DEPARTMENT OF GENERAL SERVICES AND  
THE COMMONWEALTH COMPETITION COUNCIL**

**TASK FORCE STUDY ON THE  
FOOD DELIVERY SYSTEM FOR THE  
PRISONS AND MENTAL HEALTH  
HOSPITALS IN VIRGINIA**

**TO THE GOVERNOR AND  
THE GENERAL ASSEMBLY OF VIRGINIA**



**HOUSE DOCUMENT NO. 61**

**COMMONWEALTH OF VIRGINIA  
RICHMOND  
2000**

# **TASK FORCE STUDY ON THE FOOD DELIVERY SYSTEM FOR THE PRISONS AND MENTAL HEALTH HOSPITALS IN VIRGINIA**

## **TASK FORCE MEMBERS**

J. Granger Macfarlane	Task force Chairman
Ronald J. Angelone	Member, Commonwealth Competition Council
Franklin T. Baum	Director, Department of Corrections
Richard E. Kellogg	Appointed by Speaker of the House
Earl H. McClenney, Jr.	Commissioner, Department of Mental Health.
William A. Stagg	Mental Retardation & Substance Abuse Services
Donald C. Williams	Member, Commonwealth Competition Council
Vivian C. Young	Appointed by the Senate Committee on Privileges and Elections
	Director, Department of General Services
	Appointed by the Speaker of the House

## **AGENCY STAFF ASSISTING/REPRESENTING TASK FORCE MEMBERS**

Richard B. Fisher	Buildings & Grounds Director, Department of Mental Health, Mental Retardation & Substance Abuse Services
Edward C. Morris	Deputy Director of Administration, Department of Corrections
Cindy Sager	Director of Purchasing and Risk Management, Department of Corrections

## **STAFF SUPPORT PROVIDED BY THE COMMONWEALTH COMPETITION COUNCIL**



# COMMONWEALTH of VIRGINIA

## *Commonwealth Competition Council*

James S. Gilmore, III  
Governor

January 7, 2000

TO: The Honorable James S. Gilmore, III  
And To  
Members of The General Assembly of Virginia

The report contained herein is pursuant to House Joint Resolution No. 709, as approved by the 1999 General Assembly. The Resolution requested the Department of Mental Health, Mental Retardation and Substance Abuse Services, the Department of Corrections, the Department of General Services and the Commonwealth Competition Council to establish a task force committee to study and analyze the food delivery system for prisons and mental health hospitals, and to examine alternatives to increase the efficiency and lower the cost to the Commonwealth's taxpayers, while supporting maximum inmate assignments within the Department of Corrections.

This report constitutes a staff evaluation and summary of the present food delivery system operations for Virginia's prisons and mental health hospitals, and an examination of potential opportunities and alternatives to increase efficiency, competitiveness, and methods to lower the cost of the food delivery system. The task force committee recommendations were strongly debated by all members and quite frankly there were some strong disagreements - the Committee split evenly on certain matters. Accordingly, the Chairman concluded that the best way to explain our recommendations in depth, is to offer the staff report, as amended, and also offer an appendix which contains written comments by all committee members who desired to submit written comments. It should be noted that the staff recommendations do not detract from supporting the maximum inmate assignments within the Department of Corrections and, in fact, may enhance inmate work assignments.

Included in this report is a summary of research data gathered through surveying other states' food delivery systems for their Department of Corrections, and surveys from the Commonwealth's prisons and mental health hospitals. Information was also gathered from federal and state agencies, Commonwealth educational institutions, private sector Prime Vendor food distributors, consultants, and Virginia Distribution Center suppliers. We are grateful to the organizations and the participants that assisted in this study. Also included, as mentioned above, are memorandum letters from committee members.

***Embracing the Spirit of Opportunity***

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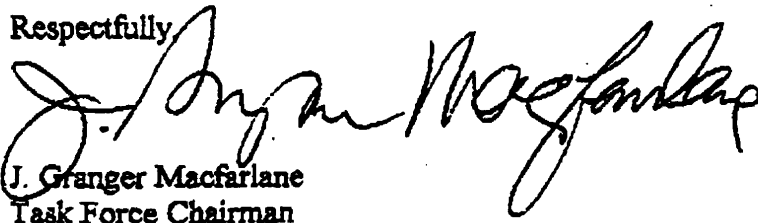
P. O. Box 1475 • Richmond, Virginia 23218-1475 • (804) 786-0240 • FAX (804) 786-1594

The Honorable James S. Gilmore, III  
January 7, 2000  
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The task force is particularly appreciative for the work of Delegate Thelma Drake, chief patron of the Resolution, who requested the task force to seek methods to maximize the state's leveraged buying power, and to evaluate the prisons and mental health hospitals warehouses . She demonstrated a keen interest in this study by attending all task force deliberations which were conducted at various sites across the Commonwealth.

In compliance with House Joint Resolution No. 709, this report of the findings and staff recommendations along with committee member comments are respectfully submitted to the Governor and the 2000 General Assembly.

Respectfully

A handwritten signature in black ink, appearing to read "J. Granger Macfarlane". The signature is written in a cursive style with a large initial "J" and "M".

J. Granger Macfarlane  
Task Force Chairman

cc: The Honorable Thelma Drake  
Clerk of the Senate  
Clerk of the House

January 14, 2000

The Honorable J. Granger Macfarlane  
C/O The Commonwealth Competition Council  
Richmond, Virginia

Dear Mr. Chairman:


Attached are a series of letters expressing the serious concerns of a clear majority of the HJR709 task force with the manner in which a draft report has been forwarded to the Division of Legislative Automated Systems (DLAS) without our consent.


Included are copies of three letters to you, from a total of five (5) members, requesting that you call a meeting of the HJR709 task force to consider the contents of the draft report that has subsequently been forwarded to DLAS. Also, there is a copy of a letter that a majority of the members sent to the Speaker of the House of Delegates. In our letter to the Speaker, five (5) members have requested that printing of the draft report be postponed until the full HJR709 task force can meet and discuss the serious concerns that are raised by the process and content of the draft presentation.

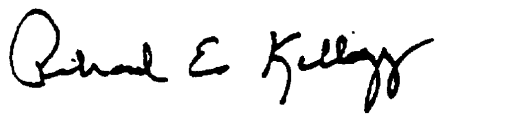
There are many concerns with the contents of the draft report that was sent to DLAS without the consent of the members. We must reiterate our fundamental concern that there has been no meeting of the HJR709 task force to discuss and vote on the findings, conclusions or recommendations contained in the draft report. As in previous requests, we again request that you call a meeting to consider and vote on the contents of the draft report. To do anything less would destroy the credibility of any report that may come from this body.

In the event the draft report is printed without the opportunity for the full HJR709 committee to meet, we expect this letter and all attachments to be entered into the record and placed in the front of the report, directly following your letter of transmittal.

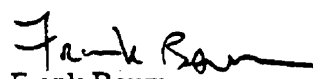
Further, please note that including this information in the draft report does not constitute the draft's acceptance or approval by the undersigned members of HJR709.

  
Donald C. Williams  
Department of General Services

  
Dr. Earl McClenney, Jr.  
Vice Chairman, Commonwealth  
Competition Council

  
Richard E. Kellogg  
Department of Mental Health, Mental  
Retardation & Substance Abuse

  
Edward C. Morris  
Department of Corrections

  
Frank Baum  
Citizen Member

January 7, 2000

The Honorable J. Granger Macfarlane  
P.O. Box 201  
Roanoke, Virginia 24002

Dear Chairman Macfarlane:

On December 31, 1999, after receiving your letter of December 30, 1999, I wrote to you and requested that you reconsider your direction to cancel future meetings of the HJR 709 Task Force. In my letter, I asked that you schedule a meeting to "clarify our directions to staff and proceed to vote on the contents of the report."

As of today January 7, 2000, I have not heard from you or staff concerning my request. However, I am aware that other members of the Task Force have been informed that there would be no further meetings. In fact, Task Force Member Frank Baum received an email from Al Roth on January 4 stating that you were "very clear in stating that there will not be another task force meeting." After discussing this matter with several members of the Task Force, we have decided to appeal, once again, for a meeting of the membership.

As members of the HJR 709 Task Force, we do not feel it is appropriate to forward Al Roth's "draft report" dated December 21, 1999 to the Competition Council or the Legislature. The Task Force has never actually discussed its findings, conclusions or recommendations. To accept the recommendations that staff has developed without deliberation and consensus would damage the credibility of any report that may come from the Task Force. There are numerous issues conveyed in Al Roth's draft report that need clarification and verification. Likewise, there are conclusions that are not shared by members of the Task Force. Some Task Force members do not feel that the outline that was adopted at the last meeting was followed. We do not feel it is appropriate to circumvent the deliberative process.

Unfortunately, some members did not receive your letter of December 30, 1999 until this week. For instance one member's letter was postmarked on January 3, 2000 and received the next day. Surely, this occurred due to the holiday, but Al Roth's response to Mr. Baum on January 4 is regrettable. In his email, Al Roth stated that as you "stated in [your] 12/30/99 memo to all task force members, if you have any comments pertaining to the draft report they are to be submitted to me by Friday, January 7<sup>th</sup>." Given the depth of concerns that the three agencies involved in this project, as well as other members of the Task Force, it is just not fair to expect responses, even if they were appropriate, in three days.

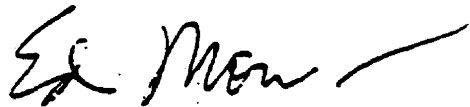
In closing, we feel that it is necessary to meet and discuss any draft that would go forward from this Task Force. To do any less would be an abdication of our responsibility to provide a fair and unbiased report. We request that further deliberations occur at a meeting to be scheduled in the near future, when all members can attend. At that time, we can discuss the concerns that each of us has with Al Roth's draft report.

We look forward to hearing from you in the very near future.

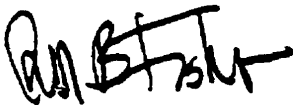
Sincerely,



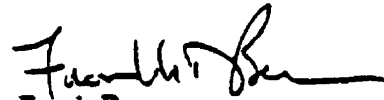
Donald C. Williams  
Department of General Services



Edward C. Morris  
Department of Corrections



Richard B. Fisher  
Department of Mental Health,  
Mental Retardation & Substance  
Abuse Services



Frank Baum  
Citizen Member

C: The Honorable G. Bryan Slater  
The Honorable Emmett W. Hanger, Jr.  
The Honorable Thelma Drake



# COMMONWEALTH of VIRGINIA

## Department of General Services

Donald C. Williams  
Director

December 31, 1999

202 North Ninth Street  
Suite 209  
Richmond, Virginia 23219-3402  
Voice/TDD (804) 786-6152  
FAX (804) 371-3305

D. B. Smit  
Deputy Director

William G. Poston  
Deputy Director

The Honorable J. Granger Macfarlane  
P. O. Box 201  
Roanoke, Virginia 24002

VIA fax to 786-1594, and mail to addressee

Dear Chairman Macfarlane:

This morning, I received a faxed copy of a letter addressed to members of HJR709 Task Force, dated December 30, 1999. In that letter you ask that members of the Task Force send comments on the current "draft report" to Al Roth by January 7<sup>th</sup>. From the information in the letter, it appears that comments offered by members will serve to forgo a meeting to review the current "draft" and vote on its contents and conclusions.

On December 21, I received a copy of the "draft report" prepared by staff. Along with others, I was disappointed to see the format used in the Table of Contents, and surprised by some of the conclusions that have been unilaterally prepared by staff.

To that end, I feel strongly that the Task Force members should have a role in the development of the actual report. Therefore, I am requesting that a meeting of the full Task Force be convened to clarify our directions to staff and proceed to vote on the contents of the report.

While I agree with Senator Hanger's interest in completing of this project, I believe it would be imprudent to proceed, as outlined in your letter of December 30, without a full review of the "draft." Thank you for your assistance in resolving this issue.

Sincerely,

Donald C. Williams

C: The Honorable G. Bryan Slater  
The Honorable Emmett W. Hanger, Jr.  
The Honorable Theima Drake  
Members, HJR 709 Task Force



January 12, 2000

The Honorable S. Vance Wilkins  
Speaker of the House of Delegates  
Room 635  
General Assembly Building  
Richmond, Virginia 23219

Dear Mr. Speaker:

The undersigned members of the HJR 709 task force write to inform you of an issue of great importance.

It is our understanding that the Division of Legislative Automated Systems (DLAS) has been asked to print a report attributed to the task force, despite the fact that the task force has never voted on the recommendations that are included in the draft that has been forwarded. As evidenced by the attached copies of letters sent to the chairman of the task force, we have voiced our concerns about the content of the draft report, noting that the task force has never voted on the content or recommendations that were included in the draft.

Although we represent a majority of task force members, our request for a meeting was not honored and a draft report was forwarded to the Division of Legislative Automated Systems without our knowledge.

We ask that you instruct DLAS to postpone the printing of the draft report, which has been assigned the number "HD61," until the task force can meet and deliberate over the content of a report.

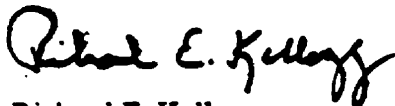
Thank you for your consideration of this matter.



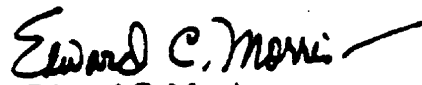
Donald C. Williams  
Department of General Services



Dr. Earl McClenney, Jr.  
Virginia State University



Richard E. Kellogg  
Department of Mental Health,  
Mental Retardation and Substance  
Abuse Services



Edward C. Morris  
Department of Corrections



Frank Baum  
Citizen Member

Letter to Mr. Speaker

Page 2

C:    The Honorable G. Bryan Slater  
      The Honorable Emmett W. Hanger, Jr.  
      The Honorable Thelma Drake  
      The Honorable Eric I. Cantor  
      The Honorable Bruce F. Jamerson  
      Mr. Bill Wilson  
      Mr. E. M. Miller  
      Members, HJR709 Task Force

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# TASK FORCE STUDY ON THE FOOD DELIVERY SYSTEM FOR THE PRISONS AND MENTAL HEALTH HOSPITALS IN VIRGINIA

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## EXECUTIVE SUMMARY

This report represents the first legislative directed study of the food delivery system for prisons and mental health hospitals covering the entire process from food and food related procurement to delivery of products to the end user.

A previous study was completed in 1998 by the COMPETE CENTER of the College of William and Mary under contract with the Department of Planning and Budget. The study recommended a more thorough analysis of the current food delivery system.

To accomplish its mission, the task force studied both internal and external sources that play a major role in the food delivery system for prisons and mental health hospitals.

In order to first determine the financial extent of the food delivery system, the task force examined the *direct* cost of the volume of food and food related products. As detailed in the body of this report, the Commonwealth had expenditures of **\$60.2** million in Fiscal Year 1999 in food and food related products. Of this amount, **\$38.8** million was the combined expenditure for prisons and mental health hospitals from all sources - The Virginia Distribution Center, Corrections agribusiness enterprises, and direct purchases from private vendors. These costs do not include the costs of any contracted privately-operated food operations or the food cost of the Department of Health's Nutrition Program for Women, Infants and Children (WIC).

In addition to the direct costs, there are significant *indirect/overhead* costs associated with the present food delivery system. These indirect/overhead costs occur in the form of multiple procurement systems, an excessive amount of procurement activity (372 food vendors), administrative/management overhead, food warehouse and storage space (approximately 387,000 square feet, including the new 128,000 square foot Virginia Distribution Center), staff associated with all warehouse operations (approximately 127 full-time equivalents), and food and food related inventory in the warehouses and facilities (**\$10,043,364** on June 30, 1999).

There is also *opportunity costs* associated with the present system by not maximizing volume food purchasing and by not taking advantage of "opportunity buys" offered by vendors. Due to the extent of all these related costs and factors, the task force did not attempt to determine their precise costs, but they do play a significant role in the total cost of the food delivery system.

An examination of all these components was necessary to fulfill the major requirements of House Joint Resolution No. 709 which mandated:

- A holistic study of the food delivery system for prisons and mental health hospitals;
- An examination of alternatives to increase efficiency, competition, and methods to lower the cost to the Commonwealth's taxpayers;
- Promotion of private sector involvement in setting up a competitive framework to determine the most efficient method of providing goods and services;
- Support for maximum inmate assignments within the Department of Corrections.

Related to these components, the chief patron of the Resolution charged the task force to seek methods to maximize the state's leveraged buying power to obtain volume food pricing, and to examine the facilities warehousing footprint to evaluate if private sector practices can reduce the cost of food deliveries.

In order to satisfy all these challenges, the task force conducted publicly advertised meetings across the Commonwealth in Harrisonburg, Portsmouth, Roanoke, and Richmond. At these meetings the task force invited officials from the federal Defense Logistics Agency, the Virginia Distribution Center, the Virginia Department of Agriculture and Consumer Services, and Virginia Polytechnic Institute and State University to discuss and present their respective food delivery systems. Private sector Prime Vendor food distributors were also invited to present their capability in serving the Commonwealth's food delivery system needs. The KPMG Consulting Group made a presentation on "best practices" and supply chain management. The task force also heard presentations on "cook-chill" technology, and from the Department of Corrections staff and a Virginia Distribution Center supplier.

Information from presentations is discussed in the body of this report and summaries of the presentation briefs are included in the appendices.

The task force also collected significant and informative data on Virginia food and food related procurement and sources of supply. Surveys were sent to all the states requesting data on their respective food delivery systems for prisons. Surveys were also sent to the Commonwealth's prisons and mental health hospitals.

The task force toured the Virginia Distribution Center warehouse and the Richfood food distribution center, the largest center in the Richmond area.

### **Summary of Findings From the States' Food Delivery Systems**

Since corrections facilities constitute the largest customer of food deliveries in Virginia government, the task force sent surveys to all fifty (50) Departments of Corrections

in the states, including the Virginia Department of Corrections. Thirty-five (35) states responded, a 70% response rate.

The surveys indicate that the size of the customer base is not indicative of the type of model that is used by a state. For example, the State of New York with 72,000 inmates and 71 prison facilities, uses a Prime Vendor for food procurement (\$40 million) and “**just-in-time**” deliveries which has reduced food inventory to **7 to 10** days, compared to Virginia’s prisons with a **45** day requirement. On June 30, 1999, the actual inventory was **70.3** days.

New York’s Prime Vendor program has reduced the annual cost of its food delivery system for mental health hospitals, prisons, and other state agencies by **\$3.3** million. It is a *statewide* contract in which 175 state agency locations, political subdivisions, and eligible nonprofit organizations can order from the Prime Vendor contract, estimated by the state to have a total value of over \$61 million. New York is also unique in that it operates two central “cook-chill” facilities, one for prisons and one for mental health hospitals.

Significant findings from the **thirty-five** responding states reveals the following:

- **Nineteen** states do not operate their own central food warehouse. Of the sixteen that operate a central warehouse, fifteen are mandated sources of supply;
- Only six states operating central warehouses charge a mark-up on their products: California (15%), Delaware (1%), Iowa (5%), Montana (7%), New Jersey (10%), and **Virginia (8%)**;
- **Nineteen** of the thirty-five states, **excluding Virginia**, reported having contracts with Prime Vendor food distributors;
- Of the **nineteen** Prime Vendor states, **thirteen** require “**just-in-time**” deliveries to the end-user to increase efficiency and reduce warehouse space, labor and inventory;
- Only **twenty-three** states maintain food warehouses at their prisons. Of those reporting the square footage, the four states with the highest amount of food warehouse space at their prisons are: Michigan (204,467 square feet), **Virginia (186,540** square feet), Louisiana (172,200 square feet), and Oklahoma (170,000 square feet);
- Four categories of food inventory on hand were requested: Three states reported less than 15 days; fourteen states reported 15 to 30 days; eleven states, including **Virginia**, reported an average of **30 to 60** days on hand; three states reported more than 60 days;
- The survey asked the question, “How many private food and food service supply vendors did your prisons buy from in your latest fiscal year?” Virginia’s Department of Corrections reported the highest amount with **296** vendors.

The thirty-five states responding to the survey are listed in the body of this report including a section on general comments provided by the states.

### **Summary of Findings From Virginia's Prisons and Mental Health Hospitals**

The Division of Legislative Services assisted in the development of the survey to Virginia customers in order to receive unbiased information. The survey was designed to determine the demographics of the various locations, on-site food warehousing and storage, service and quality levels, and a comparison of food and food related expenditures between the state's mandated sources of supply and private vendors. Fifty (50) corrections facilities were surveyed, forty-two (42) responded, a 84% response rate. The twelve (12) mental health hospitals that represent all fifteen (15) hospitals were surveyed with a 100% response rate.

Significant findings from Virginia's customers reveals the following:

- There exists a significant amount of on-site food warehouse and storage space. In addition to the newly designed 128,000 square foot Virginia Distribution Center, the field locations have 259,024 square feet of food warehouse/storage space, a total of **387,024** square feet;
- A significant amount of funds is tied up in food and food related inventory in these warehouses. On June 30, 1999, the Virginia Distribution Center had a selling price inventory on hand of **\$3,407,964**, the prisons inventory was **\$6,096,994** and the mental health hospitals had **\$538,406** on hand, a total of **\$10,043,364**;
- Prisons are required to keep a **45** day food inventory in stock according to the "unwritten" policies of the Department of Corrections; mental health hospitals reported an average of a **30** day food supply inventory on hand;
- The majority of facilities receive monthly orders from state sources, whereas it is more frequent to receive daily or weekly deliveries from private vendors;
- The majority of the hospitals would like to see an improvement in service. **Eight** (8) of the twelve hospitals support "**just-in-time**" deliveries. There is also prison support for "just-in-time" deliveries notwithstanding the current **45** day supply requirement.
- A number of customers ordered a majority of their food and food related supplies from private vendors (as high as **78%**), compared to orders from state mandated sources of supply;
- In ranking service, quality, and delivery between the private vendors and state mandated sources of supply, both prisons and mental health hospitals ranked the private vendors higher than state mandated sources;



- State sources of supply provide insufficient financial controls to assist customers:
- The present food delivery system does not use “state-of-the art” automated on-line ordering and inventory management control practices;
- The multi-level procurement process, including two mandatory sources of supply, is an anti-competitive practice which deprives businesses of the opportunity to compete;
- The current food delivery system does not maximize the state’s leveraged buying power. In fiscal year 1999, state agencies purchased 41% from the VDC and 59% from other sources;
- Lack of competition can cause products to have higher prices and lower deliveries.

The facilities responding to the customer survey are listed in the body of this report including sections on general comments provided by the facilities.

### **Alternatives to the Current System Studied by the Task force**

In addition to alternative systems provided by the states’ surveys, the task force heard presentations on alternative systems from federal and state agencies, consultants, and Prime Vendor food distributors. All presenters testified to the potential cost savings to the Commonwealth. These alternatives range from: maintaining the current system while increasing the depth and breadth of services offered and performing value added services for the end users; outsource the entire food distribution operation to a third party; and a hybrid system defined as partnering with a food service distributor for warehousing and cost effective “just-in-time” delivery services.

### **Conclusions**

Staff conclusions and recommendations have been included for reference purposes in Appendix A.

### **Recommendations**

Staff conclusions and recommendations have been included for reference purposes in Appendix A.



**REPORT OF THE TASK FORCE TO STUDY AND ANALYZE THE FOOD  
DELIVERY SYSTEM FOR PRISONS AND MENTAL HEALTH HOSPITALS  
AND TO EXAMINE ALTERNATIVES TO INCREASE EFFICIENCY AND  
LOWER THE COST TO THE COMMONWEALTH'S TAXPAYERS WHILE  
SUPPORTING MAXIMUM INMATE ASSIGNMENTS WITHIN THE  
DEPARTMENT OF CORRECTIONS**

**To  
The Governor and the Members of the General Assembly of Virginia**

**Richmond, Virginia**

**January 7, 2000**

**I. INTRODUCTION**

House Joint Resolution No. 709 (1999) requested the Department of Mental Health, Mental Retardation and Substance Abuse Services, the Department of Corrections, the Department of General Services and the Commonwealth Competition Council to establish a task force to study and analyze the food delivery system for prisons and mental health hospitals, and to examine alternatives to increase efficiency and lower the cost to the Commonwealth's taxpayers while supporting maximum inmate assignments within the Department of Corrections.

The Resolution also called for a promotion of private sector involvement in setting up a competitive framework to determine the most cost efficient method of providing goods.

The task force was also charged to seek methods to maximize the state's leveraged buying power to obtain volume food pricing and, to examine the facility warehousing footprint to evaluate if private sector practices can reduce the cost of food deliveries.

Collectively, these charges required a total review of the food delivery system, from food procurement to food delivery to the end user. It should be noted, however, that the task force did not attempt to conduct a "market basket" review of food and food related prices. A market basis comparison is a complex issue. A direct product to product cost comparison does not adequately capture the true cost of the state's food delivery system that has costs related to inventory management and other major logistical functions. Initial price is only one component of the total cost of the food delivery stream and is subject to a variety of

factors, such as, product volume, product quality (name brands vs. non-brand names) type of product, number of deliveries to end user, and length of proposed contract. Since food pricing is only one aspect of the total cost of a food delivery system, the results can be misleading and inconclusive. A previous administrative study by the COMPETE CENTER of the College of William and Mary attempted to perform a sample "market basket" study with five food distributors without conclusive results.<sup>1</sup>

With the extensive data, research, and findings detailed in this report, the task force has diligently accomplished the mission directed by the 1999 General Assembly.

## **II. STUDY METHODOLOGY**

The task force conducted publicly advertised meetings across the Commonwealth in Harrisonburg, Portsmouth, Roanoke and Richmond over a period of six months.

The task force collected data and gathered information from a multitude of sources. The Department of Accounts, the Auditor of Public Accounts, the Virginia Distribution Center, the central offices of the Department of Mental Health, Mental Retardation and Substances Abuse Services (MHMRSAS) and the Department of Corrections (DOC) provided the essential financial information discussed in this report. Previous food delivery/distribution studies conducted by the federal General Accounting Office and administrative studies performed for the Commonwealth were reviewed and discussed.

Included in this report is a summary of research data gathered through surveying other states' food delivery systems for their Department of Corrections, and surveys of the Commonwealth's prisons and mental health hospitals. Information was also gathered through presentations by federal and state agencies, private sector food distributors, consultants, the Virginia Distribution Center and suppliers, and the Departments of MHMRSAS and DOC.

## **III. ANALYSIS OF THE FOOD DELIVERY SYSTEM FOR PRISONS AND MENTAL HEALTH HOSPITALS**

Whereas House Joint Resolution No. 709 (1999) clearly stated the need to recognize and acknowledge the need to promote healthy competition and entrepreneurial spirit to

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<sup>1</sup> "Analysis of Product Distribution System for Virginia Correctional Facilities and Mental Health/Mental Retardation and Substance Abuse Services." January 14, 1998.

increase efficiency and lower costs, this study finds that the current food delivery system does not provide for maximum competitive effectiveness or entrepreneurship, and precludes the Commonwealth from maximizing its leveraged buying power.

### **Mandatory Sources of Procurement**

The Commonwealth has two mandatory sources for food and food related procurement: The Virginia Distribution Center (VDC) and the DOC Agribusiness Operations. In addition to these sources, there is significant procurement activity with private vendors. The prisons are required to buy from both the VDC and the DOC Agribusiness Operations, whereas, the mental health hospitals are required to buy only from the VDC.

**The Virginia Distribution Center** - The VDC was created in 1960 by Senate Document 8-1960. Title 2.1, Chapter 32, Article 3, §2.1-451 of the Code of Virginia requires the VDC to be a mandatory source and §2.1-454.1B gives the Department of General Services the statutory authority to administer the VDC. The Department of General Services **Agency Procurement and Surplus Property Manual**, Chapter 2, lists the VDC as a mandatory source with the following statement made in Chapter 2, Section 2.1e, the basis of which is found in §2.1-442 of the Code of Virginia.

“An agency may not use its local purchasing authority to purchase an item from another source that is available from the VDC without a written waiver from the VDC Manager.”

**Department of Corrections Agribusiness Operations** - Title 53.1, Chapter 2, Article 3, §53.1-47 of the Code of Virginia requires that agencies and institutions of the Commonwealth purchase articles and services produced or manufactured by persons confined to state correctional institutions unless they are exempted under the provisions of §53.1-48. The Department of Corrections **Food Service Operations Manual**, Chapter 7, “**Purchasing**”, dated July 1999, contains the following statements:

**“Only the following sources of purchased foods, supplies and/or equipment will be used:**

1. Correctional Enterprise or DOC Agribusiness Operations: If an item is stocked by either Enterprise or Agribusiness operations, it must be procured from this source.
2. Division of Purchases and Supply, Virginia Distribution Center: If an item is stocked by the Division of Purchases and Supply (DP&S) VDC, it must be procured from the VDC. If VDC does not ship a particular

item ordered with the **monthly** food order, this item may then be ordered from another source once it is determined by the Regional Food Operations Director that there is an immediate need for the item.”

### **Multiple Procurement Systems**

The next section of this report provides more details of the volume of food and food related purchases for prisons and mental health hospitals during fiscal year 1999. The task force first had to determine the nature and sources of these purchases in order to evaluate the extent of the food and food related purchasing activity relating to these facilities.

There are numerous levels of procurement activity in order to get product to the facilities:

- The VDC carries approximately 600 food and food related items in stock and purchased \$31 million from 76 food vendors to service all its customers. The VDC operates as an internal service fund and covers its cost of operations with an 8 percent markup on its products;
- Over 300 private vendors were used by the mental health hospitals and prisons to purchase food and food related items;
- Prisons and mental health hospitals purchased \$22.7 million (**58.5%**) in food and food related products from the VDC and \$16.1 million (**41.5%**) from private vendors and other sources, including prison purchases from the DOC Agribusiness Operations;
- Of the \$16.1 million in purchases made outside of the VDC, approximately \$8 million was from DOC Agribusiness Operations and over \$900,000 was purchased through the American Express charge program with purchase limits of up to \$5,000 per charge.

The mental health hospitals buy off state contracts issued by the Division of Purchases and Supply for items not carried by VDC. They can also purchase non-contract food items directly from private vendors. The prisons purchasing is through four separate regional offices. Each region is separately responsible for the food procurement activities for the prisons in their regions. As prescribed in the DOC Food Services Operations Manual, each prison within a region can purchase up to \$5,000 from a single order without formal competitive bidding. Orders in excess of \$5,000 are forwarded to the Division of Purchases and Supply for competitive procurement processing.

### **Cost Analysis of the Food Delivery System**

#### **Direct Costs**

To determine the financial extent of the food delivery system for prisons and mental health hospitals, the task force examined the direct costs of the volume of food and related products purchased in fiscal year 1999. As shown **Table 1**, the Commonwealth had expenditures of **\$60.2 million** in fiscal year 1999 (excluding contracted food services and the WIC program) in food and food related product purchases. Of this amount, **\$38.8 million** was the combined expenditures for prisons and mental health facilities from all sources.

**Table 1**

**FOOD AND FOOD RELATED PURCHASES - FISCAL YEAR 1999**

<b>Entities</b>	<b>Purchases From the Virginia Distribution Center <sup>1</sup></b>	<b>Purchases From Private Vendors &amp; Other Sources <sup>2</sup></b>	<b>Total Food &amp; Food Related Purchases <sup>3</sup></b>
Department of Corrections	\$19,214,480	\$12,022,589	\$31,237,069
Mental Health Facilities	3,493,488	4,071,881	7,565,369*
<b>Subtotals - Corrections &amp; Mental Health</b>	<b>\$22,707,968 (58.5%)</b>	<b>\$16,094,470 (41.5%) (See Note Below)</b>	<b>\$38,802,438 (100%)</b>
Department of Juvenile Justice	296,380	964,735	1,261,115
State Colleges & Universities	1,243,945	17,332,207	18,576,152
Other State Agencies	418,799	1,112,512	1,531,311
<b>Total State Agency Purchases</b>	<b>\$24,667,092 (41%)</b>	<b>\$35,503,924 (59%)</b>	<b>\$60,171,016 (100%)</b>
<b>Non-state Entity Purchases</b>	<b>\$3,438,613</b>		
<b>Total Food and Food Related Purchases From the Virginia Distribution Center</b>	<b>\$28,105,705</b>		

<sup>1</sup> Information provided by the Virginia Distribution Center.

<sup>2</sup> Represents purchases of food and food related products from all other sources other than the Virginia Distribution Center. Includes purchases from the Department of Corrections and agribusiness operations.

<sup>3</sup> Information provided by the Department of Accounts. Figures include total food and food related purchases from the Virginia Distribution Center and all other sources by all state agencies with the exception of the Department of Health's WIC program (Women, Infants & Children's Program) and contracted food service operations.

## Indirect Costs

In addition to the direct costs, there are significant indirect/overhead costs associated with the present food delivery system. These costs occur in the form of:

1. The multiple procurement activities discussed above;
2. Utilization of approximately 400 food vendors (VDC-76, facilities 296+)
3. Administrative/management overhead;
4. Square footage of food warehouse and storage space (hospitals-72,484, prisons-186,540, new Virginia Distribution Center-128,000); a total of 387,024 square feet;
5. State staff associated with all warehouse operations (hospitals-49.75, prisons-48. Virginia Distribution Center-29); a total of 126.75 full-time equivalents;
6. Food and food related inventory in the warehouses and facilities (\$10,043,364 on June 30, 1999) as follows: (Reducing inventories to 7 days would release \$5 to \$6 million)
  - a. Virginia Distribution Center - \$3,407,964 (based on selling price)
  - b. Mental Health Hospitals - 538,406\*
  - c. Prisons and related facilities - 6,096,994\*\* 2

\$10,043,364

\* The mental health hospitals inventory of \$538,406 is approximately 85% of the average monthly consumption of food and food related items and equates to a 25.5 day supply on hand. Seven hospitals reported a 15 to 30 day supply and five reported a 30 to 60 day supply on hand.

\*\* The prisons inventory of \$6,096,994 is approximately 234% of the average monthly consumption of food and food related items and equates to a 70.3 day supply on hand. Seven prisons reported a 15 to 30 day supply and thirty-four reported a 30 to 60 day supply on hand. The inventory on hand contradicts the statement made in a recent audit as noted below:

In 1998, the following statement is made in a audit by the Auditor of Public Accounts regarding the prison privatization at Lawrenceville Correctional Center: **"As part of this evaluation, Corrections will assess whether they can use design features and operating procedures used by the private facility to reduce their operating costs. Corrections is starting to implement some of the cost-saving strategies already**

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<sup>2</sup> "Department of Corrections and Virginia Parole Board, Report on Audit For the Year Ended June 30, 1998", P.10, Audit by the Auditor of Public Accounts.



identified at Lawrenceville. These strategies include reducing the amount of food supply storage from thirty to **seven days.**"<sup>2</sup>

#### IV. ALTERNATIVES TO THE CURRENT FOOD DELIVERY SYSTEM

##### "Best Practices" and Supply Chain Management - KPMG, LLP

Partners of KPMG Consulting, a national consulting group, presented an overview on their experiences in best practices in logistics, inventory and warehouse management, supply chain management and distribution in government and in the retail and consumer products industries. KPMG has had consulting engagements with the Defense Logistics Agency, the Naval Sea Systems Command, and major private companies including General Electric, Sears, Xerox, Westinghouse, Hughes Aircraft, and food organizations including the Kroger Company, Associated Grocers, Giant Eagle Stores, Farmland Foods, Heinz, and United Grocers. KPMG discussed the challenges and opportunities related to the institutional food distribution channel. Their discussion focused on three primary alternatives:

- **Base Case** - defined as maintaining the existing state-operated distribution channel with increased depth and breadth of services and performing value added services;
- **Outsource** - defined as outsourcing the entire food distribution operation to a third party;
- **Hybrid** - defined as partnering with a food service distributor for warehousing and delivery services.

Based on information provided to the consultants on the state's current food purchases, inventories, ordering and delivery schedules, they considered the following components of the food distribution supply chain: overall supply chain costs; inventory carrying cost; assortment; deliver frequency; order accuracy; product quality; and administration. Their judgment is that the **base case** is **not** the most desirable distribution operation due to the low volume of the operation. It is the consultant's opinion that an operation with less than \$1 billion in sales cannot compete on a level playing field with today's market leaders. Even with guaranteed favorable pricing on procurement, the cost of overhead (administration, systems support, physical distribution, etc.) is a heavy burden.

The consultants recommend that a clear vision be developed for the supply chain to include: (1) overall strategy-what functions should the state manage and what functions should be outsourced? (2) performance measurement- what performance measures should the state measure itself against? (3) procurement strategy-purchase direct from vendors or outsource the entire operation? (4) distribution strategy-what should be the role, form and function of the distribution operations? and (5) delivery strategy-frequencies of deliveries.

The experience of the consultants is that a **10 to 20** percent cost savings potential can

be realized with new supply chain management principles.

## **Prime Vendor Programs**

**Federal Subsistence Prime Vendor Program.** The major driver for implementing the federal government's subsistence prime vendor program was a study by the United States General Accounting Office.<sup>3</sup>

### **Excerpts from the General Accounting Office Executive Summary**

#### **Purpose**

GAO focused on the food supply system for feeding troops within the United States. GAO compared DOD's logistics practices for supplying food with those used by the food service industry to identify practices DOD could adopt to reduce its logistics costs.

#### **Background**

The Defense Personnel Support Center (DPSC), a component of the Defense Logistics Agency (DLA), purchases more than 90 percent of the food supplied to military "end-users" -- dining halls, hospitals, and other facilities that feed troops. DPSC obtains **discounts** by buying food in large quantities from producers.

Food is stored in 25 warehouses located across the United States. Upon receiving requisitions for food, DLA transports the items from its warehouses to the military installations. At each installation, a base warehouse stores the food until it receives orders from its end-users. The food is then delivered to or picked up by the end-users.

Private sector end-users obtain their food from distributors. Distributors deal with these end-users on a day-to-day basis, including taking orders and making direct deliveries.

#### **Results in Brief**

While making some limited use of food distributors, DOD's food supply system is generally outmoded and inefficient. Its multiple layers of warehouses between producers and end-users encourages large inventories of food items at all levels.

Many of the costs DOD incurs for holding, handling, and transporting large quantities of

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<sup>3</sup> DOD FOOD INVENTORY, "Using Private Sector Practices Can Reduce Costs and Eliminate Problems", GAO/NSIAD-93-110, Report dated June 4, 1993.

food are unnecessary because the existing network of private sector full-line distributors could supply food to DOD much more efficiently. Because of heavy competition within the industry, distributors have a financial incentive to cut their costs, keep their prices low, and provide excellent customer service. Large food service companies with many end-users rely on distributors to deliver food to their end-users.

## Principal Findings

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### Food Supply System Encourages Large Inventories and Slow Turnover

DOD's large food inventories and slow turnover are primarily due to the **multilayered** supply system, which has created a number of inefficiencies.

### Food Supply System Incurs Unnecessary Costs

DOD will continue to incur unnecessary costs as long as it retains the current supply system. If DOD significantly expanded its use of distributors, it could eliminate depot storage of food and many base warehouse activities.

### Food Service Industry Employs Efficient Logistics Practices

The private sector avoids many of the problems experienced by the military food supply system by reducing or eliminating "middlemen." By relying on full-line food service distributors to move both perishable and semi-perishable food from suppliers to end-users, food service companies and end-users do not incur the direct costs of holding, handling, and transporting food.

### DOD's Use of Private Sector Practices Demonstrates Benefits

DOD is taking several steps to reduce its investment in food inventories and modify some of its distribution practices by using distributors on a limited basis to supply food to installations. Certain installations obtain all their food from distributors. Officials said that these efforts have resulted in reduced costs, improved food quality, and better customer service.

DOD's comprehensive inventory reduction plan, issued in 1990, states that "where DOD requirements can be met through commercial distribution systems in a timely manner and cost-effective manner, no value is added by pushing items through the DOD warehousing systems."

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## Recommendations

GAO recommends that the Secretary of Defense direct the services and DLA to conduct a **demonstration project** of an expanded use of full-line distributors delivering food directly to end-users. GAO further recommends that the Secretary ensure that DOD eliminates base warehouse activities that are

close to one another and have redundant functions.

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**Agency Comments**

As GAO recommended, DOD plans to conduct a **demonstration project** to test the feasibility of expanding the use of distributors. DOD also said it will develop a plan to eliminate base warehouses activities that are operating within close proximity to one another and/or have redundant functions.

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**Prime Vendor Program Implementation**

After successful demonstration projects, the Department of Defense, through the Defense Logistics Agency, began implementation of the subsistence prime vendor program in 1995. The program is now fully implemented worldwide.

**Facts on the Subsistence Prime Vendor (SPV) Program  
(Information provided by the Defense Logistics Agency - Ft. Belvoir, VA)**

**Background**

- One of the major drivers of the SPV program was the General Accounting Office Report on "DOD FOOD INVENTORY - Using Private Sector Practices Can Reduce Costs and Eliminate Problems."
- SPV utilizes the commercial practice of utilizing full-line distributors to support subsistence deliveries directly to the end-user customer.
- Benefits of the program include delivery within **24 to 48** hours of order, access to the vendor's full commercial catalog as well as opportunities for **infrastructure** and **inventory** savings. This provides customers with an opportunity to obtain the types of commercial items available to the private sector and to take advantage of labor savings products such as prepared foods.
- The SPV program was developed to tap into the commercial practices for supporting mass dining situations. It enables the DOD to eliminate warehouses, reduce infrastructure costs and to eliminate the need to carry an inventory.
- Implementation of this program started in 1995 in the continental United States and all continental United States activities are now part of the program.

## Customer Service

- The SPV program has received good reviews from customers. On a scale of 1 to 5 with 5 the best, customers have rated the program overall as a **4.3**. Account Managers are assigned to customers to serve as the focal point for supporting those customers.
- Under the SPV program, the DOD has been able to significantly reduce the inventory levels of dining hall food.
- Customer order times have been reduced from 30 to 75 days down to 24 to 48 hours. Additionally, customers can receive deliveries **up to six days a week**. This enables the customer to eliminate the need to carry their own inventory and most customers have closed, downsized or reutilized their food warehouses.
- A sample of 18 SPV customers showed that they had achieved annual reoccurring savings of almost **\$8 million** and a one time savings of over **\$24 million** by going to the SPV program.
- The SPV program customers use the Subsistence Total Ordering and Receipts System (STORES) which has been developed for one-stop shopping, allowing customers to order all their subsistence requirements. This provides a full cycle system that eliminates the need for paper and greatly reduces administrative lead times.

## The National Allowance Pricing (NAP) Program

- The NAP was developed to work with manufacturers as part of the SPV program.. Allowances are negotiated directly with manufacturers to be utilized by the Prime Vendors. Savings in 1998 reached almost \$8 million. This is how it works:

DLA negotiates with manufactures and leverages total requirements. DLA then gets discounts over what the manufacturers sells to their regular customers. For example, Kellogg's sells its cases of cereal for \$22 per case. DLA negotiates with Kellogg's and based on DLA's buying power, customers pay \$18 per case.

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**Footnote:** As of March 1999, the SPV program had 57 Prime Vendors. The major Prime Vendor in the Virginia region is Doughtie's-SYSCO Food Services, Inc., of Portsmouth, with an awarded four-year \$77.6 million contract servicing all 18 military installations in Tidewater and Eastern Virginia.

## Excerpts From Federal Reports on the Federal Subsistence Prime Vendor Program

- **Report of Deputy Undersecretary of Defense to Congress - February 13, 1996**

“The Prime Vendor System has been demonstrated to be a feasible and viable method of providing high quality food for stateside environment. With the lessons learned during the demonstration, the potential for optimizing the use of commercial food systems will continue to be realized. We are aggressively expanding the Prime Vendor approach throughout the continental United States.” The following are excerpts from reports by the Defense Personnel Support Center, Office of Internal Review.

- **Study of Prime Vendor Customer Savings - March 20, 1996**

**Scope** - Seven of thirty-eight Prime Vendor customers in the Southeast with sales of \$33.7 million during FY 1995.

**Summary Evaluation** - The study disclosed that during the FY 1995 demonstration period customers saved **\$3.3 million** by using Prime Vendors. Savings resulted from customers permanently closing the subsistence warehouse and relocating all warehouse personnel. Also, **\$5 million** in savings realized in inventory reduction as the warehouse inventory was consumed and the customers did not reinvest capital in inventory.

- **Study of Prime Vendor Customer Savings - March 27, 1997**

**Scope** - Nine Prime Vendor customers in the Southeast with sales of \$21.7 million during FY 1996.

**Summary Evaluation** - The study disclosed that customers saved **\$1.5 million** using the Prime Vendor system. Operational savings resulted from closing the subsistence warehouse and relocating personnel. In addition to operational savings, customers had a one-time savings of **\$4.9 million**, consisting of \$1.2 million in not replacing warehouse equipment and \$3.7 million saved in inventory reduction.

- **Study of Prime Vendor Customer Savings - November 12, 1997**

**Scope** - Two Prime Vendor customers in the Northeast with sales of \$12 million in FY 1997.

**Summary Evaluation** - Customers saved **\$123,800** in operating costs using the Prime Vendor program to purchase products and a one-time savings of **\$69,685** resulting from an inventory reduction.

- **Study of Prime Vendor Customer Savings - August 19, 1997**

**Scope** - Three Prime Vendor customers in the Maryland/Virginia area with sales of \$5.6 million during FY 1997.

**Summary Evaluation** - The study disclosed that customers saved **\$636,082** using the Prime Vendor program to purchase products. Savings resulted from customers closing the subsistence warehouse operations and relocating personnel. In addition to operational savings, customers had a one-time savings of **\$373,419** in inventory reduction. As inventory was consumed, customers did not reinvest capital in inventory.

- **Subsistence Prime Vendor Customer Survey Results for FY 98 - March 1999**

**Response Rate** - Of the 50 Prime Vendor contracts available in FY 1998, 34 were surveyed.

**Overall Satisfaction** - 98% of customers rated overall satisfaction with their Prime Vendors as acceptable, very good and excellent. 82% rated the Prime Vendors as very good or excellent.

The studies show a consistent savings by the agency and their customers in personnel, overhead, buildings, equipment, transportation and support services. Customers reduced their inventories and stopped having to invest monies in maintaining those inventories. The collective assessment at all levels in the Department of Defense is that the net result was a significant savings. Combining the savings with process improvements have resulted in increased customer satisfaction.

The Defense Logistics Agency generally charges a 6 percent mark-up, which is negotiable, to its customers to cover the overhead and administrative expense of the program.

The Commonwealth should investigate the possibility of contracting with the federal subsistence prime vendor program for state agencies. The program could also be expanded to include the political subdivisions of the Commonwealth.

### **Presidential Executive Order**

The SPV program fulfills the requirements of Executive Order 12615 of November 19, 1987 which states in part:

“The head of each Executive department and agency shall, to the extent permitted by law:

(a) **Ensure that new Federal Government requirements for commercial activities are provided by private industry, except where statute or national security requires government performance or where private industry costs are unreasonable.”**

Signed: Ronald Reagan, November 19, 1987

## Virginia Department of Agriculture and Consumer Services

The Food Distribution Program managed by the Virginia Department of Agriculture and Consumer Services (VDACS) uses a Prime Vendor commercial distributor system to service its customers.

Prior to the early 1980's, VDACS distributed USDA donated foods to recipient agencies by requiring them to come to a centralized pick-up point on short notice with whatever vehicles they had available and they had to store their food items in whatever facilities were available. VDACS determined that it needed a more efficient and effective food distribution system and decided that private sector food distributors could be utilized to manage and deliver USDA donated foods in the same manner they deliver commercial food items.

The agency hired the consulting firm of Mixon & Associates in 1981 to help develop its commercial distributor system. VDACS has been successful in servicing all areas of the state by contracting with food service distributors since that time. Distributors submit bids per case of food handled that cover four price points: fee for weekly delivery, fee for bi-weekly delivery, fee for agency pick-up, and fee for storage beyond an initial 60 day storage term. A bidder must have the facilities for storage, a variety of fleet vehicles, and a computer program capable of generating required information about individual agency accounts.

Three Prime Vendors are currently under contract with VDACS to distribute approximately \$20 million worth of USDA donated foods to eligible recipient agencies located throughout the state. The Prime Vendors service 132 public school districts (with deliveries made to approximately 1,350 individual school sites); 96 state or private schools; 163 public and private non-profit institutions (including 59 state facilities such as hospitals and correctional facilities); and 107 summer camps and summer feeding programs.

VDACS states that the advantages of their current Prime Vendor distribution system include:

- Use of private sector expertise in inventory control and food delivery;
- Eliminates customers' investment in facilities and associated personnel costs;
- Low delivery costs for recipient agencies resulting from competitive bidding;
- Standard delivery costs within a region that eliminates excessive charges for remotely located agencies and standard delivery costs for a year;
- Delivery frequency based on agency needs, appropriate food storage, and



transportation. —

## **Virginia Polytechnic Institute and State University**

Virginia Polytechnic Institute and State University (Virginia Tech) revised its food delivery system in June 1995 by contracting with a Prime Vendor to improve services to both the university and its students.

Virginia Tech's first Prime Vendor contract was with PYA/Monarch and its current Prime Vendor contract, effective July 1, 1998, is with US Food Services, Roanoke Division.

### **Background**

Virginia Tech's Prime Vendor culinary services program is managed by the Department of Residential and Dining Programs. The fiscal year 2000 culinary services program has a \$20 million operating budget, consisting of a \$7 million food and food supply budget, to serve 15,000 meals a day. The program is the 11<sup>th</sup> largest dining operation in the United States on a university campus.

### **Reasons for Changing to Prime Vending**

The state-operated food delivery system would not deliver to all operating units of Virginia Tech's dining programs. The timeliness of the deliveries was inadequate - it took two to three weeks from order to delivery, and the state-operated system was considered to not be cost effective. Virginia Tech implemented a Prime Vendor program to improve customer satisfaction and to increase efficiency. Other reasons included:

- A reduction in the carrying cost and the amount of inventory on hand;
- A reduction in the costs to support the university's centralized warehouse and the potential for reallocation of personnel to direct services to students;
- A reduction in the lead time and administrative work for purchasing activities;
- An increase in efficiency by not handling, inventorying, or accounting for food products multiple times;
- More flexibility for managers to try new items and regulate their own stock;
- Successful implementation of Prime Vendor programs at Kent State University, Duke University, and the University of Connecticut;
- Removal of concern for out-of stock situations;
- A reduction in the amount of vendors supplying commodities.

Virginia Tech is very pleased with the success of its Prime Vendor program. It is meeting and exceeding customer needs and expectations. The Prime Vendor contract has resulted in a drastic reduction of purchase orders and vendors. With the Prime Vendor contract, only purchase orders for perishable foods remain.

## Results of Virginia Tech's Prime Vendor Program

- Average annual operating savings of \$280,000;
- Inventory reduced from a high of \$700,000 to an average of \$150,000;
- Volume discounts achievable since Prime Vendor serves thousands of businesses nationwide;
- Lowest meal fees for universities in the State of Virginia;
- Superior services:
  - Prime Vendors are experts at what they do.
  - Deliveries 5 days per week to 6 different locations.
  - 99% fill rate.
  - Orders placed 2 days in advance of deliveries.
- Excellent flexibility:
  - Order from 7,800 stock items compared to 600 items in state-operated system.
  - Response to customer needs in one day.
- Value-added services and cost competitiveness:
  - Food is billed at Prime Vendor's purchase cost plus a per case delivery fee.
  - Rebate of 1% on all purchases.
  - Discount of ½ % on all 14 day prompt payments.  
(Rebates totaled \$70,000 in fiscal year 1999)
  - On-site service representative - a \$52,000 value.
  - On-line electronic ordering system.
  - Improvement in financial controls to assist managing the food budget.

The savings above are based on Virginia Tech's approximately \$7 million in food purchases.

Notwithstanding the potential of **\$5 to \$6 million** in immediate savings from reducing mental health hospitals and prison inventories discussed earlier in this report, an extrapolation of Virginia Tech's savings in its annual cost of ordering, receiving, carrying and storage to the \$38.8 million in food and food related purchases by mental health hospitals and prisons in fiscal year 1999, could result in additional annual savings of **\$1.6 million**.

## State of New York Prime Vendor Program

### **Background**

New York State first engaged the consulting firm of KPMG Consulting to study its food delivery system to state agencies during the administration of Governor Mario Cuomo. The current administration of Governor George Pataki supported the Prime Vendor concept and New York State initiated its statewide Prime Vendor program on July 1, 1995. At the time of the bid opening, the state had already closed its first food warehouse/distribution system.

The first contract with SYSCO Food Services of Albany was started as a "pilot" program and was limited to facilities in the New York City and Long Island regions that previously were serviced by the state's other food warehouse/distribution system. The state closed this second warehouse/distribution system in October 1995 and the Prime Vendor contract was extended to all state agencies throughout the state.

The central warehouses had been in business since the 1960's. The warehouse equipment was sold and part of the warehouse space is now leased to the private sector. The displaced personnel were reassigned to other state positions, took other jobs with the private sector, and some retired.

In addition to the main statewide Prime Vendor contract, the state also has other regional contracts for milk and bread.

The main Prime Vendor contract was rebid on November 3, 1998. Over eighty (80) vendors were solicited and two (2) responsible bids were received. The contract was awarded to SYSCO Food Services of Albany. It is a *statewide* contract to service 175 state locations and is open for the *first* time to *non-state* agencies and eligible *nonprofit* organizations to purchase food, food related items, household items, sundries, and custodial supplies. The contract period runs from May 1, 1999 to April 30, 2002, with the option to cancel the contract after April 30, 2000. The contract has an estimated value of \$61 million. A copy of the "Contract Award Notification" is included in the appendices.

### **Participation**

In addition to servicing 175 state agency locations, the following non-state agencies and nonprofit organizations are also eligible to participate in the Prime Vendor contract:

- Any officer, board, or agency of a political subdivision, or of a district therein (counties, county nursing homes and jails, cities, towns, villages, school districts).

- Volunteer fire companies.
- Boards of Cooperative Educational Services.
- Institutions for the instruction of the deaf and blind.
- Volunteer ambulance services.
- Any public authority or public benefit corporation of the state.
- Nonprofit, non-public elementary and secondary schools.
- Nonprofit independent colleges and universities.
- Nonprofit, non-public hospitals, residential health care or mental hygiene facilities.

**Contract Components**

The main Prime Vendor contract is *not a mandatory* source for participants. For competitive purposes, state agencies may competitively purchase commodities in lieu of using the Prime Vendor contract when the resultant price is less than the contract price.

An agency must provide the state contractor with an opportunity to match the non-contract savings and the contractor is allowed a minimum of two business days to respond to the agency's request to match the non-contract savings.

In addition, the state reserves the right to negotiate lower pricing or to advertise for bids, whichever is in the state's best interest. Some of the main features of the Prime Vendor contract include:

- The Prime Vendor has a selection of over 10,000 items. Approximately 5,000 items are actually purchased. Four hundred items account for 80 percent of total purchases.
- The Prime Vendor's mark-up on products is as follows:

	- Dairy Products	- 6.38%	Non-Food Items	- 7.24%	
	- Meat & Poultry	- 6.38%	Fresh Fruit		- Frozen
Foods	- 7.24%	& Produce	- 6.38%		
	- Bottled, Canned	- 7.00%			
	& Dry Items				

- Reductions For High Value Orders:
  - Delivery by Contractor
    - \$10,000 to \$19,999.99: 1/4% reduction from total order
    - \$20,000 or more: 1/2% reduction from total order
  - Delivery by Manufacturer or Processor
    - \$10,000 to \$19,999.99: 4% reduction from total order
    - \$20,000 or more: 2.5% reduction from total order

Drop Charges: Agencies may be charged a “drop” charge for orders less than \$1,500.

- Purchase Orders and Frequent Deliveries: The contractor must accept electronically transmitted and facsimile transmitted orders up to 48 hours in advance of the regularly scheduled delivery date. The contractor must be able to deliver at least twice a week to all locations. Some larger facilities receive three deliveries per week.
- *Cook-Chill Production Plants*: The state operates two “cook-chill” plants, one in Rome, New York operated by the Department of Correctional Services, and one in Orangeburg, New York operated by the Office of Mental Health. Both plants order extensively from the Prime Vendor. In addition to direct deliveries to state agencies, the Prime Vendor delivers directly to the plants. Products produced by the plants are delivered to their client facilities with their own vehicles.
- Addition of Products: The contractor cannot refuse a request from the state to add a product if the product is readily available from a supplier.
- Customer Support:

**Software:** Agencies capable of electronic data interchange must be provided software by the Prime Vendor at no charge.

**Reports:** Every three months the Prime Vendor shall provide four types of reports:

- ◆ Aggregate total sales report for each site.
  - ◆ A descending listing by total value for each item/product delivered.
  - ◆ Aggregate sales by item showing quantity and value.
  - ◆ Individual listing of total dollar value for each order/invoice for each site.
- Rebates: Rebates, allowances, and special pricing are provided in the Prime Vendor’s

costs and reflected in the prices charged to the state.

- Auditing Requirements: The state (or its designee) retains the right to verify and audit costs, billings, pricing, agreements, allowances, promotions, and rebates on a monthly basis. The state may also conduct on-site verification and auditing at least once a year.
- Product Requirements: The sites have the right to demand on request verification that the specifications and grades for the food ordered are being provided by the contractor; and the state has the right to request samples at no charge and test any product purchased by the sites in order to determine whether the item is acceptable and meets specifications and grades.

### **Historical Experience**

In the past, the State of New York maintained two warehouse/distribution centers and a fleet to deliver product. The maintenance of the fleet, employee costs, plant and equipment costs, tracking late deliveries have been eliminated. Client agencies are more satisfied with the current technology and a better fill rate, better delivery record, better product selection, lower on-site inventories, and contractor responsiveness to menu changes.

With a better fill rate and frequent deliveries based on “just-in-time” projections, the on-site food inventory has been reduced to 7 to 10 days. Overall, New York’s Prime Vendor program has reduced the annual cost of its food and food related delivery system for mental health hospitals, correctional facilities, prisons, and other facilities by \$3.3 million.

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### **Prime Vendor Contract Information From New York State Officials**

#### **I. November 29, 1999 - William Schaefer, Director of the Bureau of Nutritional Services, New York State Office of Mental Health (518) 473-8341**

1. Prime Vendor program works exceptionally well.
2. Prices are lower than state’s previous program run by the state.
3. Extremely high fill rate - 99.7%.
4. Prime Vendor program provides freedom of choice and high flexibility for

products.

5. Prime Vendor program's "just-in-time" deliveries have reduced inventories to less than **one** week on hand and it will be reducing inventory to 2 to 3 days on hand.

**II. December 6, 1999 - Mr. Herb Rosenblum, Director, Purchasing & Contracts, New York State Office of Children and Family Services (518) 473-4429**

1. Program works very well. Overall success is excellent.
2. Much better variety of products than previous state-operated system.
3. Major reduction in inventories due to twice a week deliveries.
4. Excellent deliveries and fill rates compared to state-operated system.
5. Pricing - in many instances, prices are lower than the previous state-operated system.
6. Outstanding financial reports provided to manage the food budget.

**III. December 6, 1999 - Ms. Mary Sickler, Director, Health Services (Nutritionist), New York State Office of Children and Family Services (518) 486-7629**

1. Tremendous major improvements over state-operated system.
2. Much better relationship with Prime Vendor than with state-operated system.
3. SYSCO-top quality products.
4. Only problem confronted is that the three different SYSCO locations in the state have different inventories and stock item numbers which makes the master menu preparation sometimes difficult.
5. The other minor concern is that the order price sometimes varies with the delivered price.

**IV. December 6, 1999 - Ms. Helen Lewis, Director, Nutrition Services New York State Office of Mental Retardation and Developmental Disabilities (518) 474-2724**



1. Great improvement over state-operated system and very pleased with Prime Vendor.
2. Much less headaches than with the state-operated system.
3. State-operated system - 92% fill rate. SYSCO- 99+% fill rate.
4. Inventories were **four** weeks on hand with state-operated system. Inventories are now **two** weeks on hand with SYSCO and can be reduced more with the high fill rate.
5. No problems with Prime Vendor in getting product.
6. Overall prices are down from state-operated system and prices have been contained.

**V. December 7, 1999 - Mr. Bill Leaver, Supervisor of Procurement & Distribution, New York State Department of Correctional Services (315) 339-6880**

1. Prime Vendor program has been very helpful and has worked very well.
2. Prices are very competitive. SYSCO's obligation is to find the best price meeting the Department's specifications and requirements.
3. The Department can locate any product from any source and SYSCO will stock the item.
4. Inventories reduced to **7 to 10** days due to Prime Vendor's warehouse and distribution capabilities - average monthly inventory is now **\$1.9** million (72,000 inmates). With previous state-operated warehouse system, the average inventory in stock was **30** days at an average monthly value of **\$5.3** million (60,000+ inmates).
5. Minimum deliveries with Prime Vendor are twice a week and Prime Vendor will deliver daily if needed. Prisons turn over the stock at least three times per month.
6. No concerns with emergencies or any problems, such as lockdowns or weather. since they can call immediately and get deliveries within a matter of hours.

**Prime Vendor Presentations and Proposal**

Three broadline Prime Vendors were invited to make presentations to the task force: Doughtie's-SYSCO Food Services, Portsmouth; US Food Services, Roanoke; and SYSCO

Food Services of Virginia, Harrisonburg. US Food Services was unable to make a presentation, but was represented by Virginia Tech discussed above.

**Doughtie's-SYSCO Food Services, Inc. (Portsmouth, Virginia)**

Doughtie's Food Services, Inc. was purchased by the SYSCO Corporation in August 1999 and is now a wholly-owned division of America's leading food service distribution company. Doughtie's is a \$90 million major broadline food service distributor.

In addition to major private customers, Doughtie's serves as the Prime Vendor for all shore-based Hampton Roads military dining halls. The company is also one of three Prime Vendors under contract with the Virginia Department of Agriculture and Consumer Services USDA commodity program serving 50 Virginia institutions. Doughtie's supports over 2,000 customers throughout Virginia, Maryland, and northeastern North Carolina.

As a subsidiary of the SYSCO organization, Doughtie's brings the purchasing power and buying leverage of a \$17 billion company to its customers and will be able to offer over 10,000 food and food related products to its customers upon completion of its new 250,000 square foot distribution center in Hampton Roads.

Doughtie's recommended to the task force a demonstration project to enable the Commonwealth to evaluate the reduction in its overall food service supply chain costs.

**SYSCO Food Services of Virginia, Inc. (Harrisonburg, Virginia)**

SYSCO Food Services of Virginia, Inc. is a \$165 million major broadline food distributor serving over 3000 customers in Virginia, West Virginia, North Carolina, Pennsylvania, and Maryland with a 210,000 square foot "state-of-the-art" distribution center in Harrisonburg, Virginia.

As a subsidiary of the SYSCO organization, it brings the purchasing power of a \$17 billion company to its customers and is able to offer over 10,000 food and food related products to its customers. SYSCO Corporation, a publicly-owned company, fields the largest food service distribution technical Quality Assurance staff in the United States. SYSCO quality assurance continually inspects products in the field, during production, at redistribution centers, and at six product evaluation laboratories around the country and periodically conducts product Quality Audits at pre-selected SYSCO operating companies prior to shipment to its customers.

SYSCO Food Services of Virginia claims to have the best fill rates in the industry (+99.25%). The President of the firm stated that the state's volume of food purchasing is excellent leverage for obtaining the best food prices on a competitive basis.

The SYSCO affiliates in Virginia can accomplish the complete food service distribution/delivery function for all mental health hospitals, prisons, other state agencies, local governments, and non-profit organizations.

### **Advantages of Major Broadline Prime Vendor Food Service Distributors**

Prime Vendors warehouse food, beverage, and food supply items in their own warehouses and provide next day deliveries directly to customer sites. This approach allows customers to eliminate significant back-up stock and quickly obtain just about anything they require without the overhead of managing the food distribution function. The greatest savings opportunities are achievable by reducing or eliminating labor, warehouse space, and overhead expense in the total food delivery chain. Major broadline Prime Vendors provide:

- Extensive Quality Assurance Program at Manufacturer and Distribution Locations;
- Professional Buyer Negotiations with Manufacturers to Obtain Best Pricing;
- Extensive Product Selection (10,000 + Items);
- Consistent 98% + Order Fill Rates;
- Extensive Brand name and Private Label Options;
- Automated Direct Order Entry with On-Hand Stock Level Visibility;
- Frequent "Just-In-Time" Deliveries (Eliminates Extensive Inventory Levels);
- Next Day "Just-In-Time" Deliveries Statewide;
- Streamlining the Overall Food Delivery/Distribution System;
- Quick Access to New Products on the Market;
- High Inventory Turns Ensuring Fresher Product;
- Customized Management Information Reports Available Based on Customer Requirements Facilitating Customer Financial Management Function;
- Product Knowledge & Education Training for Customers.

## **V. Task Force Member Presentations**

### **Department of Mental Health, Mental Retardation, and Substance Abuse Services**

The Department of Mental Health, Mental Retardation, and Substance Abuse Services (DMHMRSAS) presented its food service program to the task force, primarily to illustrate the advantages of its use of "cook-chill" technology. Cook-chill technology is a process in which food is prepared five days in advance during one eight hour shift. Just before consumption, food is reheated to 180 degrees. What has cook-chill done for DMHMRSAS? Skilled cooking staff are more fully utilized in food production duties, daily food production overage/waste is reduced, and food inventory is reduced. Virginia's Department of Corrections does not utilize cook-chill technology. A review of the states' survey information detailed in this report indicates that some states are using cook-chill technology.

### **Department of Corrections**

Since one of the charges of the task force was to examine the facility warehousing footprint of the facilities, the Department of Corrections presented a report on how their warehouses help to meet their security mission and support emergency services.

As shown earlier in this report, the Department of Corrections warehouses total **186,540** square feet. The Department feels that having an acceptable supply of food on hand, generally 30 days, is critical to safely relocating inmates in an emergency and to serve as a link in the Virginia emergency services network.<sup>4</sup>

### **Vendor Presentation**

The task force member, who is vendor of the Virginia Distribution Center, requested

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<sup>4</sup> Reference to the Virginia prison survey comments in this report will show that the Department has a policy of keeping a 45 day supply of food in inventory. In some cases, prisons have more than 45 days on hand. On June 30, 1999, the inventory was \$6.1 million, a 70.3 day supply.

the president of Man of N.Y, another Virginia Distribution Center vendor, to make a presentation to the task force. The presenter is also the chairman of The National Right To Compete Foundation. The main essence of this presentation was not to support the Prime Vendor concept.<sup>5</sup>

**VI. Survey Results From The States' Food Delivery Systems For Prisons**

Since corrections facilities constitute the largest customer in most states, the task force sent surveys to all fifty (50) Departments of Corrections in the states, including the Virginia Department of Corrections. A copy of the survey instrument is included as an appendix.

The following thirty-five (35) states responded, a 70 percent response rate.

- |                  |                     |                     |
|------------------|---------------------|---------------------|
| 1. Alabama       | 13. Kentucky *      | 25. New Mexico *    |
| 2. Arkansas      | 14. Louisiana *     | 26. New York *      |
| 3. California    | 15. Maine *         | 27. North Carolina  |
| 4. Colorado      | 16. Massachusetts * | 28. Oklahoma *      |
| 5. Connecticut * | 17. Michigan *      | 29. Pennsylvania *  |
| 6. Delaware      | 18. Minnesota *     | 30. South Carolina  |
| 7. Florida *     | 19. Mississippi     | 31. Tennessee *     |
| 8. Georgia       | 20. Missouri *      | 32. Utah *          |
| 9. Hawaii *      | 21. Montana         | 33. <b>Virginia</b> |
| 10. Idaho *      | 22. Nevada          | 34. Wisconsin       |
| 11. Iowa         | 23. New Hampshire   | 35. Wyoming *       |
| 12. Kansas *     | 24. New Jersey      |                     |

\* These **nineteen** states do not operate their own central food warehouse.

The surveys indicate that the size of the customer base is not indicative of the type of model that is used by a state. For example, the state of New York with the second highest number of inmates at 72,000 and 71 prison facilities, the third highest, uses a Prime Vendor and “**just-in-time**” deliveries which has reduced its food inventory to **7 to 10** days. Virginia’s prisons food inventory on June 30, 1999 was **70.3** days.

New York’s Prime Vendor program has reduced the annual cost of its food delivery system for mental health hospitals, prisons, and other state agencies by **\$3.3** million. It is a

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<sup>5</sup> Reference to the comments from the states’ surveys in this report shows that the Prime Vendor concept has been successful.

*statewide* contract in which 175 state agency locations, political subdivisions, and eligible nonprofit organizations can order from the Prime Vendor contract, estimated by the state to have a total value of over \$61 million.

New York is also unique in that it operates two central “cook-chill” facilities, one for prisons and one for mental health hospitals.

More details on New York’s program are found in this section and in the section on Prime Vendor Programs detailed earlier in this report. A copy of the State of New York Prime Vendor “Contract Award Notification” is included in the appendices.

**States Operating a Central Food Warehouse**

The following sixteen (16) states operate their own central food warehouse, fifteen (15) of which are mandated sources of supply, with only six (6) charging a mark-up on their products:

<b><u>State</u></b>	<b><u>Mandated Source of Supply</u></b>	<b><u>Mark-Up on Products</u></b>
Alabama	Yes	-
Arkansas	Yes	-
California	Yes	15%
Colorado	Yes	-
Delaware	Yes	1%
Georgia	Yes	-
Iowa	Yes	5%
Mississippi	Yes	-
Montana	Yes	7%
Nevada	No	-
New Hampshire	Yes	-
New Jersey	Yes	10%

North Carolina	Yes	-
South Carolina	Yes	-
Virginia	Yes	8%
Wisconsin	Yes	-

**States With Private Prime Vendor Contracts**

Nineteen (19) of the thirty-five (35) states have contracts with private Prime Vendors. Thirteen (13) of these Prime Vendor states require “just-in-time” deliveries to the end user. The state survey instrument included this description: “Just in time” delivery procurement means volume purchasing from food distributors who provide the necessary warehouse space and delivery of products to the end-user, usually the next day, to synchronize the delivery with planned usage. The table below shows “just-in-time” deliveries have increased the efficiency and reduced the costs of the states’ food delivery systems.

State	Just-in-Time Delivery By Prime Vendor	Just-in-Time Delivery By state warehouse	Results of Just-in-Time Deliveries <sup>2</sup>			
			Increase in efficiency	Reduction in warehouse space	Reduction in staff	Reduction in Inventory
California <sup>1</sup>	No	No	n/a	n/a	n/a	n a
Connecticut	Yes	-	Yes	-	-	-
Delaware <sup>1</sup>	Yes	Yes	Yes	-	-	-
Florida	Yes	-	Yes	Yes	Yes	Yes
Idaho	No	-	n/a	n/a	n/a	n a
Iowa <sup>1</sup>	Yes	No	Yes	-	-	Yes
Kentucky	No	-	n/a	n/a	n/a	n a
Maine	Yes	-	Yes	Yes	-	Yes
Massachusetts	Yes	-	Yes	Yes	Yes	Yes
Michigan	Yes	-	-	-	-	-
Minnesota	No	-	n/a	n/a	n/a	n a
Missouri	Yes	-	Yes	Yes	Yes	-

New Hampshire <sup>1</sup>	Yes	No	-	-	-	-
New York	Yes	-	Yes	Yes	Yes	Yes
Oklahoma	Yes	-	Yes	-	-	-
Pennsylvania	No	-	n/a	n/a	n/a	n/a
Utah	No	-	n/a	n/a	n/a	n/a
Wisconsin <sup>1</sup>	Yes	No	Yes	-	-	-
Wyoming	Yes	-	-	Yes	-	-

<sup>1</sup> These five states also operate a state central warehouse. <sup>2</sup> See section on state comments for more details.

### Other Comparative Data

The survey requested data on the number of prison facilities with their own on-site food warehouse, the total square footage of the warehouses used for food storage, the average food inventory maintained on hand, and the number of food vendors utilized if the facilities have authority to buy directly from private food distributors. The following table reports the results of this data:

State	Facilities		Total Square Footage of Facility Warehouses	Number of days of Food Inventory on Hand	Number of Private Vendors Utilized
	Total Number in State	Number with On-site Food Warehouse			
Alabama	32	-0-	-0-	Not reported	5
Arkansas	18	-0-	-0-	Not reported	100
California	129	See state comments	See state comments	30 to 60	250
Colorado	26	-0-	-0-	Not reported	19
Connecticut	20	-0-	-0-	15 to 30	4
Delaware	8	-0-	-0-	15 to 30	25
Florida	60	-0-	-0-	15 to 30	Not reported
Georgia	70	70	Not reported	30 to 60	Not reported
Hawaii	8	1	7,145	30 to 60	30
Idaho	12	-0-	-0-	Not reported	2
Iowa	9	9	Not reported	15 to 30	5



Kansas	9	4	See state comments	15 to 30	See state comments
Kentucky	15	8	Not reported	30 to 60	13
Louisiana	11	11	172,200	30 to 60	250
Maine	8	8	Not reported	15 to 30	Not reported
Massachusetts	22	21	Not reported	10 to 14	4
Michigan	41	32	204,467	15 to 30	6
Minnesota	10	10	Not reported	30 to 60	40
Mississippi	54	3	43,068	30 to 60	60
	<b>Facilities</b>			<b>Number of Days of Food Inventory on Hand</b>	<b>Number of Private Vendors Utilized</b>
<b>State</b>	<b>Total Number in State</b>	<b>Number with On-site Food Warehouse</b>	<b>Total Square Footage of Facility Warehouses</b>		
Missouri	20	20	120,000	30 to 60	50
Montana	3	1	25,000	60+	39
Nevada	20	5 regionals	Not reported	30 to 60	12
New Hampshire	6	2	6,000	60+	50
New Jersey	23	9	Not reported	15 to 30	15
New Mexico	9	-0-	-0-	15 to 30	See state comments
New York	71	-0-	-0-	7 to 10	Not reported
North Carolina	88	-0-	-0-	15 to 30	Not reported
Oklahoma	41	17	170,000	15 to 30	10
Pennsylvania	27	27	Not reported	30 to 60	145
South Carolina	32	-0-	-0-	8	See state comments
Tennessee	14	14	Not reported	15 to 30	Not reported
Utah	7	2	15,000	15 to 30	25
<b>Virginia</b>	<b>56</b>	<b>56</b>	<b>186,540</b>	<b>30 to 60</b>	<b>296</b>
Wisconsin	34	12	Not reported	15 to 30	6
Wyoming	4	4	Not reported	60+	97

**Additional Information From The States**

As part of the of the states' survey instrument, they were asked to provide any additional comments and/or recommendations that in their opinion have increased the efficiency and reduced the cost of their food delivery/operations system.

The following comments were provided by the states:

### COMMENTS FROM STATE SURVEYS

#### ALABAMA

Purchases from only five (5) private vendors - usually emergency or special circumstances only. Centralized purchasing on quarterly state bids for all facilities at one time. All facilities use the same menu at the same time frames.

#### CALIFORNIA

California has two central warehouses which primarily carry only 66 items of canned goods. All other food items are provided through Prime Vendors. They use a department-wide standardized menu which has reduced their cost. The state has an average of six (6) facilities per prison complex. Each complex averages 7,500 inmates and has a warehouse averaging 22,000 square feet.

The state's Departmental Food Administrator stated they are trying to close the two central state warehouses (internal service fund operations) because they are not cost-effective. Paying twice for shipping - to the central warehouses and then shipping to the facility warehouses - increases the cost of the food delivery system by up to 25 percent. Their most critical issue is the cost of the food delivery system.

#### COLORADO

Central warehouse, central purchasing, and standardized menu at all facilities have provided additional security, food cost savings and efficiencies in accounting operations not available from private prime vendors.

#### DELAWARE

Facilities are not allowed to buy on their own from private vendors. All food is ordered through vendors that are on state contract.

#### GEORGIA

Operates a farm, dairy, canning plant, meat processing plant, warehouse and all food service operations under one department. All inmates have the same daily menu. Food cost for the month of June 1999 was a \$1.61 per inmate per day. Due to their large farming operation, Georgia does

not purchase any meat, milk, or eggs.

Food items are purchased from only 30 vendors under state contract. The facilities cannot buy directly from private vendors - they can only buy off the state contracts.

**IDAHO**

Closed its central warehouse about 5 years ago. Quality of goods from Prime Vendors is better and more consistent.

**KANSAS**

Aramark manages the total food operations. Square footage of warehouse space dramatically reduced by using Aramark from the time food services was state-operated. Aramark's buying practices have reduced the amount of warehouse space needed. All food is purchased by Aramark.

**KENTUCKY**

Prices on the Prime Vendor contracts are 7.5 percent mark-up on canned, packaged and frozen groceries from invoice. Meat is 6 percent mark-up. Food Services operates on a master menu and the prime contracts have improved quality of product, product cost, and response to our needs.

The Prime Vendor contracts have accomplished more than what we expected. They provide quick response to food needs, training, general assistance, and fast response to market fluctuations. They have provided us with opportunity buys or market buyouts without having to warehouse the items ourselves.

**LOUISIANA**

Purchases under \$500 plus perishables are made by the institutions. All other purchases are bid by headquarters or state purchasing.

**MAINE**

Prime Vendor provides 85 percent of food items. Prime Vendor is the best thing we ever had. Prime Vendor has reduced warehouse space by 60 percent and inventory levels by 70 percent.

**MASSACHUSETTS**

Moving to a statewide Prime Vendor contract has increased our production and efficiency in every way.

**MICHIGAN** The Department of Management and Budget prepares statewide contracts for

all state agencies.

Facilities are allowed to purchase non-contracted items if the cost of the order is less than \$2,500.

**MINNESOTA**

Contracting with Prime Vendor has reduced the cost for the Minnesota prison system.

No staff is assigned to facility warehouses. Work in the warehouse only occurs during deliveries.

**MISSISSIPPI**

Volume purchasing by the Mississippi Department of Corrections on a quality bid is very beneficial.

**NEVADA**

Use Prime Vendor cost and methods.

**NEW  
HAMPSHIRE**

Opportunity buy companies (Prime Vendors) save the Department a considerable amount of money.

**NEW MEXICO**

Canteen Corporation manages the total food operations. Contractor has increased the efficiency and reduced the cost of our food operations system.

**NEW YORK**

Procurement Services currently has four (4) Prime Vendor contracts for food and other products servicing 175 locations. All four contracts are cost plus. The main contract with SYSCO covers the entire state with an annual volume of \$61 million. Three other Prime Vendor contracts cover various regions of the state and each has an estimated value of \$2.3 million or less. Corrections and Mental Health operate "cook/chill" facilities. Practically all facilities have some storage space, but no warehouses. Inventory is kept below 14 days with deliveries from the Prime Vendors 1 to 4 times per week.

The central warehouse/distribution system was closed in 1995. Below is a brief summary on the comparative results of "Then" vs. "Now":

**COMPARISON OF EXPENDITURES - PRESENT "PRIMES" vs.  
"PAST"**

**Monetary Accounts for Twelve Months - October 2, 1998**

**“PAST” Contracting**

- Fill rate was 90% or less.
- Many facilities needed to maintain high on-site inventories.
- Facilities frequently purchased “outside” on open market.
- **Past expenditures** **\$74,000,000**

**“Present” Prime Vendors**

- Fill rate greater than 98%.
- On-site inventories reduced at many facilities.
- “Outside” sales reduced for many facilities.
- Greater and more diverse product selection.
- Better turn around to bring in different products.
- **Current annual expenditures** **\$70,714,000**

**DIFFERENCE-“PAST” vs. “PRESENT” PRIMES \$3,286,000**

**Factors favoring Prime Vendors:**

- Better service, more products, and better product selection with over \$3 million in overall bottom line cost savings. (State reduced 180 warehouse positions by closing the two warehouses)
- Supports in-state private sector business and state residents employed by these businesses. For example, of the 1,500 employees for the SYSCO branches affiliated with the statewide comprehensive contract, over 1,300 are state residents.
- Facilitates consolidation efforts and reduced on-site inventories.
- Provides flexibility in securing needed products.
- Overall service is better and overall cost is less.

**OKLAHOMA**

State does not have a central warehouse. Prime Vendor is used for all state agencies.

**PENNSYLVANIA**

Pennsylvania does not have a central warehouse. All food is purchased from private vendors that is not produced by the state’s own agribusiness operations. The Department of General Services has contracts with 16 vendors. Any item that is currently supplied by these

vendors must be purchased from them by the institutions based on cost and availability. If another vendor not on contract is selling it for less than contract vendors, the institutions can purchase it from the non-contract vendor.

**SOUTH  
CAROLINA**

The facilities have no warehouses, only storerooms with eight (8) days of food on hand. The central warehouse has only 22,450 square feet of space and delivers weekly to all facilities. The warehouse is a general fund operation with no mark-up on its products.

Only the training academy and headquarters purchase a small amount of items from private food distributors.

**TENNESSEE**

We have statewide food contracts as well as a centralized cook/chill production center. The production center is leased and operated by Sodexo Marriot, Inc.

**WISCONSIN**

Prime Vendors deliver weekly. They are used for institutions and smaller facilities that have no warehouse space, no warehouse staff, and no place to hold inventories.

The central warehouse charges only a small handling fee to cover transportation costs. It is a break-even operation. The central warehouse delivers canned goods four (4) times a year.

**WYOMING** Competition between vendors brings the food cost down. The private vendors allow for better control of product quality and variety.

**VII. Survey Results From Virginia's Prisons and Mental Health Hospitals**

The survey to Virginia's customers was essentially designed to determine procurement information; service, ordering and delivery frequencies; quality of food deliveries; input on their recommendations for "just-in-time" deliveries; and other comments to improve the overall food delivery system.

Fifty (50) corrections facilities were surveyed, forty-two (42) responded, a 84% response rate. The twelve (12) mental health hospitals that represent all fifteen (15) hospitals were surveyed with a 100% response rate. The survey document is included as an appendix. The locations responding were:

## **Mental Health Hospitals**

1. Catawba Hospital
2. Central Virginia Training Center
3. Eastern State Hospital
4. Northern Virginia Mental Health Institute
5. Northern Virginia Training Center
6. Piedmont Geriatric Hospital
7. Southeastern Virginia Training Center
8. Southern Virginia Mental Health Institute
9. Southside Virginia Training Center (Services Hiram Davis Medical Center and Central State Hospital)
10. Southwestern Virginia Mental Health Institute
11. Southwestern Virginia Training Center
12. Western State Hospital (Services the DeJarnette Center)

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## **Prison Facilities**

1. Appalachian Detention Center
2. Augusta Correctional Center
3. Baskerville Correctional Unit #4
4. Bland Correctional Center
5. Botecourt Correctional Unit #5
6. Brunswick Correctional Center
7. Buckingham Correctional Center
8. Caroline Correctional Unit #2
9. Chesterfield Men's Diversion Center
10. Coffeewood Correctional Center
11. Cold Springs Correctional Unit #10
12. Deep Meadow Correctional Center
13. Deerfield Correctional Center
14. Dillwyn Correctional Center
15. Fairfax Correctional Unit #30
16. Fluvanna Correctional Center for Women
17. Greensville Correctional Center
18. Halifax Correctional Unit #23
19. Harrisonburg Men's Diversion Center
20. Haynesville Correctional Center
21. James River Correctional Center
22. Keen Mountain Correctional Center
23. Lunenburg Correctional Center
24. Marion Correctional Treatment Center<sup>1</sup>
25. Mecklenburg Correctional Center
26. Nottoway Correctional Center
27. Patrick Henry Correctional Unit #28
28. Pocahontas Correctional Unit #13
29. Powhatan Correctional Center
30. Pulaski Correctional Unit #1
31. Richmond Women's Diversion Center
32. Rustburg Correctional Unit #9
33. Southampton Correctional Center
34. Stafford Detention Center
35. Staunton Correctional Center
36. St. Brides Correctional Center
37. Sussex I State Prison
38. Tazewell Correctional Unit #31
39. Virginia Correctional Center for Women
40. Wallens Ridge State Prison
41. White Post Correctional Unit #7
42. Wise Correctional Unit #18

<sup>1</sup> This prison is served by Southwestern Virginia Mental Health Institute

In order to report a distinct survey summary response from the hospitals and prisons, the following sections are delineated as follows, first for the hospitals and then for the prisons:

- Reasons for purchasing food and food service supply items from private vendors:
- Service, ordering frequencies, and delivery frequencies representing how each of the facilities order and receive their orders;
- Quality of food deliveries representing how each facility evaluated each question:
- Summaries of responses to “just-in-time” questions;
- Comments and recommendations from the facility food managers.

**Mental Health Hospitals**

**Reasons for Purchasing Food and Food Service Supply Items From Private Vendors\***

<b>Reason</b>	<b>Number of Responses</b>
Less paperwork	1
Item not carried by the Virginia Distribution Center	12
VDC specifications for the item does meet our needs	6
Ordering system with VDC requires longer lead time	3
More frequent deliveries by private vendors	7
Less backorders than the Virginia Distribution Center (Availability and less frequently out of stock)	3
Less need for warehouse space	1
Reduces my exposure to food spoilage and lost items	1
Other - VDC is out of stock	1



## Service, Ordering Frequencies, and Delivery Frequencies

Frequency of Orders			Frequency of Food Deliveries		
Schedule	From VDC	From Private Vendors	Schedule	From VDC	From Private Vendors
Daily	-	1	Daily	-	1
Once a week	-	3	Once a week	-	4
2-3 times a week	-	4	2-3 times a week	-	4
Once every 2 weeks	4	1	Once every 2 weeks	4	-
Once every three weeks	-	-	Once every three weeks	-	-
Once every 4 weeks	8	-	Once every 4 weeks	8	-
As needed	-	3	As needed	-	3

### Mental Health Hospitals

#### Quality of Food Deliveries <sup>1</sup>

Question	Poor		Satisfactory		Excellent	
	VDC	Private Vendors	VDC	Private Vendors	VDC	Private Vendors
Delivery Timeliness (Do they deliver when you want and as scheduled?)	1	-	5	6	6	6
Flexible Delivery Schedule	5	-	7	9	-	3
Completeness of deliveries (Do they deliver what was asked for?)	1	-	10	8	1	4
Are you satisfied with the fill rate? (Correct quantities received)	-	-	9	8	3	4

What is the quality of goods received?	-	-	10	8	2	4
Are you satisfied with the variety of food items they have in stock?	2	-	10	7	-	5
What is the willingness to respond to your special needs?	3	-	5	5	4	7
How would you rank the procedures for placing orders?	1	-	10	5	1	7
<b>Totals</b>	13	<b>0</b>	<b>66</b>	56	17	<b>40</b>

<sup>1</sup> Figures in bold represent the better answers to the quality of the of the food deliveries.

### Mental Health Hospitals

#### Summary of Questions and Responses To "Just-in-Time" Deliveries <sup>1</sup>

Question	Response
Would "just-in-time" deliveries reduce your warehouse needs?	Eight of the twelve hospitals said yes with a reduction in warehouse space from 100 square feet to 6,155 square feet.
Would "just-in-time" deliveries increase the efficiency of your food service operations?	Seven of the twelve hospitals said yes.
Would "just-in-time" deliveries allow you to reduce warehouse staff and redeploy them in other positions?	Two of the hospitals said yes.
Would you support the state purchasing all its food, beverage, and food supply items directly from private food distributors and have those items delivered "just-in-time" to your facility, according to your planned	

usage?	Eight of the twelve hospitals said yes.
Would you support the state purchasing all its food, beverage, and food supply items by the Virginia Distribution Center and have those items delivered "just-in-time" to your facility, according to your planned usage?	Eight of the twelve hospitals said yes.

<sup>1</sup> The facilities customer survey contained the following definition of "just-in-time":

**"The major trend in the food industry by food distributors is to warehouse food, beverage, and food supply items in their own warehouses and provide next day ("just-in-time") deliveries directly to customer sites. This approach allows customers to eliminate significant back-up stock and quickly obtain just about anything they require as needed, allowing for efficiencies and a potential reduction in facility warehouse space and warehouse staff. These cost savings measures are made possible through volume purchases that synchronize delivery with planned usage."**

In a 1999 survey by the American Correctional Food Services Association regarding local jails and detention centers, it was noted that 44 percent are using "just-in-time" deliveries with local vendors.

### **Comments and Recommendations From the Hospitals**

- The central warehouse should buy a better quality of most products, especially meats, vegetables, and fruits. If they would do so, then we as end users would get a better yield and product. The low bid system is outdated. Using that system means only one thing-and that is you are going to get a very low quality product.
- With "just-in-time" delivery, virtually all foods could be stored in the Food Service Building and we could eliminate 6,155 square feet of food warehouse space.
- I support "just-in-time" delivery as long as it is the most cost efficient method.
- "Just-in-time" delivery could reduce my stock by 25 days.
- Placing food and food supply orders twice a week with a 1 day lead time for delivery would allow us to reduce inventory from 12-16 days on hand to a consistent 9 days on hand, a reduction of \$14,000. A more efficient inventory control system would result in less man-hours dedicated to the inventory/ordering/receiving process.

- VDC has been cost effective. The major problem is that on-site warehousing is required tying up monies in inventory and physical plant. VDC should provide services in what they do best but should not try to be all things to all people.
- I need more frequent deliveries, more complete orders, more variety in food and food related products.
- Present delivery system is adequate, however, if shortages are noted, notify the facilities in ample time for them to make necessary adjustments.

**The following sections delineate the prisons' responses in a similar order:**

- Reasons for purchasing food and food service supply items from private vendors;
- Service, ordering frequencies, and delivery frequencies representing how each of the facilities order and receive their orders;
- Quality of food deliveries representing how each facility evaluated each question;
- Summaries of responses to "just-in-time" questions;
- Comments and recommendations from the facility food managers.

**Prisons**

**Reasons for Purchasing Food and Food Service Supply Items From Private Vendors**

<b>Reason</b>	<b>Number of Responses</b>
Less paperwork	2
Item not carried by the Virginia Distribution Center	39
VDC specifications for the item does not meet our needs	5
Ordering system with VDC requires longer lead time	6
More frequent deliveries by private vendors	8
Less backorders than the Virginia Distribution Center (Availability and less frequently out of stock)	1
Reduces my exposure to food spoilage and lost items	5

VDC is out of stock	5
More variety of items	1

### Service, Ordering Frequencies, and Delivery Frequencies

Frequency of Orders			Frequency of Food Deliveries		
Schedule	From VDC	From Private Vendors	Schedule	From VDC	From Private Vendors
Daily	-	-	Daily	-	-
Once a week	2	25	Once a week	3	23
2-3 times a week	1	6	2-3 times a week	1	7
Once every 2 weeks	5	1	Once every 2 weeks	4	1
Once every 3 weeks	2	-	Once every 3 weeks	1	1
Once every 4 weeks	30	2	Once every 4 weeks	30	3
As needed	1	7	As needed	2	7

### Prisons

#### Quality of Food Deliveries<sup>1</sup>

Question	Poor		Satisfactory		Excellent	
	VDC	Private Vendors	VDC	Private Vendors	VDC	Private Vendors
Delivery Timeliness (Do they deliver when you want and as scheduled?)	4	-	18	24	17	15
Flexible Delivery Schedule	8	1	18	21	12	16

Completeness of deliveries (Do they deliver what was asked for?)	3	-	26	21	9	17
Are you satisfied with the fill rate? (Correct quantities received)	2	-	23	20	13	18
What is the quality of goods received?	-	-	17	23	21	15
Are you satisfied with the variety of food items they have in stock?	1	-	20	20	17	18
What is the willingness to respond to your special needs?	5	1	19	19	14	18
How would you rank the procedures for placing orders?	5	1	19	21	14	16
<b>Totals</b>	<b>28</b>	<b>3</b>	<b>160</b>	<b>169</b>	<b>117</b>	<b>133</b>

<sup>1</sup> Figures in bold represent the better answers to the quality of the food deliveries.

### Prisons

#### Summary of Questions and Responses To "Just-in-Time" Deliveries <sup>1</sup>

Question	Response
Would "just-in-time" deliveries reduce your warehouse needs?	Fourteen said yes, twenty-three said no. four indicated not applicable. The reduction in space ranged from 576 square feet to 3,600 square feet. Sussex I State Prison reduced its food warehouse space by 4,748 square feet via its contract with Aramark.
Would "just-in-time" deliveries increase the efficiency of your food service operations?	Fifteen said yes, twenty-three said no. three indicated not applicable.

Would "just-in-time" deliveries allow you to reduce warehouse staff and redeploy them in other positions?	Two said yes, thirty-two said no, seven indicated not applicable.
Would you support the state purchasing all its food, beverage, and food supply items directly from private food distributors and have those items delivered "just-in-time" to your facility, according to your planned usage?	Sixteen said yes, twenty-three said no, two said not applicable.
Would you support the state purchasing all its food, beverage, and food supply items by the Virginia Distribution Center and have those items delivered "just-in-time" to your facility, according to your planned usage?	Eighteen said yes, twenty said no, three said not applicable.

<sup>1</sup> The facilities customer survey contained the following definition of "just-in-time":

**"The major trend in the food industry by food distributors is to warehouse food, beverage, and food supply items in their own warehouses and provide next day ("just-in-time") deliveries directly to customer sites. This approach allows customers to eliminate significant back-up stock and quickly obtain just about anything they require as needed, allowing for efficiencies and a potential reduction in facility warehouse space and warehouse staff. These cost savings measures are made possible through volume purchases that synchronize delivery with planned usage."**

### Comments and Recommendations From the Prisons

- We purchased \$240,668 of food supplies from various factions of the Department of Correction's Agribusiness Department - James River Milk Plant; James River Meat Plant; Southampton Fish Farm; Southampton Produce Farm; Greenville Produce Farm; and the new Farmers Market.

All these sources are *mandated* sources of supply. We are required to purchase from these sources without consideration for cost or quality.

With the exception of the Milk Plant, the overall quality is poor. The price of the items from the James River Meat Plant are not competitive when you compare items of similar quality. This plant has been a source of irritation with me and my counterparts for 5 years. The products are of inconsistent quality and the prices are

higher when comparing like quality products.

The meat plant operation is a gross waste of taxpayer's money and a burden to Food Operations Directors and Wardens who are responsible for being efficient managers and maintaining food costs at levels comparable to our private sector counterparts. During our monthly food operations regional meetings we are often reminded that we need to do all we can to lower food costs. We cannot control our costs if we have *mandated* sources that are more costly.

**Information provided by a Agribusiness official** - "The James River Meat Plant buys 60% of the "front-end" of the carcass from meat packers, which is the cheaper and less quality cuts of meats, and then the plant produces the meat products which are sold to the prisons."

- In response to your inquiry about the "45 day supply" policy of the Department of Corrections, this "unwritten" policy has been passed down word of mouth through the Regional Food Operations Directors and is not in writing in any Departmental or Institutional Operating Procedure. As explained to us (Food Operations Directors/Managers), the purpose of this policy is to ensure an adequate supply of food is on hand in the event of unusual circumstances, i.e. inclement weather, natural or manmade disaster, inmate take over, etc.

I personally find this explanation to be inadequate justification. I have felt this policy was driven more by VDC's limited ability to make deliveries more frequently than monthly.

This is another unwritten policy: We are instructed to place orders monthly with VDC and the James River Meat Plant. Again this is not written in any policy, manual, or instruction, but is passed down word of mouth by Regional Food Operations Directors.

          
An inquiry made to a Regional Food Operations Director confirmed that the "45" day food supply requirement was formally written in the Department of Corrections Food Service Operations Manual. The policy is no longer written in the Manual, but it is still the policy, i.e., it is "unwritten."

- I need to keep a 30 day supply of food and supplies in stock for emergencies, such as riots, water shortages and lockdowns.
- I'm mandated by the Warden to keep a 45-60 day supply on hand at all times to



protect against equipment failures, weather conditions, etc.

- I can't reduce my warehouse space because we have to keep a 45 day supply on hand.
- I need a 30 day supply of food in case of a lockdown.
- "Just-in-time" deliveries cannot be used because the Department of Corrections has an "unwritten" policy that we maintain a 45 day supply of food items on hand.
- In response to the Task Force survey, it is the feeling of many of the field managers that the current contracting and purchasing practices tend to be anti-competitive. Mandated source requirements and state-wide contracts limit the purchasing options of the field managers to secure lower bids from area vendors. The process to secure approvals on purchase requests from a central location often delays the purchasing process unnecessarily.
- Competitive procurement in the open market would be more efficient and cost effective.
- VDC prices are not as low as outside vendors. Prices fluctuate monthly and its hard to maintain a low food cost.
- I support the purchase of all food items from private vendors. I feel we could save as much as 5% to 7% by buying from commercial sources.
- If we could purchase from private vendors, we could reduce costs.
- We often get items at less cost than what VDC charges us. It seems that VDC has too much mark-up or is not canvassing enough suppliers to get the lowest cost.
- We should be able to buy from sources other than the ones we are mandated to purchase from. On many occasions, we are offered special deals ("opportunity buys") at a great savings.
- VDC should be aware of the demand for items. It will deplete its inventory on essential items and require the institution to come to the warehouse to pick up the items. We are not in the delivery or pick up business.

- With "just-in-time" deliveries VDC would mark-up items and increase prices.
- "Just-in-time" deliveries from VDC will never happen.
- The impact of increased deliveries from VDC would be cost prohibitive.
- Problems would occur with more frequent deliveries.
- "Just-in-time" deliveries would create more paperwork and be more time-consuming.
- "Just-in-time" would be nice but impractical because it would reduce my inmate supervision.
- Corrections requires strict supervision of inmate staff. More deliveries would pull me from that and I would have to spend more time receiving orders instead of supervising inmates.
- - If we were on  
cook-chill,  
"just-in-time"  
deliveries  
might work.
- VDC delivers to Powhatan Correctional Center. We have to pick up at Powhatan.
- - Require all institutions to procure from VDC  
and require VDC to carry all items that  
Corrections requires on special menus.
- A standard ordering system is needed. Also, a food service accounting system is needed to accurately allow food service to have better control of food costs.
- Leave VDC as is, however, add additional needed merchandise.
- Why fix what is not broken..
- I like the system we have in place. To change it would be a waste of money and my valuable time.

- In my opinion, the process we have is effective, however, we should always strive for continued improvement or efficiency.
- The lag time for various approvals and handling of orders creates a slow process of up to two weeks and additional unnecessary inventory. No help in dealing with any unforeseen shortages or problems.
- VDC needs to be improved. If VDC could deliver every two weeks, it would allow us to reduce inventories without the great burden of ordering every week and spending excess time in receiving and rotating food supplies.
- We should support the VDC.

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### Sussex I State Prison Comparison

On February 5, 1999, the food service operation at Sussex I State Prison was contracted to Aramark, a food service contractor. The company provides and maintains control of all food items and supplies to operate the food service department. The food and supplies for the contractor are delivered to the receiving dock, inventoried, and then delivered to the kitchen by the facility staff.

#### Comparative Data - State Operated vs. Contract Operated

Category	State Operated	Aramark
Food storage warehouse space	4,748 square feet	-0-
Food inventory on hand	30 to 60 days	1.5 weeks
Food deliveries	once every two weeks	daily
Private vendors utilized	9	No longer applicable
Ordering	Once every two weeks	No longer applicable

**Note:** During Hurricane Floyd the facility had no problems getting their food deliveries except for a minor delay.

## APPENDICES

APPENDIX A  
STAFF CONCLUSIONS AND RECOMMENDATIONS

### **Disclaimer**

The conclusions and recommendations of this report represent the opinion of the HJR 709 Task Force staff and a minority of its members. Upon the conclusion of the work of the Task Force, a majority (five of eight) of the members did not agree with including the conclusions and recommendations in the body of the report.

The majority's contention notwithstanding, these conclusions and recommendations, written by the HJR 709 Task Force staff, are included for reference purposes in Appendix A.

Appendix C is a response to these conclusions and recommendations from the majority of members.

## Conclusions

With the alternatives and extensive data developed in this report, the issue for the Governor and the General Assembly is the best way to reengineer the total value added chain of the food delivery system for prisons, mental health hospitals, and other current stakeholders - from product procurement to product consumption - in a way that minimizes the total cost of the food delivery system without compromising quality.

Modeling a program of “**just-in-time**” deliveries would resemble the practices used in private industry where “vendor-managed inventory” is commonplace as firms reengineer their business processes to improve efficiency, effectiveness, and lower their costs.

This report finds that:

- The majority of the states in the survey do not operate a central food warehouse;
- States using alternative systems are doing so in a cost-effective fashion;
- Prime Vendors can efficiently provide the total food delivery chain; and
- Prime Vendor food distributors provide value added services with effective inventory and cost management with on-line automated ordering procedures.

The Commonwealth is in a most advantageous position to make improvements to the food delivery system for all current stakeholders with the potential of serving additional local governments statewide. All four of the nation's largest “broadline” food distributors have facilities in Virginia. SYSCO has a center in Harrisonburg and Hampton Roads; Alliant has one in Manassas; US Foods has a center in Roanoke; and PYA/Monarch has facilities in both Salem and Virginia Beach. These firms are capable of handling all of the Commonwealth's business with a highly competitive, effective, and efficient total food delivery system. Broadline food distributors offer their customers 10,000+ items.

### **Financial Considerations**

- Reducing the level of food inventories similar to other states could release \$5 to \$6 million in funds and the related carrying cost of large inventories;
- Virginia Polytechnic Institute and State University has moved to a Prime Vendor program and has reduced its annual cost of operations, ordering, receiving, and storage while improving product variety and food deliveries;
- Application of new supply chain and inventory management principles can reduce administrative and overhead expense and can reduce the cost of future capital construction;
- Prime Vendors have indicated that the state possesses strong volume purchasing leverage in obtaining competitive pricing in food purchases.

Collective and volume purchasing is the way to reduce costs: that is why Richfood Holdings, Inc. merged with Supervalu, Inc - **“to use collective buying power with manufacturers to keep prices low for its customers and to be able to buy more efficiently.”**

## **Recommendations**

The following recommendations are offered to the Governor and the General Assembly as a series of available options to improve the state's food delivery system:

- Pilot for up to one year a Prime Vendor program with **“just-in-time”** deliveries for a group of mental health hospitals and prison facilities;
- Abolish the prisons' **45** day food supply inventory requirement and the 30 day food supply inventory at mental health hospitals;
- Institute a policy of **“just-in-time”** deliveries which could release **\$5 to \$6 million** in funds;
- Require the Virginia Distribution Center to implement a policy of **“just-in-time”** food deliveries for prisons and mental health hospitals;
- Require the Virginia Distribution Center to compete with Prime Vendors for a statewide **“just-in-time”** food delivery system;
- If pilot Prime Vendor program is successful, engage the food delivery professionals at Virginia Polytechnic Institute and State University to assist the state in developing a total outsourced Prime Vendor program with **“just-in-time”** deliveries for all mental health hospitals, prisons, and other current stakeholders, with eventual expansion to local governments and non-profit organizations, or;
- Enter into a public-private partnership with a Prime Vendor with the Virginia Distribution Center serving as a **“buying group”** and the Prime Vendor providing warehousing and **“just-in-time”** deliveries;
- Evaluate the necessity to continue the requirements for prisons and mental health hospitals to buy from two mandated sources of supply - the Virginia Distribution Center and the Department of Corrections Agribusiness Operations.

These recommendations are compatible with the Administration's economic development policies. With the September 1999 announcement of the AmeriServe Food Distribution, Inc. expansion in Prince William County, the Secretary of Commerce and Trade is quoted as saying **“existing businesses in Virginia are key to Virginia's economic success. The state is dedicated to fostering a positive business climate for the distribution industry.”**



APPENDIX B  
TASK FORCE MEMBER COMMENTS



# COMMONWEALTH of VIRGINIA

## *Commonwealth Competition Council*

James S. Gilmore, III  
Governor

December 30, 1999

TO MEMBERS OF THE FOOD DISTRIBUTION TASK FORCE

Dear Colleagues:

The Chairman of the Competition Council, Senator Emmett Hanger, wants us to complete our work and report as soon as possible. You have a copy of the staff's "draft" report.

Because of strong and divergent views held by task force members regarding certain conditions and suggestions for improvement of costs and efficiency of operations, the draft report will be held open for comments until January 7<sup>th</sup>. All members will be afforded the opportunity to send in for inclusion in the report their written comments. These comments will be included in their entirety, and indexed, where appropriate, as part of the report.

Please be sure to call Al Roth at 786-0242 and advise him if you intend to submit written comments, and to deliver them to him by January 7<sup>th</sup>, in order to have them included.

I thank you for your time, work, interest and effort over the year on a difficult but interesting project.

I send my best personal regards.

Very sincerely yours,

A handwritten signature in cursive script that reads "J. Granger Macfarlane".

J. Granger Macfarlane  
cc: Delegate Thelma Drake

*Embracing the Spirit of Opportunity*

VIVIAN C. YOUNG  
1915 Peter Paul Boulevard  
Richmond, Virginia 23233

January 7, 2000

The Honorable J. Granger Macfarlane  
Task Force Chairman  
Commonwealth Competition Council  
James Madison Building, Suite 500  
Richmond, VA 23219


Dear Chairman Macfarlane:

I have reviewed the draft report that you directed the staff to prepare for House Joint Resolution No. 709 Task Force members.

I fully concur with the conclusions and recommendations in the draft report which are significantly supported by the data, research, and presentations that were presented to the task force. I feel that we successfully accomplished the charges of the Resolution.

Thank you for your leadership in serving as Chairman of this very important endeavor.

Sincerely,

  
Vivian C. Young  
Task Force Member



# COMMONWEALTH of VIRGINIA

## DEPARTMENT OF ENVIRONMENTAL QUALITY

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James S. Gilmore, III  
Governor

John Paul Woodley, Jr.  
Secretary of Natural Resources

Dennis H. Treacy  
Director

(804) 698-4000  
1-800-592-5482

January 7, 2000

The Honorable Granger MacFarlane  
Chairman, Competition Council  
James Madison Building, 5<sup>th</sup> floor  
Suite 500  
P.O. Box 1475  
Richmond, Virginia 23218-1475

Dear Mr. Chairman:

I have read the draft document that was prepared by staff for the task force members. I have no recommendations for changes to this draft, and if a motion came to vote on this draft I would vote for approval.

If each member was asked to add their own thoughts to a appendix, I would add that after spending eight months on this task force I think the Governor and General Assembly should examine all mandatory sources.

Thank you for your assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "William A. Stagg".

William A. Stagg

APPENDIX C  
DISSENTING COMMENTS

The HJR 709 Task Force effectiveness has been limited by weak staff work. Staff began with a bias towards privatizing the Virginia Distribution Center (VDC) and was never dissuaded by the facts. The Vice-Chairman of the Competition Council characterized the report as "(a) series of disjointed data sets."

The VDC is primarily a purchasing function. The VDC concentrates the purchasing power of the Commonwealth into the volume purchase of items commonly purchased by public bodies. Transportation of goods is performed by competitively bid contract with a private carrier. VDC produces the lowest cost to our customers by competing purchase with a number of vendors. A 1999 Market Basket Survey showed an average 27.2% food cost savings over low volume, single agency procurements.

The report of the Task force is an opinion of Task Force staff and a minority of members. The majority of members believe that the conclusions and recommendations of this report are not supported by fact.

The majority's concerns can be summarized under five major concerns. The following is a discussion of the five concerns:

**Inadequate Approach:** Task Force conclusions and recommendations are rendered invalid because of biased and incomplete staff work. As an example, rather than study the food delivery system for prisons and mental health hospitals as required by HJR 709, staff chose to promote two themes: Just-in-time (JIT) deliveries and Prime Vendor Contracts.

The draft report promotes JIT deliveries despite testimony from the Department of Corrections that JIT does not meet its security needs. In addition, the executive summary twists the facts. On page iv, fifth bullet, it states "There is also prison support for "just-in-time" deliveries". A more accurate statement would indicate that the survey found a majority of Department of Corrections respondents (61%) do not support just-in-time deliveries.

With regard to mental health hospitals, the report implies that VDC does not meet customer delivery needs. According to Task Force staff, mental health hospital personnel want more frequent deliveries. However, staff was aware, but did not report that it is the hospital's ability to receive deliveries that limits the application of JIT deliveries. Simply put, the hospitals have not asked for more frequent deliveries. Task Force staff was also aware, but did not report, that the Department of Mental Health and Mental Retardation is exploring a JIT pilot agreement with VDC.

The task force was provided several presentations from prime vendors. Task Force staff received a proposal for only one prime vendor. The proposal would have increased the Commonwealth's cost for food. The Task Force rejected the offer. This item is not included in the report.

**Invalid Survey:** Task Force staff implemented two surveys, in an apparent effort to gather data. The survey instruments used by staff contained biased and prejudicial questions. Also, staff twisted survey results to fit their bias.

Task Force members complained as early as July, 1999 and throughout the study effort that the survey was biased against VDC. Most disturbing is the insistence of Task Force staff that the

survey instruments had been approved by the Department of Legislative Services. The Director of Legislative Services was asked about the approval assertion. While acknowledging he had spoken with Task Force staff, the Director of Legislative Services said his Department never approved the survey. Further, the Director said that his staff does not typically do survey work and would defer to the Joint Legislative Audit and Review Committee for survey related work.

Despite the bias of the survey, a majority of VDC customers responded that they were satisfied with VDC service and VDC prices. These two facts were not revealed in the draft conclusions and recommendations.

**The New York Example:** Staff analysis relies heavily on the New York State example of conversion to a prime vendor contract. New York reported savings of \$3.3 million annually. No one questions whether New York was served well by a prime vendor contract. The problem with the analysis is that staff carelessly compares the New York example with Virginia.

New York operated a warehouse operation with in excess of 220 staff. They maintained their own fleet of trucks and employed their own drivers. Among other features, New York operated its own bakery and distributed baked goods to public agencies. In short, New York was in the transportation and manufacturing business, as well as the food supply business.

VDC does not manufacture food items. Food delivery is performed by the private sector through competitively awarded contracts. VDC has a staff of 28 positions. The New York example is not a relevant example in the context of this report. A more relevant analysis would be to compare the cost of food items under New York's prime vendor contract with food items sold by VDC. Staff did not provide data because the New York costs are higher.

**DOC Concerns:** The Department of Corrections (DOC) has a number of problems with report conclusions and recommendations. DOC management has written the Task Force Chairman and the competition Council Chairman with their concerns. These concerns are summarized as follows:

- DOC is concerned that staff recommendations will reduce inmate employment opportunities, contrary to staff assertions. Further, contrary to staff assertions, the task force did not study inmate employment (despite being required by HJR 709).
- The report contains inaccurate information related to DOC inventory policy. It also promotes JIT deliveries despite the fact that JIT deliveries will not serve DOC.
- Eliminating the DOC agribusiness as a mandatory source for prisons runs contrary to state policy.

This is a sampling of some of the more troubling aspects of the staff report. Equally troubling is the issue of why a majority of task force members were not permitted to vote on study findings and recommendations. The report that precedes this appendix was printed over the strenuous objections of five of the eight task force members. The five members sought the opportunity to meet and discuss the draft report. This request was ignored and has led to the fundamental disagreement to which appendix B attests.



# COMMONWEALTH of VIRGINIA

Department of Corrections

RON ANGELONE  
DIRECTOR

P. O. BOX 26863  
RICHMOND, VIRGINIA 23261  
(804) 674-3000

January 27, 2000

The Honorable J. Granger Macfarlane  
P.O. Box 201  
Roanoke, Virginia 24002

Dear Chairman Macfarlane:

Since the requests by HJR 709 task force members for an additional meeting to discuss the draft report on *Food Delivery System for the Prison and Mental Hospitals in Virginia* did not result in a meeting, I am submitting our top three specific concerns cited by the Department of Corrections. They are as follows:

1. The methodology implemented by the committee did not result in a report that supports the views of the majority of the task force members. The conclusions and recommendations are not supported by facts. Extraneous information that was not presented to the task force makes up much of the HJR 709 report. Information that did not support prime vendor/just-in-time deliveries was suppressed, ignored, or glossed over. There is endless gratuitous editorializing in favor of the prime vendor concept.

The Department of Corrections (DOC) concurs with the alternative solution in the letter from The Honorable G. Bryan Slater to you dated December 28, 2000 whereby it is suggested, "to give a fair, unbiased and expanded review, a future study should be requested of the Joint Legislative Audit and Review Commission."

2. The DOC made a presentation to the HJR 709 task force on October 26, 1999 that highlighted this agency's primary mission - public safety. The DOC followed up with a draft report submission dated November 22, 1999 that detailed this agency's most pressing issues. In the HJR 709 report developed by Competition Council staff, the DOC's security needs were completely ignored. The DOC has stated repeatedly that:
  - a) JIT deliveries are not in the best interest of prudent correctional management and;
  - b) the DOC's 30-day food inventory requirement supports the DOC's primary mission.



- c) Inmate employment opportunities must be maximized, even to the extent of intentionally adopting labor intensive practices.
3. The HJR 709 report implies that the task force considered maximizing inmate employment when, in fact, this requirement of HJR 709 was ignored. Contrary to assertions made in your cover letter and the draft report, implementation of the conclusions and recommendations would actually reduce inmate employment.

In addition to the concerns listed above, I am attaching more in-depth listings of concerns that were developed by Ms. Cindy Sager and me. I request that you include these comments as an attachment to the "final" HJR 709 report that is submitted.

Sincerely,



Edward C. Morris, Deputy Director  
Department of Corrections

- c. The Honorable G. Bryan Slater  
The Honorable Emmett W. Hanger Jr.  
The Honorable Thelma Drake  
Members, HJR 709 Task Force

**Written Comments Concerning the DRAFT Task Force Study on the Food Delivery System for the Prisons and Mental Hospitals in Virginia, HJR 709**

Submitted by

**Edward C. Morris  
Deputy Director  
Virginia Department of Corrections**

**Overall Comment**

The Chairman's charge to staff at our last meeting was to prepare a report that represents the "sense" of the task force. This report represents the view, apparently, of the Competition Council staff and a minority of members of the task force. Therefore, this report, as currently drafted, would appear to be a **MINORITY REPORT of the HJR 709 Task Force**. Information collected by the task force that did not support prime vendor/just-in-time deliveries appears to have been glossed over or ignored. There is a good bit of gratuitous editorializing in favor of the prime vendor concept throughout the report and the minority recommendations seem to be based more on vague generalizations and unsubstantiated conclusory statements than any substantive information collected by the task force.

1. Chairman's Transmittal Letter

The last sentence of the second paragraph states *"The task force recommendations offered for your consideration do not detract from supporting the maximum inmate assignments within the Department of Corrections and, in fact, may enhance inmate work opportunities."* I was unable to find any discussion in the draft report that would support the above assertion. No section of the report addresses maximizing or enhancing inmate work opportunities. The truth of the matter, *in fact*, is that the recommendations will most likely reduce inmate employment opportunities by eliminating agribusiness as a mandatory source for VDOC facilities. This statement is disingenuous and should be removed from the transmittal letter.

2. Executive Summary

a. Bullet #4, page ii. *"Support for maximum inmate assignments within the Department of Corrections."* The executive summary should clarify that the task force did not study, analyze, or consider maximizing inmate employment opportunities in the Department of Corrections in its consideration of prime vendors and just-in-time deliveries.

b. Second paragraph, last sentence, page iii. *"On June 30, 1999, the actual inventory was 70.3 days."* This statement ignores actual quarterly inventory data provided to the task force showing that the inventory was 55 days or less in each of the quarters preceding the fourth, and that fourth quarter inventories are inflated by year end purchases, a matter explained to the task force. Additionally, institutional Y2K contingency planning may have influenced purchasing behavior during FY 1999. This pattern of selecting "worst case scenarios" to reflect agency practices and "best case scenarios" when discussing prime vendors is evident throughout the report.

c. Third bullet, page iv. *"Prisons are required to keep a 45 day food inventory in stock according to the "unwritten" policies of the Department of Corrections..."* There is no factual basis for this statement. It is apparently an opinion expressed by an anonymous source. The Department has repeatedly stated that a 30 day supply is the intended inventory level based on prudent correctional management, and a more reliable source of information is contained in the *written* program statements provided to architectural and engineering firms who design DOC warehouses. We will be glad to provide task force staff with a sample, if desired.

d. Fifth bullet, page iv. *"There is also prison support for "just-in-time" deliveries notwithstanding the current 45 day supply requirement."* Notwithstanding the fact that DOC has no 45 day requirement, this statement is an *intentional misrepresentation* of the survey results. While not an untrue statement, it illustrates the point made above that information favorable to prime vendors/just-in-time deliveries is selectively edited into the report narrative while unfavorable information is usually disregarded. An analysis of the survey results on page 43 of the report clearly illustrates that prison staff who support just-in-time deliveries make up less than half (39%) of those responding. This bullet should be eliminated or restated to reflect the majority response as follows: "The majority of prison staff responding to the survey do not support "just-in-time" deliveries.

e. Conclusions, first bullet, page v. *"The majority of the states in the survey do not operate a central food warehouse."* It would be more accurate to state that "19 of the 35 states who responded to the survey do not operate a central food warehouse." A careless reader might assume that the statement means that a majority of states (25 or more) do not operate a central food warehouse.

f. Second paragraph, page vi. *"Collective and volume purchasing is the way to reduce costs: that is why Richfood Holdings, Inc. merged with Supervalu, Inc -- "to use collective buying power..."* I don't recall any presentation to the task force on the merger between Richfood and Supervalu, and it has no relevancy to HJR 709. This is an example of gratuitous editorializing by staff that does not belong in this report.

g. Recommendations, first bullet, page vi. *"Pilot for up to one year a Prime Vendor Program with "just-in-time" deliveries for a group of mental health hospitals and prison facilities."* Why bother with a pilot? The Report as drafted has already concluded that prime vendors/just-in-time deliveries are more efficient and will lower food

distribution costs. Does anyone doubt that SYSCO trucks can find their way to Virginia's prisons and hospitals? Does anyone doubt that during a pilot project prices will be lower and service outstanding? Given the problems with this Report and the lack of consensus among Task Force members, a pilot at this time would be a waste of time and money.

h. Recommendations, second bullet, page vi. ***"Abolish the prisons' 45 day food supply inventory requirement.."*** The VDOC does not have a 45 day supply requirement. Corrections supports a 30 day inventory and has provided sufficient information in terms of its public safety mission to justify its reluctance to rely on just-in-time deliveries.

i. Recommendations, third bullet, page vi. ***"Institute a policy of "just-in-time" deliveries which could release \$5 to \$6 million in funds..."*** Reducing current food inventories provides a one-time savings, the amount of which will be determined by actual reductions. As stipulated earlier, prudent correctional management does not allow VDOC to rely on just-in-time deliveries for certain food products.

j. Recommendations, fourth bullet, page vi. ***"Require the Virginia Distribution Center to implement a policy of "just-in-time" deliveries..."*** Corrections does not desire just-in-time deliveries from VDC, although it supports more flexible deliveries where it is cost effective and more efficient.

k. Recommendations, fifth bullet, page vi. ***"...engage...Virginia Polytechnic Institute and State University to assist the state in developing a total outsourced Prime Vendor program with "just-in-time" deliveries..."*** Just-in-time deliveries, whether from VDC or a prime vendor, does not support the mission of the Department of Corrections.

l. Recommendations, sixth and seventh bullets, page vi. See comments for items g, h, i, j, and k above.

m. Eliminating DOC agribusiness as a mandatory source for prisons is contrary to the stated intent of the General Assembly in its many previous actions, and is not consistent with the Department's mission or in the best interests of public safety.

n. Last paragraph, page vi. This entire paragraph refers to the Administration's economic policies and certain comments attributed to the Secretary of Commerce and Trade, none of which I can recall being presented to the task force for study and analysis. This is another example of gratuitous editorializing by staff.

### 3. Introduction

a. Fourth paragraph, page 1. ***"It should be noted, however, that the task force did not attempt to conduct a "market basket" review of food and food related prices. A market basket comparison is a complex issue. A direct product to product cost comparison does not adequately capture the true cost of the state's food delivery system***

*that has costs related to inventory management and other major logistical functions.*” Notwithstanding the lack of funding to conduct a thorough “market basket” review, cost comparisons provided in various reports to the task force usually showed VDC prices to be lower. The lack of interest in further comparisons of this “complex” issue may be that it is not likely to support the conclusion that prime vendors/just-in-time deliveries will lower food distribution costs. The costs related to “inventory management and other major logistical functions” will accrue regardless of who distributes food products or in whose warehouse the food sits, and will be passed on to the end user, along with a profit markup, if prime vendors are utilized.

#### 4. Analysis of the Food Delivery System for Prisons and Mental Hospitals

a. Multiple procurement systems, fourth bullet, page 4. As written, this bullet may erroneously lead the reader to conclude that \$900,000 of the \$8 million in purchases to DOC Agribusiness Operations was charged to the American Express charge program. VDOC doesn't take American Express. If there is a point to including this statement in the report, it would be helpful to know what it is, and it should be a separate bullet.

b. Multiple procurement systems, third paragraph, page 4. *“As prescribed by the DOC Food Services Operation Manual, each prison within a region can purchase up to \$5,000 from a single order without formal competitive bidding.”* As written, this statement seems to imply that DOC has established some unilateral purchasing policy different from any other state agency. The reference to purchasing limits in the DOC Food Services Operating Manual is simply a restatement of state purchasing regulations. The report should clearly explain state purchasing policies and correctly attribute them to the proper authority.

c. Indirect costs, last paragraph, page 6. There was no report presented to the task force by the Auditor of Public Accounts concerning DOC inventory. This information seems to have been dug up by staff in an attempt to discredit information provided by the Department, another example of the lengths to which staff has gone to advance a personal bias for the prime vendor concept. The Department is, and will continue, to evaluate the cost-effectiveness of private corrections practices. DOC did examine, with the Department of Planning and Budget in the closing months of the Allen Administration, the issue of just-in-time deliveries. VDOC's private corrections manager states that he discussed with APA issues VDOC would study concerning private corrections practices, but did not mean to imply VDOC was implementing “just-in-time” deliveries. VDOC will adopt policies consistent with prudent correctional management.

#### 5. Alternatives to the Current Food Delivery System

a. Last paragraph, page 16. This paragraph should be deleted. While admittedly creative, task force members have not been provided with staff work papers to show how an “extrapolation” of Virginia Tech's prime vendor program could result in savings to prisons and mental hospitals of \$1.6 million. Corrections objects to any representations

# Dori Foods, Inc.

WHOLESALE INSTITUTIONAL FOOD DISTRIBUTOR

1600 BELLEVILLE STREET • P.O. BOX 11365 • RICHMOND, VA 23230-1365 • 804-355-1600

January 28, 2000

Mr. J. Granger Macfarlane  
Task Force Chairman  
Commonwealth of Virginia  
Commonwealth Competition Council  
PO Box 1475  
Richmond, VA 23218-1475

RE: Task Force Study on the food Delivery System for the  
Prisons and Mental Health Hospitals in Virginia - DRAFT

Dear Chairman Macfarlane:

I have reviewed the draft report regarding the "Task Force Study on the Food Delivery System for the Prisons and Mental Health Hospitals in Virginia." The contents of the report are:

- **Not the majority opinion of the Task Force.**
- **Contain inaccurate data, deducing false conclusions.**

## Majority Opinion

The Task Force met Wednesday, December 8, 1999 at the State Capitol to discuss and vote on the Table of Contents for the report. The Task Force members voted on using the Table of Contents provided by a Task Force member in lieu of a Table of Contents provided by the Staff of the Commonwealth Competition Council (CCC). Unfortunately, the staff of the CCC, which published their own Table of Contents, usurped the "elected" Table of Contents.

A majority of the Task Force has written on two separate occasions to seek a meeting for the discussion of the report's content, conclusions and recommendations. In a democratic society, I feel that the majority vote prevails. This has not occurred.

This non-vote is the second incident in which the Members have not been allowed to vote on the contents of data sent out on behalf of the Task Force. The first incident was the Prison and State Questionnaires that were on the agenda to vote at the August 1999 Task Force meeting. These biased Questionnaires were not discussed, nor voted on, prior to their issuance. Once again, the staff at the CCC issued documents without the consent of the majority of the Task Force. As a previously elected official I am confident you understand the concept of majority rule.

## Inaccurate Information

There is so much inaccurate information in the report that it is difficult to know where to begin. Therefore, the following table will compare and contrast some of the major differences between from the Draft and my experiences as a Citizen Task Force Member.

Excerpts from the Cover Letter	Comments
<p>"... may enhance inmate work opportunities".</p>	<p>The Task Force has not discussed the analysis of the food delivery system while supporting maximum inmate assignments within the Department of Corrections (DOC). We learned how food is procured by the Agencies and how it is shipped to/received by the end user. We did not analyze, nor discuss, whether it is efficient. We never received any presentations or recommendations maximizing inmate assignments or discussed them as a committee.</p>
Excerpts from the Executive Summary	Comments
<p>"... there are significant indirect/overhead costs associated with the present food delivery system."</p>	<p>The Task Force has never discussed indirect/overhead costs, nor been provided any analysis.</p>
<p>"... an excessive amount of procurement activity (372 food vendors),..."</p>	<p>The Task Force never opined whether the amount is excessive. My opinion is that it promotes competition among small and large business.</p>
<p>"...opportunity costs associated with the present system by not maximizing volume food purchasing and by not taking advantage of 'opportunity buys' offered by vendors."</p>	<p>FACT: Conclusive data was presented to the Task Force confirming that the Virginia Distribution Center (VDC) is a leader in volume purchasing at low costs.</p> <p>FACT: A Task Force member presented the Task Force a market basket analysis comparing prices between the VDC and Virginia Polytechnic Institute's prime vendor, US Foodservice. This analysis indicated that the VDC sells its goods all over the Commonwealth to 1,100 plus shipping points at approximately 25% less than US Foodservice does to on-campus locations.</p> <p>The concept of "opportunity buys" are inconsequential because the Commonwealth cannot legally participate; they are "buyer beware" items. These commodities are not consistently available, may be one time deals, may consist of inferior products such as miss-cut meats, product out of date, non-graded products which does not support the VDC's added-value of quality control.</p>
<p>"The Task Force also collected significant and informative data on Virginia ..."</p>	<p>These surveys contain biased questions soliciting negative answers. The questionnaires were prepared to allow the respondent to degrade the current system to support the CCC Staff's recommendations.</p>
Excerpts from the Summary of Findings from the Food Delivery Systems	Comments
<p>The concept of "Just In Time" deliveries are referenced throughout the report.</p>	<p>The author of the report fails to take into account that the current system affords "just in time" deliveries. If the customer requests their order on a specific date and it is delivered one would consider this has been received "just in time".</p>
<p>"New York's Prime Vendor Program has reduced ..."</p>	<p>The Task Force <u>never</u> studied New York's Prime Vendor Program. A presentation by the State of New York as to the merits of Prime Vendor was not conducted. Based upon the quotes and data reported in the Report, the Task Force should have heard from the source and been able to ask questions. Apparently, the staff of the</p>

	<p>CCC conducted interviews. The Task Force has not discussed nor been presented with these statements.</p> <p>Unfortunately, the staff of the CCC never contacted the <u>State of Texas</u> to gather information as to why they maintain four separate central warehouses and ship to over 117 locations with an inmate population of 160,000 in lieu of a Prime Vendor program. Their purchasing and distribution methods are similar to Virginia.</p> <p>NOTE: The concept of "central food warehouses" must be clarified. The majority of States do not operate a central warehouse, such as Virginia. The majority of states utilize their DOC or Mental Health Departments to purchase food and food related items. The report inaccurately notes that 19 of 35 state respondents do not operate their own central warehouses. In fact, the States of Florida, Missouri and Louisiana have central warehouses in which supplier's ship to one central warehouse. Further, the author fails to recognize or report that other states such as Pennsylvania purchase their food requirements on a prison by prison basis in addition to statewide contracts. Pennsylvania notes that they are "looking at this possibility for the future" based upon a review of their questionnaire response.</p>
<p><b>Excerpts from the Summary of Findings from Virginia's Prisons and Mental Health Hospitals:</b></p>	<p><b>Comments:</b></p>
<p>"There exists a significant amount of on-site food warehouse and storage space."</p>	<p>The author has determined there is significant storage space. The Task Force never discussed nor analyzed the space. The Task Force did learn from the DOC that the storage space was utilized in a manner consistent with public safety.</p>
<p>"Prisons are required to keep a 45 day food inventory in stock ..."</p>	<p>The staff of the CCC referenced a mandatory 45-day food inventory by individual prisons numerous times. The DOC has indicated that <b>rumor to be false!</b></p>
<p>"The majority of facilities receive monthly orders from state sources, whereas it is more frequent to receive daily or weekly deliveries from private vendors."</p>	<p>Fact - facilities receive product from the VDC as requested whether they are monthly, semi-monthly, biweekly or weekly. Many facilities already have predetermined delivery times. Private vendors may be delivering milk; bread or produce on a daily basis, which is a considered, appropriate for perishable item.</p>
<p>"The current food delivery system does not maximize the state's leveraged buying power."</p>	<p>This statement is false. The current system of procuring items from numerous sources promotes competition and keep purchasing costs low.</p>
<p><b>Excerpts from the Arguments to the Current System Studied by the Task Force:</b></p>	<p><b>Comments:</b></p>
<p>"All presenters testified to the potential cost savings to the Commonwealth"</p>	<p>Which presenters? Doughties/SYSCO? !</p> <p>These presenters are not significant sources of supply to the VDC - How would they know that a different program would save money for the Commonwealth's taxpayer? Ironically, Doughties recently started to quote the VDC.</p>



	<p>If the Task Force did not study costs, how can a presenter conclude the Commonwealth would save money?</p> <p>PS: There was only one alternative: Prime Vendor. No other alternatives were reviewed.</p>
<b>Excerpts from the Conclusions:</b>	<b>Comments:</b>
"The majority of the States that responded to the Questionnaire maintain a central warehouse."	FALSE.
"State using alternative systems are doing so in a cost-effective fashion."	The Task Force never received any cost analysis of other states programs to opine whether they are cost effective.
"All four of the nation's largest 'broadline' food distributors have facilities in Virginia."	This is an assumption of the author. Only one of the four largest food distributors made a presentation to the Task Force. The CCC staff notes that the State of New York had only two responsive bidders. How would this type of competition be in the best interest of the Commonwealth?

This report represents the views of the staff of the CCC and possibly the minority members of the Task Force. There has not been any fact-finding. The draft proposal has neither been discussed by the HJR 709 Task Force nor voted upon. This report has been written without the consent of the majority of the committee.

As a citizen of this Commonwealth, I am disturbed at the manner in which this study was performed. If this study were a representation of Task Force studies, I would not have confidence in any future study findings. There is too much power in the hands of the staff that is supposed to "support" the committee in gathering data.

The report should be a representation of the committees' recommendation not that of a single CCC staff person and a personal agenda. Certain pieces of the report have been presented to the Task Force in memos. Certain pieces have been rebutted with factual data through written memos. None of the disputed information appears anywhere in the report. Nor have any of the comments provided by Task Force members at the November 1999 been included in the report.

The irony is that an operation that procures approximately \$24 million (VDC) can supply food and food related goods cheaper than a \$4.5 billion (VA Tech) purchaser. This fact is in direct conflict for the alleged reason that Supervalu, Inc. purchased Richfood Holdings, Inc. - "to use collective buying power with manufactures to keep prices low for its customers and to be able to buy more efficiently."

Since my appointment prior to the second Task Force meeting, I have observed a process in which a committee is provided with inaccurate and biased information. The lack of a vote destroys the whole process of investigation and recommendation. The Task Force never came to a consensus on the Report.

Sincerely,



Franklin T. Baum  
 Task Force Member

- Cc: The Honorable Emmett W. Hanger, Jr.  
 The Honorable Eric Cantor  
 The Honorable Thelma Drake  
 The Honorable G. Bryan Slater  
 HJR- 709 Task Force Members



VIRGINIA STATE UNIVERSITY  
PETERSBURG, VIRGINIA 23806

Department of Public Administration  
P. O. Box 9062

TDD (804) 524-5487  
(804) 524-5570

January 31, 2000

The Honorable Emmett Hanger, Member  
The Honorable Granger McFarland, Member  
The Virginia General Assembly  
State Capitol  
Richmond, VA 23219

Dear Senators Hanger and McFarland:

In recent weeks, members of the Task Force Studying Food Service Delivery, (HJR 709), to mental institutions and correctional facilities in Virginia have exchanged varying points of view on the presentation of data and recommendations in the final report to the Governor and General Assembly. The staff of the Commonwealth Competition Council had the primary responsibility for arranging public hearings and gathering and disseminating data to the members of the task force.

In the document that was distributed as a final draft, there were eight recommendations on page 49. I do not recall participating in any discussions that led to identifying those recommendations as the final work of the task force. Accordingly, I would have serious reservations about our work overcoming any serious examination if it were presented to the Governor and General Assembly as a definitive analysis of the subject matter as envisioned in the bill sponsored by Delegate Drake.

Please know that I am willing to continue my efforts in taking such steps as are necessary to have a quality report presented when we reach a consensus on the import and impact of the recommendations.

Kind regards,

Earl H. McClenney, Jr.

Vice-Chair

Commonwealth Competition Council

APPENDIX D  
HOUSE JOINT RESOLUTION No. 709

# 1999 SESSION

## HOUSE JOINT RESOLUTION NO. 709

*Requesting the Department of Mental Health, Mental Retardation and Substance Abuse Services, the Department of Corrections, the Department of General Services and the Commonwealth Competition Council to establish a task force to study and analyze the food delivery system for prisons and mental health hospitals and to examine alternatives to increase efficiency and lower the cost to the Commonwealth's taxpayers while supporting maximum inmate assignments within the Department of Corrections.*

Agreed to by the House of Delegates, February 23, 1999

Agreed to by the Senate, February 18, 1999

WHEREAS, as a result of increasing competition in the new global economy every private sector entity has been forced to examine every aspect of its operation to become more efficient and to remain competitive in the new world marketplace; and

WHEREAS, increased competition ensuring that goods and services are produced as efficiently as possible and are purchased from a low cost provider affects the way that governments operate, and especially the state governments; and

WHEREAS, Virginia is an acknowledged leader among the states in using a variety of techniques which promote more involvement of the private sector in providing goods and services that had traditionally been provided by government, as well as in setting up a competitive framework between state agencies and the private sector to determine the most efficient method of providing the goods; and

WHEREAS, this healthy competition and entrepreneurial spirit helps to increase efficiency and keep costs down; and

WHEREAS, in part because of the work of the Commonwealth Competition Council numerous functions of state government have been privatized and state agencies have been encouraged to be innovative in the way they provide other vital functions of government; and

WHEREAS, a significant part of the state budget is spent on food delivery for the Department of Corrections and the Department of Mental Health, Mental Retardation and Substance Abuse Services; and

WHEREAS, the Commonwealth needs to maintain its vigilance in examining potential opportunities to increase efficiency and lower the cost of providing governmental services; now, therefore, be it

**RESOLVED** by the House of Delegates, the Senate concurring, That the Department of Mental Health, Mental Retardation and Substance Abuse Services, the Department of Corrections, the Department of General Services and the Commonwealth Competition Council be requested to establish a task force to study and analyze the food delivery system for prisons and mental health hospitals and to examine alternatives that would increase efficiency and reduce costs while supporting maximum inmate assignments within the Department of Corrections.

The task force shall consist of 8 members who shall be appointed as follows: the Director of the Department of Corrections; the Director of the Department of Mental Health, Mental Retardation and Substance Abuse Services; the Director of the Department of General Services; 2 members of the Commonwealth Competition Council appointed by the chairman of the Council; and 3 citizen members, two appointed by the Speaker of the House and one appointed by the Senate Committee on Privileges and Elections. The task force shall elect a chairman at its first meeting who shall be either a citizen member or a member of the Commonwealth Competition Council.

The Commonwealth Competition Council shall provide staff support for the study. The Department of Corrections, the Department of Mental Health, Mental Retardation and Substance Abuse Services, and the Department of General Services shall provide assistance to the task force, upon request.

The direct costs of this study shall not exceed \$2,000.

The task force shall complete its work in time to submit its findings and recommendations to the Governor and the 2000 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

APPENDIX E  
VIRGINIA DISTRIBUTION CENTER  
PRESENTATION BRIEF



*Virginia Distribution Center*  
*Briefing*  
*for*  
*Task Force*  
*House Joint Resolution No. 709*  
*August 3, 1999*

**Presented by:**

**Cheroyl Starr**

**Manager, Virginia Distribution Center  
Commonwealth of Virginia**



# *Agenda*

- *What Is VDC?*
- *VDC Value Added*
- *Our Vision for the Future*
- *Summary & Conclusion*



# *What Is VDC?*

## Authority

- *Created by Senate Document 8-1960*
- *Title 2.1, Chapter 32, Article 3, Code of Virginia 2.1-454.1B gives DGS/DPS statutory authority to administer the Distribution Center*
- *Program title is Warehousing and Distribution Services, Code Number 8240000, Appropriation Item Number 63, Chapter 668, 1989 Appropriations Act*





# *What Is VDC?*

## Mission

- **Best Value that meets customer needs**
- **Lowest Cost for our customers**

**Accomplished through:**

- ▶ **Maximum Competition**
- ▶ **Volume Buying**

**Customers are agencies, institutions, public bodies and other qualified entities**



# *What Is VDC?*

- ***Procurement***

- *Develops specifications, purchases, receives, and warehouses commodities*

- ***Distribution***

- *Through outsourced vendor*
- *Flexible schedule to meet customer needs*

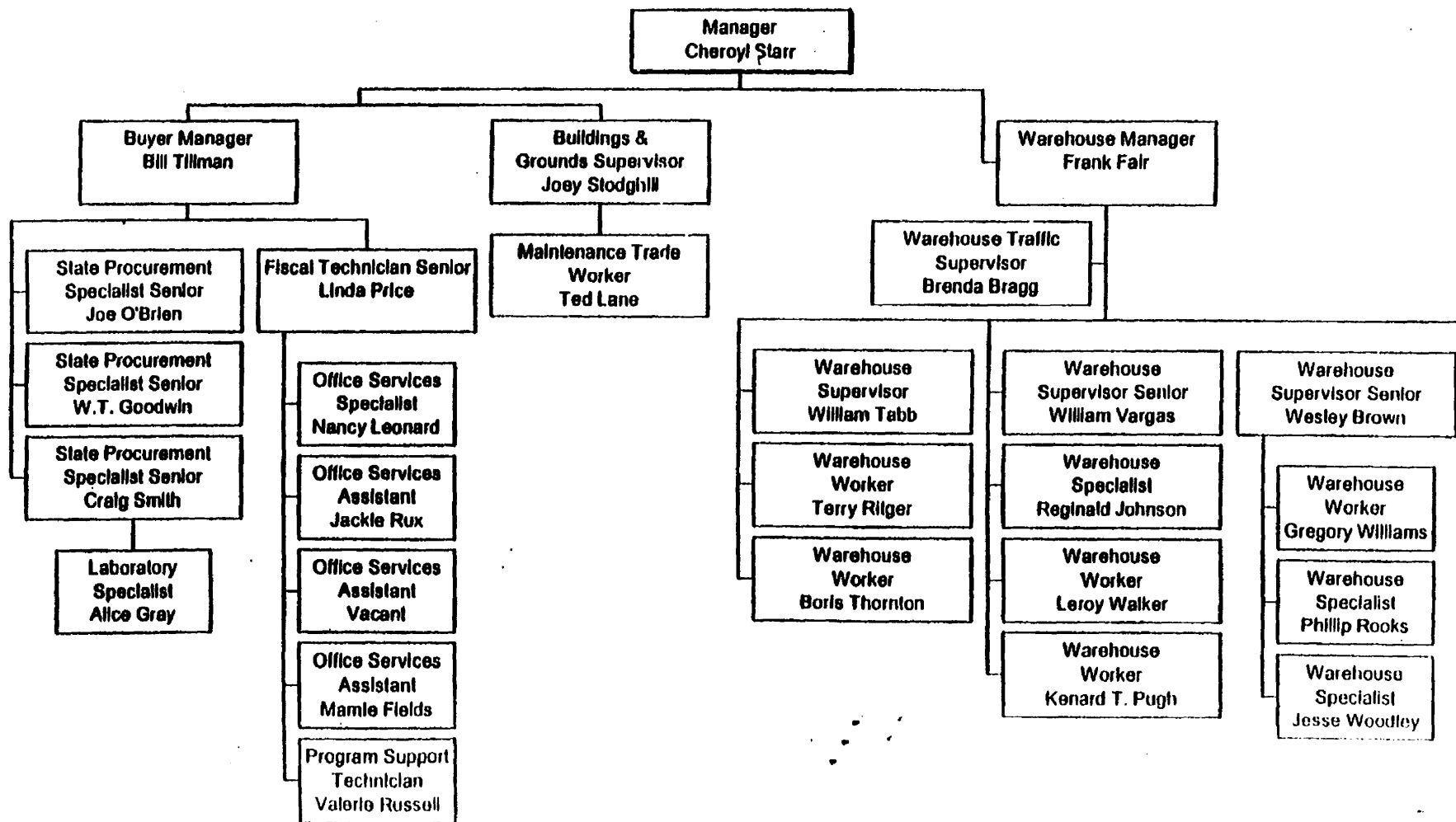
- ***Quality Assurance***

*Ensures consistent quality of products*



# What Is VDC?

## VDC Organization Chart

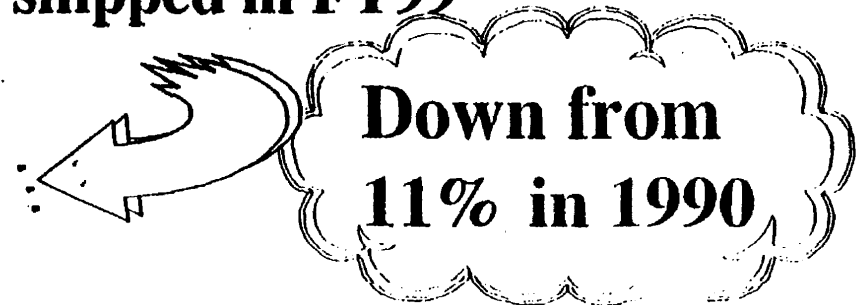




# *What Is VDC?*

## Statistics... ..

- **Facility 155,000 Square Feet Deliveries to over 1,000 delivery points**
- **FY99 Sales > \$41 Million**
- **VDC Annual Market Basket Survey comparison shows a 27.2% Food Savings**
- **More than 50% of 1999 Vendor/Suppliers are Virginia based**
- **>66 Million pounds of product shipped in FY99**
- **Supported by an 8% markup**



**Down from  
11% in 1990**



## *VDC Value Added*



**Selection**

**Convenience**

**Economies of  
Scale**

**Quality**

- *Approximately 950 products*
- *Quality consistent to needs of customers*
- *Full service catalog*
- *New products added to meet customer needs*



## *VDC Value Added*

**Selection**

**Convenience**

**Economies of  
Scale**

**Quality**

- *Perform procurement activities for our customers*
- *Flexible ordering alternatives*
- *VDC Catalog on Electronic Format*
- *Flexible delivery schedules based on customer needs*
- *Virginia Industry for the Blind products stocked*



## *VDC Value Added*

**Selection**

**Convenience**

✓ **Economies of  
Scale**

**Quality**

- *Low prices through volume purchasing ...leverage buying power for the state for sale to state agencies and localities*
- *All customers realize the same benefits*
- *Transportation charges for state agencies and institutions covered in our markup*



# *VDC Value Added*

## ● *Extensive Quality Assurance Program*

- ▶ *Provides input for detailed specifications*
- ▶ *Performs testing requirements*
- ▶ *Conducts random product evaluations for adherence to specs*
- ▶ *Conducts sample evaluations for bid programs*
- ▶ *Conducts qualified products list evaluation*
- ▶ *Responds to customer complaints*

## ● *Partners with customers through advisory committees*

**Selection**

**Convenience**

**Economies of  
Scale**

**Quality**







## *VDC Value Added*

### Customer Comments... ..

#### Fairfax County Public Schools, Food & Nutrition Services

**“ The VDC has helped us out in so many ways over the past years. Pricing has always been better... ..when we have problems getting product... ..VDC has been there to help us”**

#### Central Virginia Training Center, Food Operations Director

**“The VDC staff have always been receptive to the issues and concerns of their customers... ..”**

#### County of Loudoun, Buyer

**“One of the most important benefits is the cost savings found in purchasing from the VDC. The superior service and timely delivery make dealing with the VDC an enjoyable experience.”**



## *VDC Value Added*

### Recent Developments... ..

- **Sales to Prime Vendors**
- **Independent Market Basket of  
U.S. Food Service**



# *Our Vision for the Future*

## **New Facility**

- *Consolidates multi-building & offsite storage into a single state of the art facility*
- *High productive work environment promotes greater inventory management opportunities*
- *High efficiency racking system*
- *Designed to accommodate high velocity receiving and shipping*
- *Sufficient & appropriate space to accommodate increases in customer demand*



# *Our Vision for the Future*

## Technology Tools

- *State of the art warehouse & distribution system*
- *Bar code and radio frequency technology*
- *Internet based real time customer ordering*
- *Integrated financials - VDC to DGS to DOA*
- *EDI capabilities between vendors & VDC*
- *EDI capabilities between VDC & customers*



# Summary

**VDC... ..**

**Adds Value through selection, convenience,  
economies of scale and quality**

**Geared to the future for our customers**

**Best value at the lowest price to meet customer needs**

**- through -**

**Maximum competition and volume buying**



# Conclusion

**VDC.....**

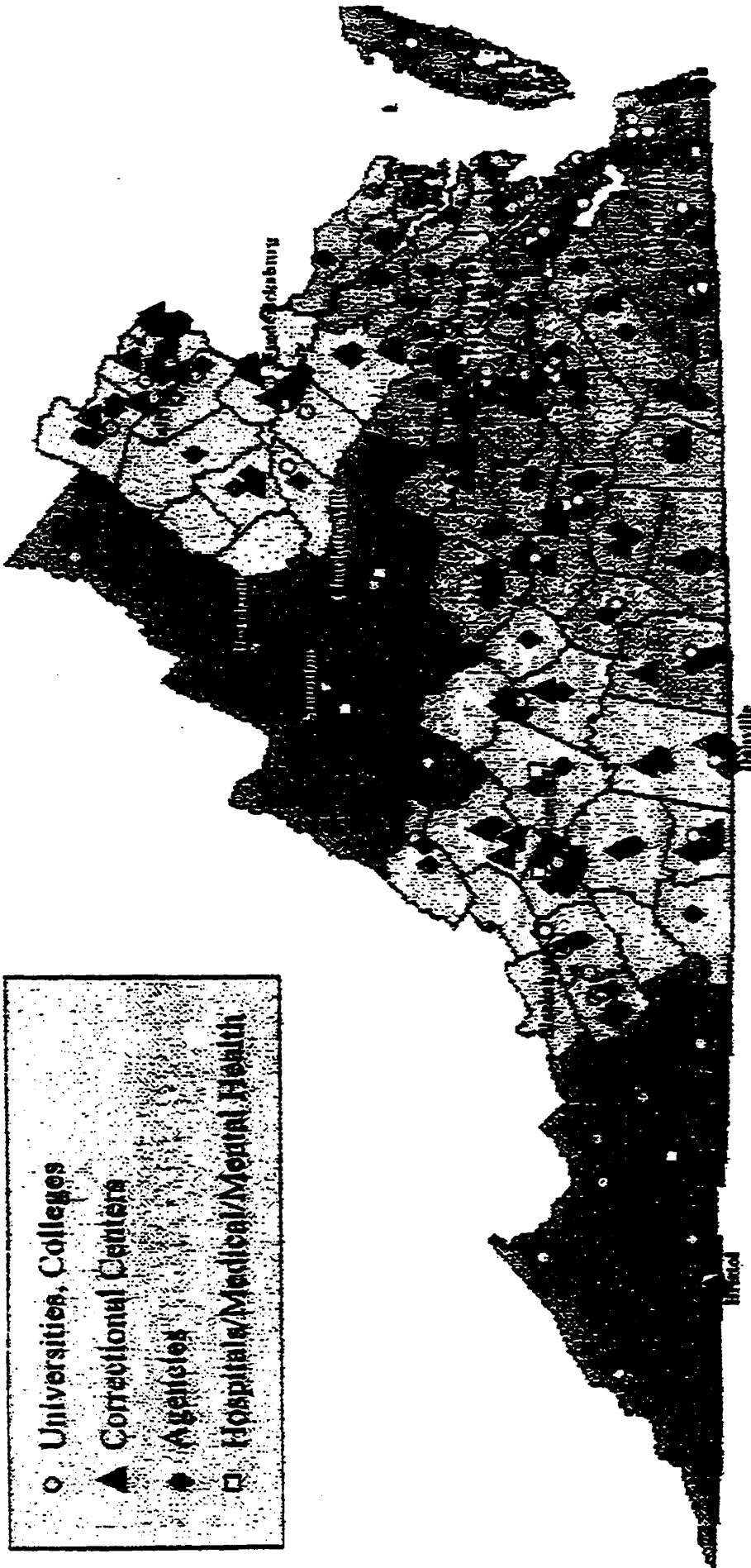
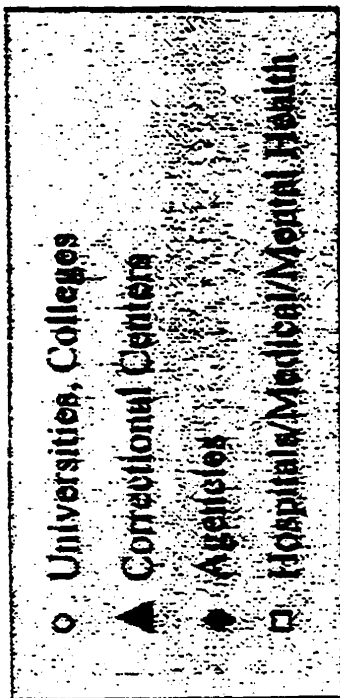
*Meeting customer mission critical needs today...*

*with food savings of 27.2% ...*

*while focusing on increased program savings tomorrow!*

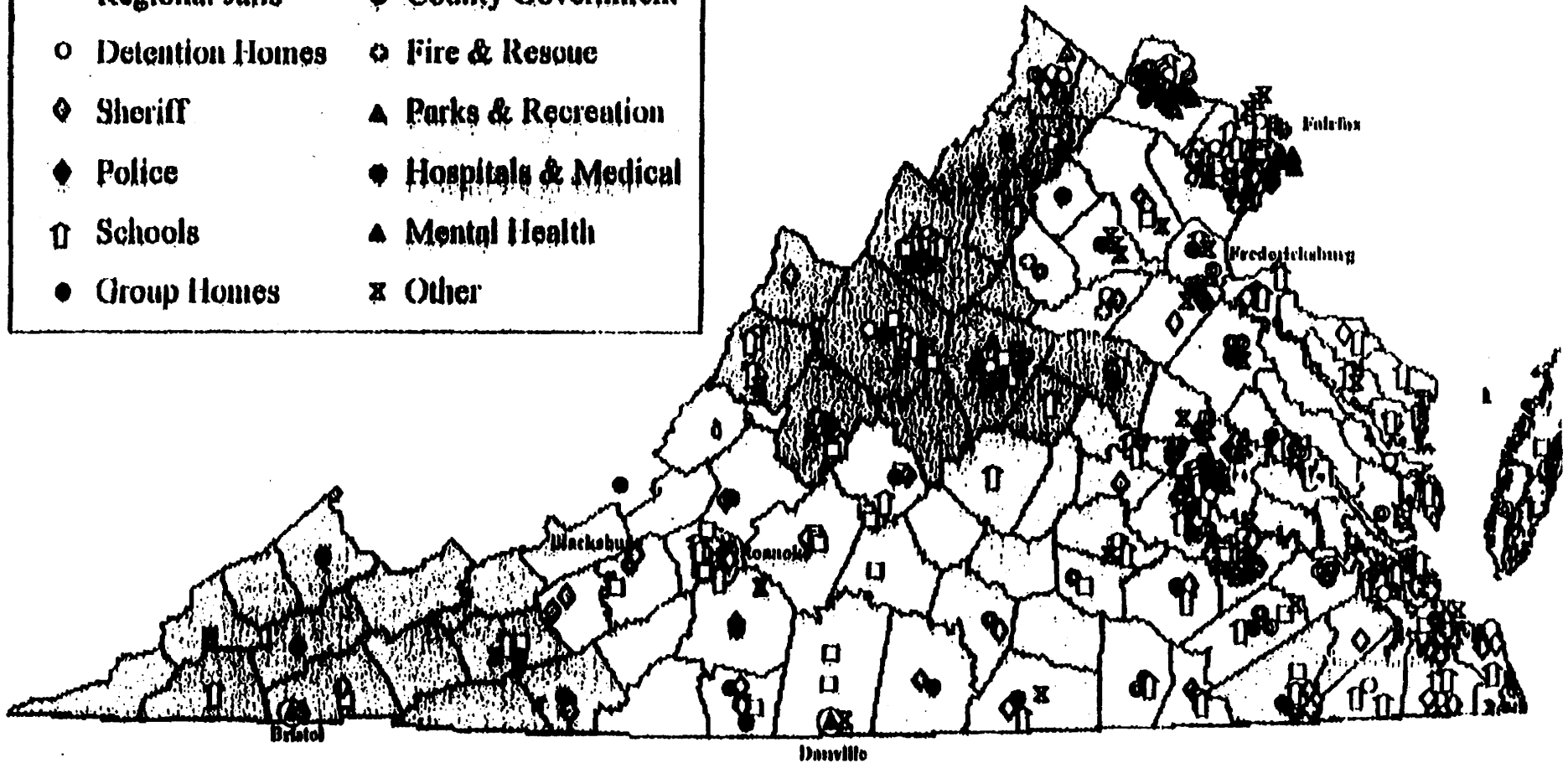
**Adding value and effectively using taxpayer \$**

# VDC CUSTOMER AGENCY SHIP-TO-LOCATIONS



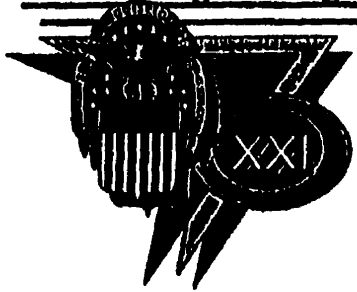
# VDC CUSTOMER LOCALITY SHIP-TO-LOCATIONS

- |                   |                       |
|-------------------|-----------------------|
| ● Jails           | □ Cities/Towns        |
| ○ Regional Jails  | ● County Government   |
| ○ Detention Homes | ⊗ Fire & Rescue       |
| ◇ Sheriff         | ▲ Parks & Recreation  |
| ◆ Police          | ● Hospitals & Medical |
| ↑ Schools         | ▲ Mental Health       |
| ● Group Homes     | ⊗ Other               |





APPENDIX F  
FOOD DELIVERY SYSTEM  
FEDERAL SUBSISTENCE PRIME VENDOR PROGRAM



# Subsistence Prime Vendor Background



- Jun 93 GAO report
- Aug 93 OSD directed implementation of a one year demonstration
  - Joint Services Task Group (JTG) formed
  - Report due to Congress Dec 95
  - Congressional guidance to roll out the SPV program in 1996 across the U.S.

A-24

\$125  
Billion Industry

\$600  
Million Dollar Program

**Supporting America's Fighting Forces**



# *Subsistence Prime Vendor*

## *What it Does*



- Uses a single, full-line commercial food distributor to deliver straight to the dining facility
- Orders using Electronic Commerce methods
- SPV contracts are tailored to meet customer needs
- Reduces DoD distribution costs at all levels
- Eliminates or reduces inventory
- Provides fresher product



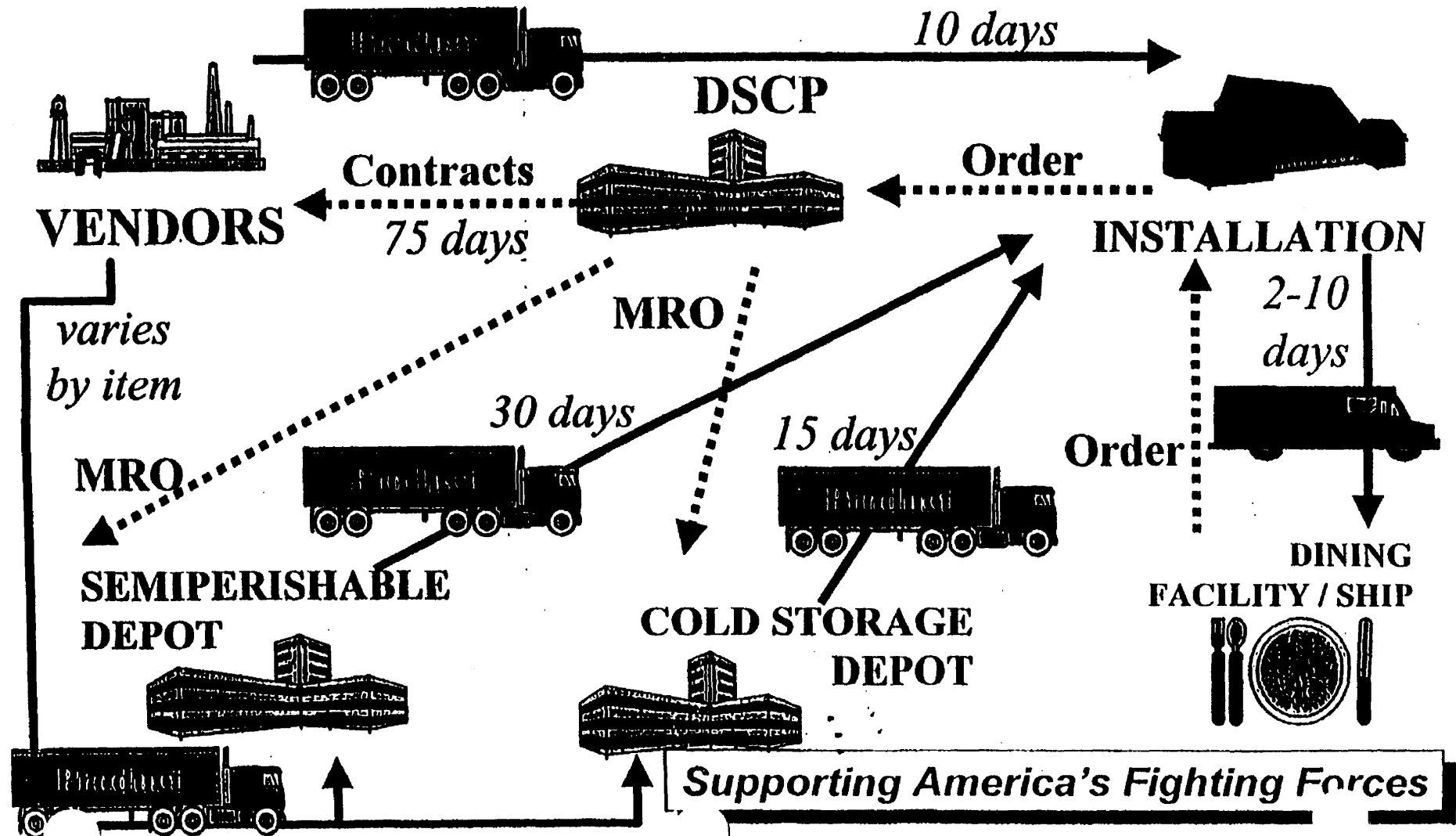
***Supporting America's Fighting Forces***



# Subsistence Prime Vendor The Old Way



A-26



*varies by item*

**MRO**

**SEMIPERISHABLE DEPOT**

**MRO**

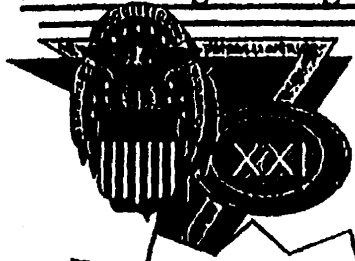
**COLD STORAGE DEPOT**

**INSTALLATION**

**DINING FACILITY / SHIP**

**Supporting America's Fighting Forces**

Defense Logistics Agency



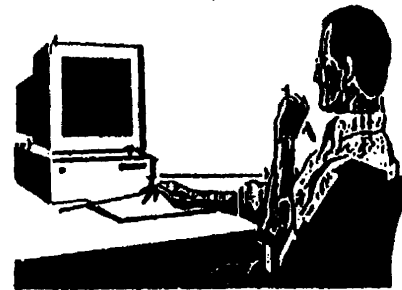
# Subsistence Prime Vendor The Prime Vendor Way



**STORES**  
will provide one  
stop shopping  
for all food



**DSCP**

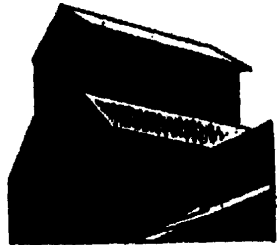


**ORDERS**

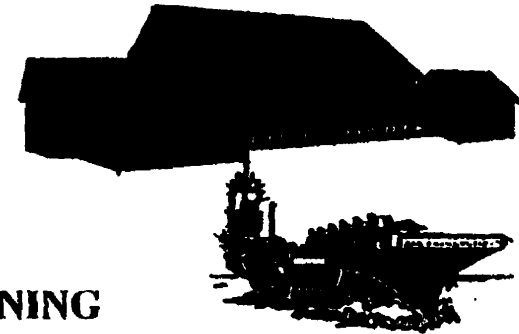
**SPVI**

**INSTALLATION**

**CONTRACT  
VENDOR**



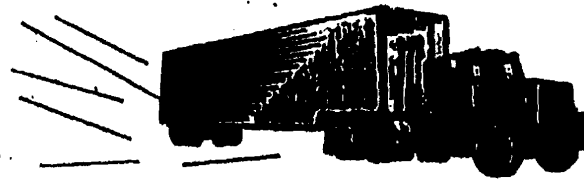
**24-48 HOURS  
DELIVERS**



**DINING  
FACILITY / SHIP**

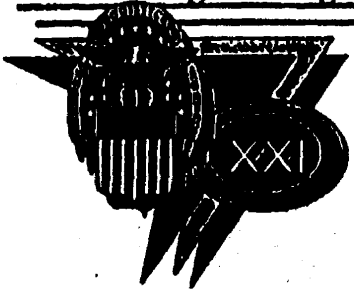


**BOTH  
SEMIPERISHABLE  
& PERISHABLE**



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A-37



# *Benefits of Prime Vendor*



- Electronic ordering - interfaces w/service systems
- Reduced inventory
- Reduced DoD distribution costs at all levels
- Contracts tailored to meet individual customer needs
- Increased customer choice and product variety
- Provides brand name items - NAPAs
- Rebates/discounts
- Reduced labor and handling costs - fixed price distribution fee
- Increased delivery frequency
- Provides fresher product
- Provides an opportunity for one stop shopping
- Better fill rates
- Enhanced customer service



***Supporting America's Fighting Forces***



# National Allowance Pricing



- Commercial practice for major customers
  - ◆ Prices held for minimum six months
- Prices negotiated are lower than what's available to Prime Vendor
- Continuous negotiations; priority on Service requirements

A-29

DSCP negotiates directly with manufacturers

Savings  
\$7.8M - FY98  
\$2.5M - FY97


6,400 Items  
1,000 Brands  
146 Agreements

Oct 98	= \$709k	Jan 99	= \$677k
Nov 98	= \$634k	Feb 99	= \$708k
Dec 98	= \$448k	Mar 99	= \$846k
		Apr 99	= \$855k

**Supporting America's Fighting Forces**

APPENDIX G  
DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES  
PRESENTATION BRIEF





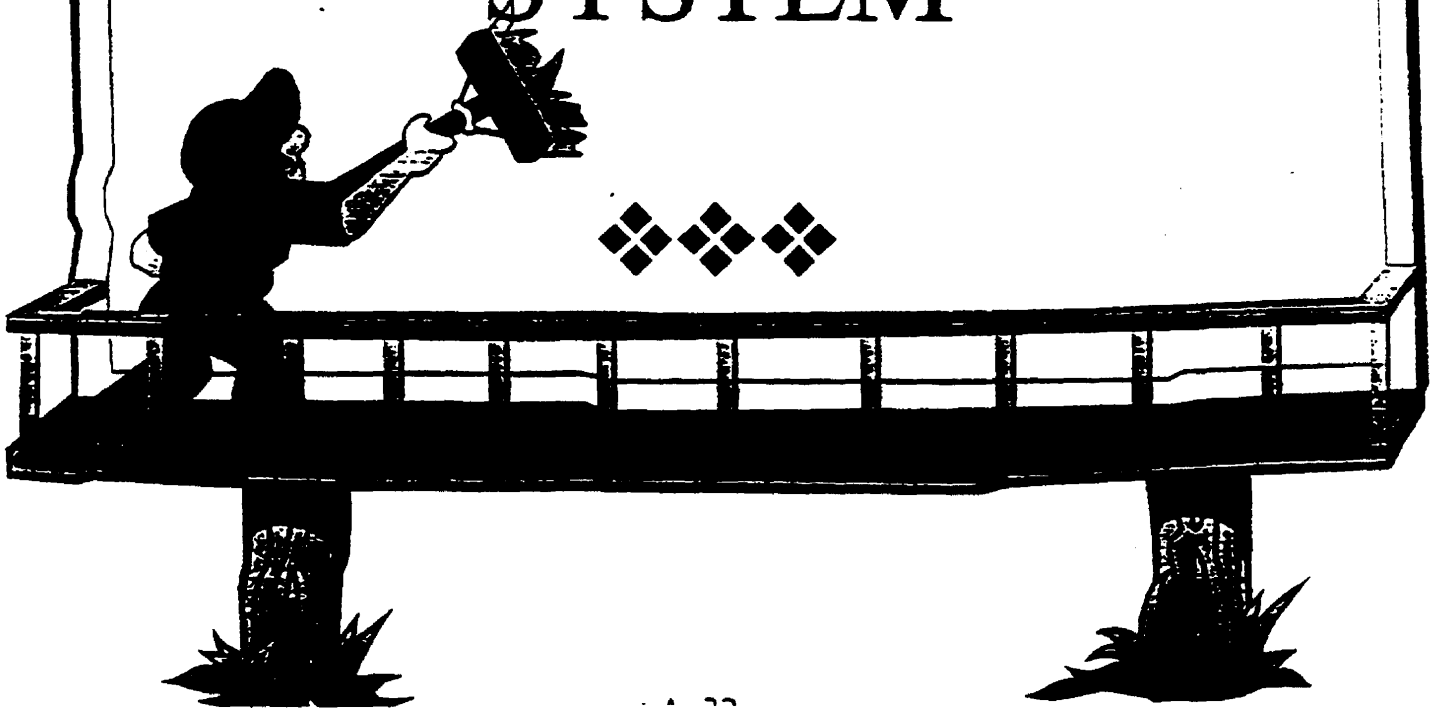
Virginia Department of  
Agriculture &  
Consumer Services

Food Distribution Program for  
USDA Donated Commodities

*Steven W. Thomas*  
*Administrator*

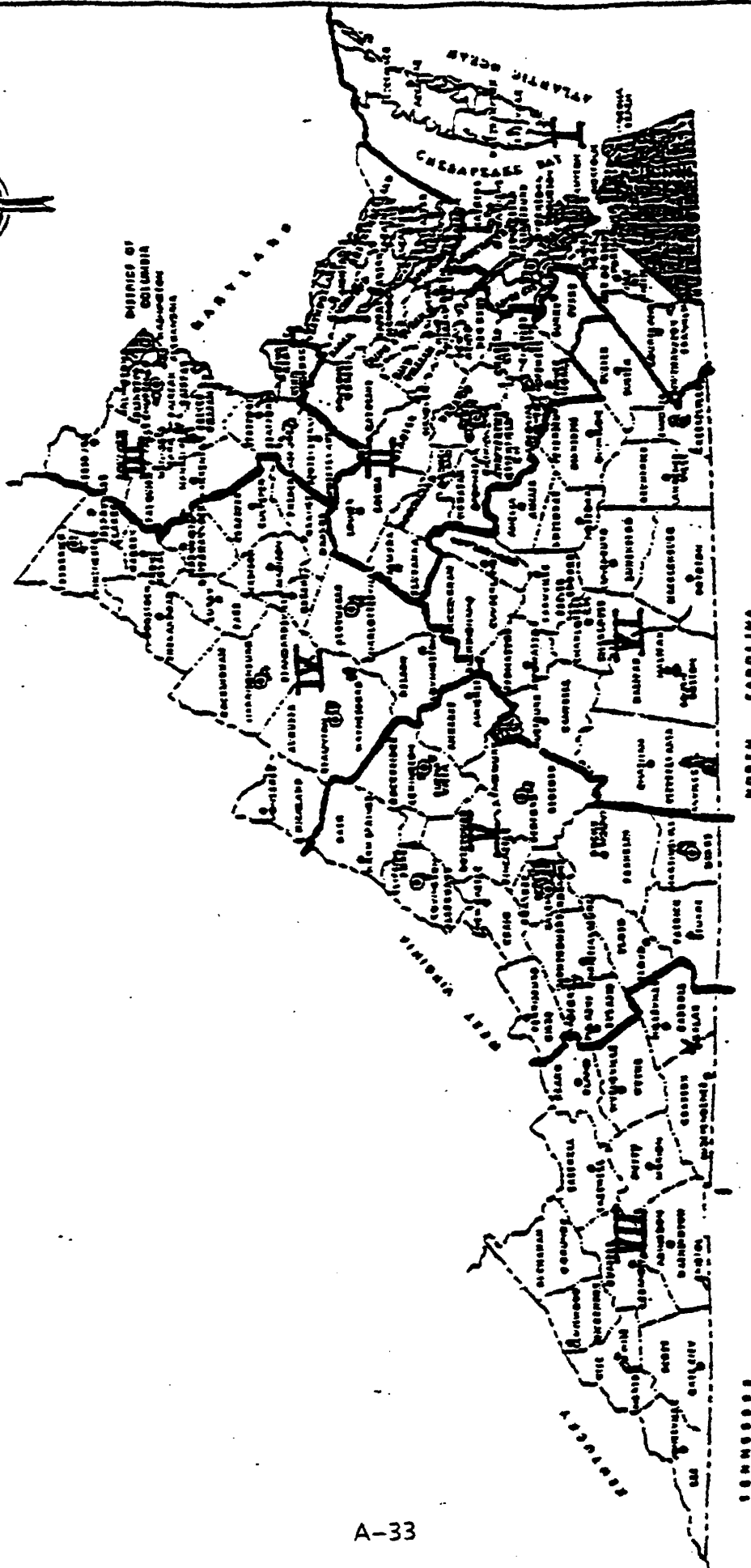
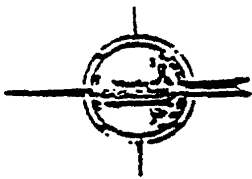


CONTRACTED  
COMMERCIAL  
DISTRIBUTOR  
SYSTEM



# DISTRIBUTOR REGIONS

92



NORTH CAROLINA

MISSISSIPPI

# GENERAL SYSTEM DATA

- State divided into seven service regions
- *Invitation for Bid* per region offers one year contract term with four one year renewal options
- Contract parameters:
  - Projected volume of foods
  - Storage facility requirements
  - Account inventory & activity
  - Delivery frequency & time requirements
  - Direct billing to agencies for services
  - 646,000 cases of USDA donated foods valued at \$18,107,000 handled through the distributors
- Clientele served:
  - Child Nutrition Programs - 562,000 children
  - Charitable, Correctional & Summer Feeding Programs - 105,000
- Agencies served:
  - 132 public school districts (appr 1,350 schools)
  - 96 private or state schools
  - 104 public or private non-profit institutions
  - 59 state hospitals and correctional facilities
  - 107 summer camps and feeding programs

## **ADVANTAGES OF USING VDACS' CONTRACTED FOOD DISTRIBUTORS:**

- ☞ Private sector expertise in inventory control and food delivery**
- ☞ Appropriate food storage and transportation conditions**
- ☞ Eliminates state investment in facility construction and maintenance**
- ☞ Eliminates associated state personnel costs for food distribution**
- ☞ Low storage and delivery fees resulting from competitive bid process**
- ☞ Standard regional delivery fees that eliminate excessive charges for remotely located agencies**

- ☞ Standard delivery fees for a full year (contract term) for budgeting and monitoring purposes
- ☞ Delivery frequency based on recipient agency needs
- ☞ Contracted distributors charge service fees directly to recipient agencies
- ☞ Eliminates need for state funds to advance payments and then collect from agencies

## **DISADVANTAGES TO USING CONTRACTED DISTRIBUTORS:**

- ⊖ Changing distributors requires relocation of existing inventory
- ⊖ Changing distributors requires retraining and orientation of recipient agencies to new distributor operations
- ⊖ Current industry consolidation results in reduced contractor competition
- ⊖ Logistical difficulties in canceling contracts for non-compliance, awarding new contracts and continuing service to recipient agencies
- ⊖ Reduced flexibility when unanticipated service needs are not provided for in the contract

APPENDIX H  
VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY  
PRESENTATION BRIEF



# **Prime Vending at Virginia Tech Overview**

- I. Virginia Tech Culinary Services**
- II. The Need for Change: Why Prime Vending?**
- III. History of Purchasing and Not Meeting Customer Needs**
- IV. Prime Vending: Meeting and Exceeding Customer Needs and Expectations**
- V. Summary and Recommendations**

## **I. Virginia Tech Culinary Services**

- **Department of Residential and Dining Programs**
  - **\$20 million operating budget**
  - **Serve 15,000 meals per day**
  - **Employ a staff of 825-225 classified, 250 wage, 350 student**
  - **11<sup>th</sup> largest dining operation in the United States on a university campus**
  - **Award winning program – NACUFS Grand Prize Winner: West End Market**
- 

## **II. The Need for Change: Why Prime Vending?**

- **Improve customer satisfaction**
  - **Organizational goal to improve efficiency**
    - **Good stewards of student fees**
    - **Lowest meal fees in the State of Virginia**
    - **Over a six year period, the average increase in fees has been 1.5%**
- 

## **III. History of Purchasing and Not Meeting Customer Needs**

- **Virginia Distribution Center (VDC) problems:**
  - **Low quality products**
  - **Will deliver to only one central location, not to all operating unit**

- Timeliness issues: took two -three weeks from order to delivery
- VDC was not cost effective

---

**Cost Comparison – 1995**

	<u>Prime Vendor</u>	<u>Vendor</u>
Food Cost	\$5,000,000.00	\$5,000,000.00
Redelivery Costs	—	\$300,000.00
Inventory Costs	\$6,000.00	\$24,000.00
Waste/Out of date 1%	\$1,000.00	\$4,000.00
Rebates	(\$75,000.00)	—
<b>Total Costs</b>	<b>\$4,932,000.00</b>	<b>\$5,328,000.00</b>
<b>Net Savings (before Debt Service/Rent)</b>	<b>\$396,000.00</b>	
<b>Debt Service/Rent Savings on Warehouse</b>	<b><u>\$156,000.00</u></b>	
<b>Total Prime Vendor Savings</b>	<b>\$552,000.00</b>	

---

**Cost Comparison – 1999**

	<u>Prime Vendor</u>	<u>VDC</u>
Food Cost	\$5,340,000.00	\$5,000,000.00
Redelivery Costs	—	\$360,000.00
Inventory Costs	\$6,000.00	\$24,000.00
Waste/Out of date 1%	\$1,000.00	\$4,000.00

Rebates	(\$70,000.00)	—
Full Time Staff	(\$52,000.00)	
<hr/>		
Total Costs	\$5,225,000.00	\$5,388,000.00
Net Savings (before Debt/Service Rent)	\$163,000.00	
Debt Service/Rent Savings on Warehouse	<u>\$156,000.00</u>	
Total Prime Vendor Savings	\$319,000.00	
<hr/>		

#### **IV. Prime Vending: Meeting and Exceeding Customer Needs and Expectations**

- **Superior service – prime vendors are experts at what they do.**
  - Deliver 5 days per week, 6 different locations
  - 99% fill rate
  - 128 return trips in 1998-99
  - Orders placed 2 days in advance, add-ons 4 p.m. day before (14 hours before delivery)
- **Excellent flexibility**
  - Order from 7800 stock items
  - New product requests
  - Respond to customer needs in one day
- **Cost Competitive:**

- \$1.76 per case delivery fee (drayage)
  - \$0.07 per pound delivery fee on catch weight items
  - Rebate of .9% on all purchases
  - Discount of .5% on all 14 day payments
  - On-site representative - \$52,000.00
- 

## **V. Summary and Recommendations**

- **Prime vendor service and costs are outstanding**
  - We are very pleased
  - Savings of \$319,000.00 - \$552,000.00 per year
- **Recommendations**
  - Close Virginia Distribution Center (VDC)
  - Go prime vendor statewide
  - Concentrate efforts on leveraged purchasing
  - Use private sector model i.e. Compass and Aramark
  - State to act as a "buying group", prime vendor to act as a warehousing and just-in-time delivery agent

# Prime Vendor Proposal for Virginia Tech Summary

Thank you for the opportunity to propose a prime vendor relationship between US FOODSERVICE and Virginia Tech.

## Highlights of the proposal :

- Our purposes are these :
  - \* Provide the quality food and food related supplies VPI wants.
  - \* Provide service that is understandable and reliable.
  - \* Provide drayage that is accurate.
  - \* Administer a program that is easily audited.
  - \* Help VPI control costs by obtaining the best price / value available.
  - \* Help establish a Culinary Development Program.
- We understand the initial term of this contact is one (1) year and an extension will be agreed upon during negotiations.
- We understand our responsibility to replace any out of stock items with an item of the same or higher quality at the original stock item unit price.
- We will supply nutritional analysis for all products used.
- We will replace same day, if deemed necessary by VPI, products damaged, incorrect, or otherwise not to specifications and will provide credit where appropriate. We understand we will be charged for any replacement product VPI is forced to acquire from another vendor.
- Our deliveries will be to the five locations listed with possible future additions and shall be made daily between the hours of 5 a.m. and 10 a.m. with Southgate delivered first.
- We will deliver when necessary on agreed upon selected holidays when Culinary and / or DBHCC is open once we are provided this list of possible holidays. We do not deliver on Saturday, Sunday, Thanksgiving Day, Christmas Day or New Years Day.
- Deliveries will be palletized, wrapped and segregated and delivered and invoiced as instructed. Product will be delivered in climate controlled vehicles subject to verification.
- There will be no minimum ship requirements with full knowledge that Culinary and DBHCC will make every attempt to maximize deliveries.
- Invoices will be separate per location and / or operational unit.
- We understand that our invoices will be periodically audited to assure accuracy and compliance.
- We further understand that VPI may require supplying manufacturers to disclose all rebates, allowances, bonuses and discounts of any kind which accrue to the contractor.
- We acknowledge that we must provide by July 1, 1998 a cross-reference system between our inventory numbers and the Food Pro inventory numbers.
- We will provide computerized program updates and current product listings.
- We will obtain and forward marketing and merchandising programs and promotional material (i.e. flyer, table-tents, etc.) for products sold to Culinary.

- We will obtain and track rebates and promotional allowances. Totals will be accumulated and submitted to vendors for payment.
- Requested changes (increases/decreases) on non-commodity items will be submitted seven (7) days prior to the end of the current month. The price in effect on the 7<sup>th</sup> day prior to the end of the month will be the price for the next month. Commodity item pricing may fluctuate and increases/decreases in laid-in cost shall be passed on weekly.
- The drayage fee shall remain firm for the initial year of this contract. Any requested change thereafter must be submitted in writing to the Purchasing Department by February 1 and the approved fee will be effective the following July 1.
- We understand and will abide by the insurance requirements stated in Attachment C #12
- Your facilities can order from over 7000 different items.
- A dedicated service representative will provide in person support to all units on a daily basis.
- We offer Electronic Order Entry via UDS/ Direct Customer Order Entry System. We will openly discuss equipment requirements.
- We offer an early payment discount of ½ % for payment within 14 days or regular terms of net 28 days.
- We offer a donation to fund a Culinary Development Program.
- We offer a rebate tracking system by vendor to capture all possible manufacturers' rebates.
- VPI will have access to merchandising programs including a Food Fair, on site support by broker and manufacturing reps, assistance in operator rebate negotiations, and of USF specialists.
- VPI will have toll free access to USF via phone or E-Mail.
- VPI will have the ability to interface with the Food Pro Menu System
- Costs in effect December 1, 1997 have been provided for all the 100 Brand Specific items, along with documents supporting these costs.
- Similarly, costs in effect December 1, 1997 have been provided for the 100 Best Buy items. Manufacturer specification sheets are included for each product that differs from the Brand Specific items list along with documents supporting these costs.
- We have provided a sample document which shows the manufacturers' rebates, growths programs etc.
- We have submitted the products availability list and have provided a manufacturers' specifications sheet for any equivalent products utilized.
- We have provided a sample invoice / delivery ticket.
- We have provided a listing of the manufacturers currently in use.
- We have provided a listing of our complete product line.
- We have provided an audited financial statement FYE 1997.

APPENDIX I  
DOUGHTIE'S - SYSCO FOOD SERVICES, INC.  
PRESENTATION BRIEF



# **Doughtie's SYSCO Food Services, Inc.**

## **Presentation Overview**

---

- Doughtie's SYSCO: Our Company and our Future Plans
- Advantages/Capabilities of Major Broadline Food Service Distributors
- Commercial Prime Vendor Cost and Opportunity For Savings
- Recommendation for Pilot Demonstration Project

# Doughtie's SYSCO Food Services, Inc.

## Company Overview and Future Plans

---

- FY 98 Sales Exceeded \$87 Million
- Currently Serve Over 2,500 Customers in Virginia, Maryland, North Carolina, Delaware & Washington, D.C.
- Currently Serve as Prime Vendor for All Shore-Based Hampton Roads Military Dining Halls
- Currently Serves 50 Virginia Institutions as part of the USDA Commodity Program

### ◆◆◆◆◆ Future Plans ◆◆◆◆◆

(As a new affiliate of the SYSCO Corporation - America's Leading Marketer of Quality Assured Food Service Products)

- Scheduled to Complete State-of-the-Art 250,000 + square foot Distribution Facility by January 2001
- Anticipated Sales are \$250 million First Year in New Facility
- Purchasing Power of a \$16 Billion Dollar Company
- 10,000 ++ Food and Food Related Products Will be Available in New Facility with Delivery Supported by 125 Refrigerated Tractor-Trailers
- Expect to Serve over 5,000 Customers During First Year in New Facility

## **Advantages of Broadline Food Service Distributors**

---

- Extensive Quality Assurance Program at Manufacturer and Distribution Locations
- Professional Buyer Negotiations with Manufacturers to Obtain Best Pricing
- Extensive Product Selection (10,000 + Items)
- Consistent 98% ++ Order Fill Rates
- Extensive Brand name and Private Label Options
- Automated On-Line Order Placement with On-Hand Stock Level Visibility
- Frequent “Just-In-Time” Deliveries Available (Eliminates Extensive Inventory Levels)
- Next Day “Just-In-Time” Deliveries Available Statewide Via SYSCO Organization
- Streamline the State’s Overall Food Delivery/Distribution System
- Quick Access to New Products on the Market
- High Inventory Turns Ensures Fresher Product
- Customized Management Information Reports Available Based on Customer Requirements Facilitating Customer Financial Management Function
- Product Knowledge & Education Training for Customers

## **Commercial Prime Vendor Cost**

### **Opportunity For Savings**

---

- Customer Cost Varies With Total Volume of Sales, Product Quality Requested By Customer, Average Order Size, Delivery Frequency, Location of Delivery Points, and Value Added Services Desired by Customer
- Opportunities Exist to Reduce Costs By Consolidating State Requirements with those of SYSCO
- Reduction in Cost in the Total Food Delivery Chain
- Greatest Savings Opportunities are Achievable By Reducing or Eliminating Labor, Warehouse Space, and Overhead Expense Now Existing in the State's Current System
- Similar Savings Achieved in the Federal Subsistence Prime Vendor Program

## **Pilot Demonstration Project Recommended**

### **Doughtie's SYSCO Offer**

---

- **Pilot Program Would Help State Identify Costs Associated With Current Supply Chain**
- **Doughtie's SYSCO Will Provide Prime Vendor Support On a Cost Plus Basis**
- **Doughtie's SYSCO Will Provide "Customer Connection" Software to Facilitate Automated On-Line Ordering**
- **Recommend Larger Facilities Willing to Eliminate Large Inventory Be Selected**
- **Doughties SYSCO Will Assist Customer In Identifying Product Requirements and Ordering Frequency**
- **Single Site or Multiple Sites Can Be Included In Pilot Project**

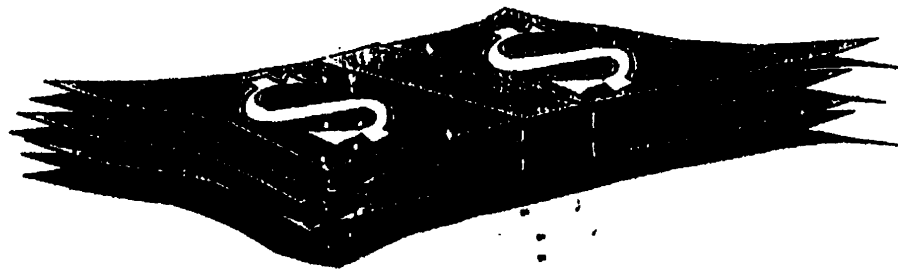
APPENDIX J  
SYSCO FOOD SERVICES OF VIRGINIA, Inc.  
PRESENTATION BRIEF

# Sysco Food Services of Virginia

## Presentation Overview

---

- Sysco Virginia-Who are we?
- What Can a Distributor Do For You?
- Can a Prime Vendor Relationship Save Virginia Money \$\$\$?
- Could We Try it Somewhere?



# Sysco Food Services of Virginia

## Who Are We?

---

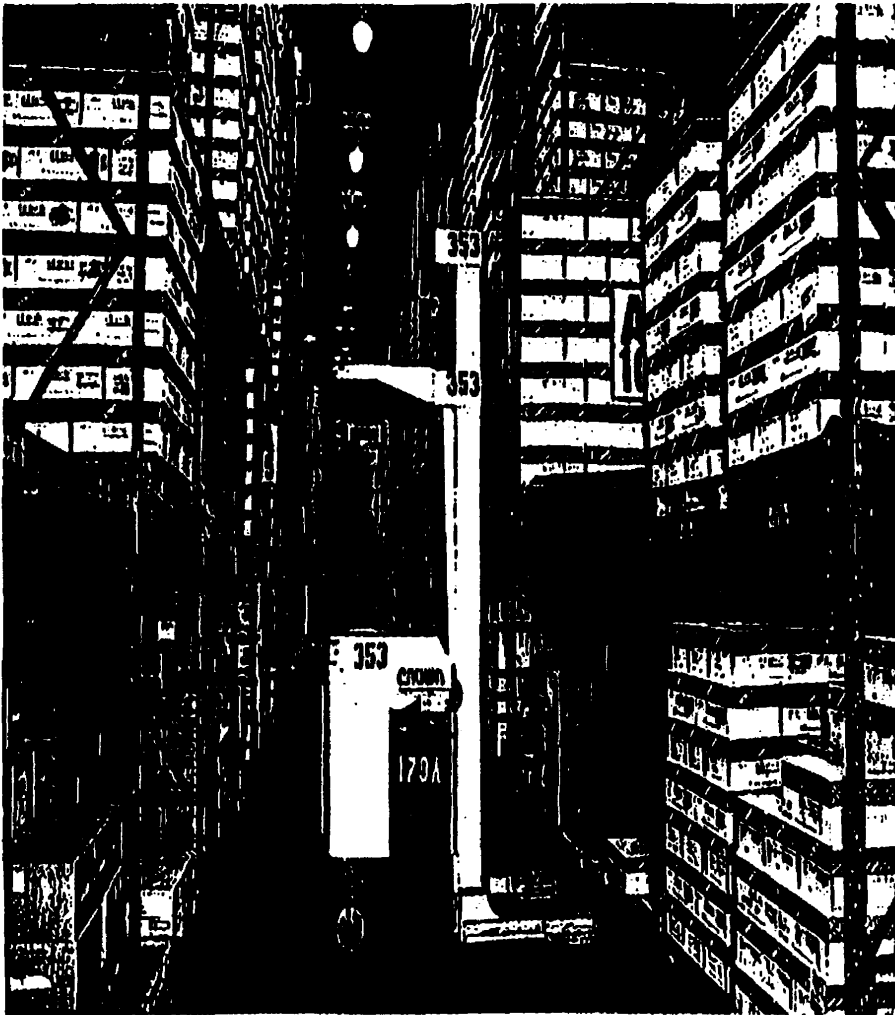
- 30/48 Year Old Company
- Growing Company-\$17+ Billion/\$165 Million
- Over 3000 Customers in Virginia, West Virginia, Maryland, and North Carolina.
- Part of Local Community-Rockingham County based
- Over **10,000 Products** “in stock” for Next Day Delivery- Handled Properly
- 210,000 Square Foot “State-of-the-Art” Facility
- Entrepreneurial Spirit



# Sysco Food Services of Virginia

## What Can a Distributor Do For You?

---



- Reduce Excessive Inventory
- Next Day Delivery
- Direct Order Entry
- Variety-Over 10,000 Items “In-Stock”
- Sysco Quality Assured Products
- Buying Leverage - \$17+ Billion
- Merchandisers **not** Buyers
- Negotiated Costs/Contracts
- Best Fill Rates in Industry (>99.25%) !
- Customer Seminars & Training
- Food Show Additional Savings
- New Items
- Information Services - Reporting

# Sysco Food Services of Virginia

## A Prime Vendor Relationship Can Save Virginia Money

---

- Our Price Includes Shipping
- Contractual Costs
- Eliminate State Overhead in Labor, Warehouse Space and Excess Management
- Ability to be Flexible
- Ability to Force Consistency
- Leverage **YOUR** Size
- Reduction in Shrink/Damage-  
**Double Savings**

Customers don't buy products and services, . . .they buy results.

APPENDIX K  
KPMG, LLP  
PRESENTATION BRIEF

**State of Virginia**



# **HJR 709 Task Force**

***Talking Points on  
Food Distribution***

**To:** HJR 709 Task Force  
**From:** KPMG  
**CC:** N/A  
**Date:** 10/28/99  
**Re:** Talking Points on Food Distribution

---

#### A. Purpose

The purpose of this document is to present an overview of the challenges and opportunities related to the institutional food distribution channel. It is not based upon a detailed analysis of the HJR 709 Task Force or its affiliations. Instead, it represents an independent review of the issues at hand.

#### B. Assumptions

In preparing these Talking Points, we made the following assumptions:

- Sales and throughput in 1999 is approximately \$32 million
- Average inventory value at the distribution center is \$6.1 million
- Demand will grow at an average rate per year (No substantial jumps)
- Order integrity and security is essential and subject to stricter controls than commercial entities
- The HJR 709 Task Force is open to considering all viable options for serving the channel, including outsourcing

#### C. Alternatives

This document focuses on three primary alternatives:

- 1) **Base Case** defined as maintaining the existing State run distribution channel
- 2) **Outsource** defined as outsourcing the entire food distribution operation to a third party similar to Sysco or Aramark
- 3) **Hybrid**, defined as partnering with a food service distributor for procurement and delivery to the distribution center with final order selection and delivery performed by the HJR 709 Task Force. Potential partners might include Sysco, SuperValu or Fleming

**D. Analysis Components**

Each alternative was rated on a scale of 1 to 3 with 1 representing "the best" and 3 representing "the worst" based upon the following criteria:

- 1) Overall Supply Chain Cost (including cost of goods and physical distribution) (Overall SC\$)
- 2) Inventory Carrying Cost (ICC)
- 3) Assortment (Assortment)
- 4) Delivery Frequency (Deliver Freq.)
- 5) Order Accuracy (Order Acc.)
- 6) Product Quality (freshness and overall condition upon delivery) (Quality)
- 7) Administration (order reconciliation and paperwork at both the customer and headquarters level) (Admin \$)

Exhibit 1 contains a summary of the ranking by criteria for each alternative. Scoring was based upon industry knowledge of performance capabilities and experience.

**Exhibit 1 – Ranking of Performance Potential**

#	Option	Overall SC \$	ICC	Assortment	Deliver Freq.	Order Acc.	Quality	Admin \$	Total
1.	Base Case	3	3	3	3	1	3	1	17
2.	Outsource	2	1	1	1	3	2	3	13
3.	Hybrid	1	2	2	2	2	1	2	12

**E. Findings**

As shown in section D, option 1, operating an independent food service distribution operation is the least desirable based upon a subjective review of the above criteria. What the chart does not show, however, are the impact on the intangible issues that, in combination, could make the Base Case feasible.

The primary foundation for judging the base case as undesirable is due to the low volume associated with the operation. In short, an independent operation with less than \$1B dollars cannot compete on a level playing field with today's market leaders. Even if the HJR 709 Task Force obtains guaranteed favorable pricing on procurement, the cost of overhead (administration, systems support, physical distribution, etc.) is a heavy burden.

A few of the many disadvantages that a small volume operation must overcome include:

- Volume leverage in all areas, including: purchasing (buying power), inventory (safety stock), assortment, and operating efficiency
- Transportation efficiency in terms of delivery size from vendors (LTL vs TL) and delivery density on route delivery for outbound
- Overall operating efficiency (overhead and labor performance within distribution operations)
- Justifying Capital Investments for information technology and facilities

#### F. Opportunities

The HJR 709 Task Force can pursue a number of opportunities that can potentially make the operation a valuable component of the supply chain. Examples include:

- Increasing the depth and breadth of services offered. Opportunities include:
- Serving as a consolidation point for multiple commodities (Food, raw materials, supplies, uniforms, etc.)
- Performing value added services for the end users, including: order verification, billing, vendor management, etc.)
- Adding prepared foods and/or meals to reduce the burden on the kitchens at the customer level

#### G. Recommended Next Steps

First and foremost, we recommend that the HJR 709 Task Force develop a clear vision of their role in the supply chain. Considerations should include:

- Overall Strategy – What functions should I manage and what components should I outsource?
- Performance Measurement - What performance metrics should I measure myself against (cost, order cycle time, order fill rate, quality, accuracy, delivery frequency, on time delivery, etc.)
- Procurement Strategy – Should you purchase direct from vendors, collaborate with a wholesaler, or outsource the entire operation?
- Distribution Strategy – What is the role, form, and function of the distribution operation(s) (stock and distribute, pick, pack, and distribute, cross dock, or consolidate and ship)
- Delivery Strategy - What is the frequency of delivery? Do I "own" this operation or outsource it?

Second, once the strategy is clearly defined, the HJR 709 Task Force must develop the infrastructure required to achieve the vision. Implementation requirements may include upgrading information technology, negotiating for third party services, and upgrading in house operations

#### H. Risks

The risks associated with pursuing the above path are concentrated around the ability to reach the "right" conclusion. Examples include:

- Cost analysis – The quality of information is critical
- Third Party Selection – Any third party will want a long term contract if we expect them to provide a competitive price for their services. As a result, you must "know the numbers" and develop and conduct a "bulletproof" selection process or risk getting stuck with a bad deal.
- Exclusivity – Do you have a captive customer or do they have a choice? How do you lock them in once you commit down a path?



ENTERPRISE 2 ENTERPRISE

# Overview of Supply Chain Management

October 26, 1999



**KPMG**

# Meeting Objectives



***During today's meeting, we would like to accomplish the following:***

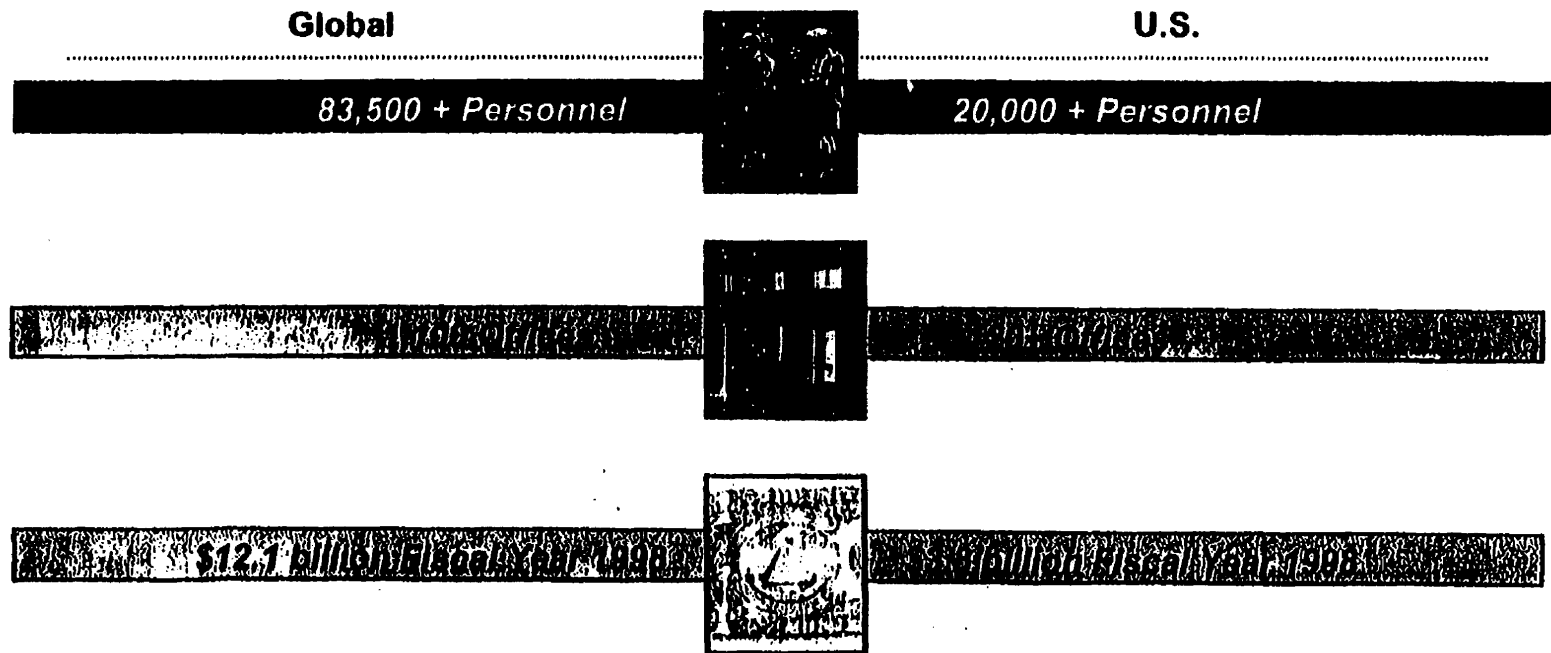
- Introduce KPMG
- Share our vision of *Supply Chain Management*
- Establish the Business Context
- Learn more about your issues and opportunities

# KPMG Is the World's Largest Professional Services Firm

ENTERPRISE 2 ENTERPRISE

***KPMG LLP is a limited liability partnership providing sophisticated assurance, tax and leading-edge business consulting services around the world***

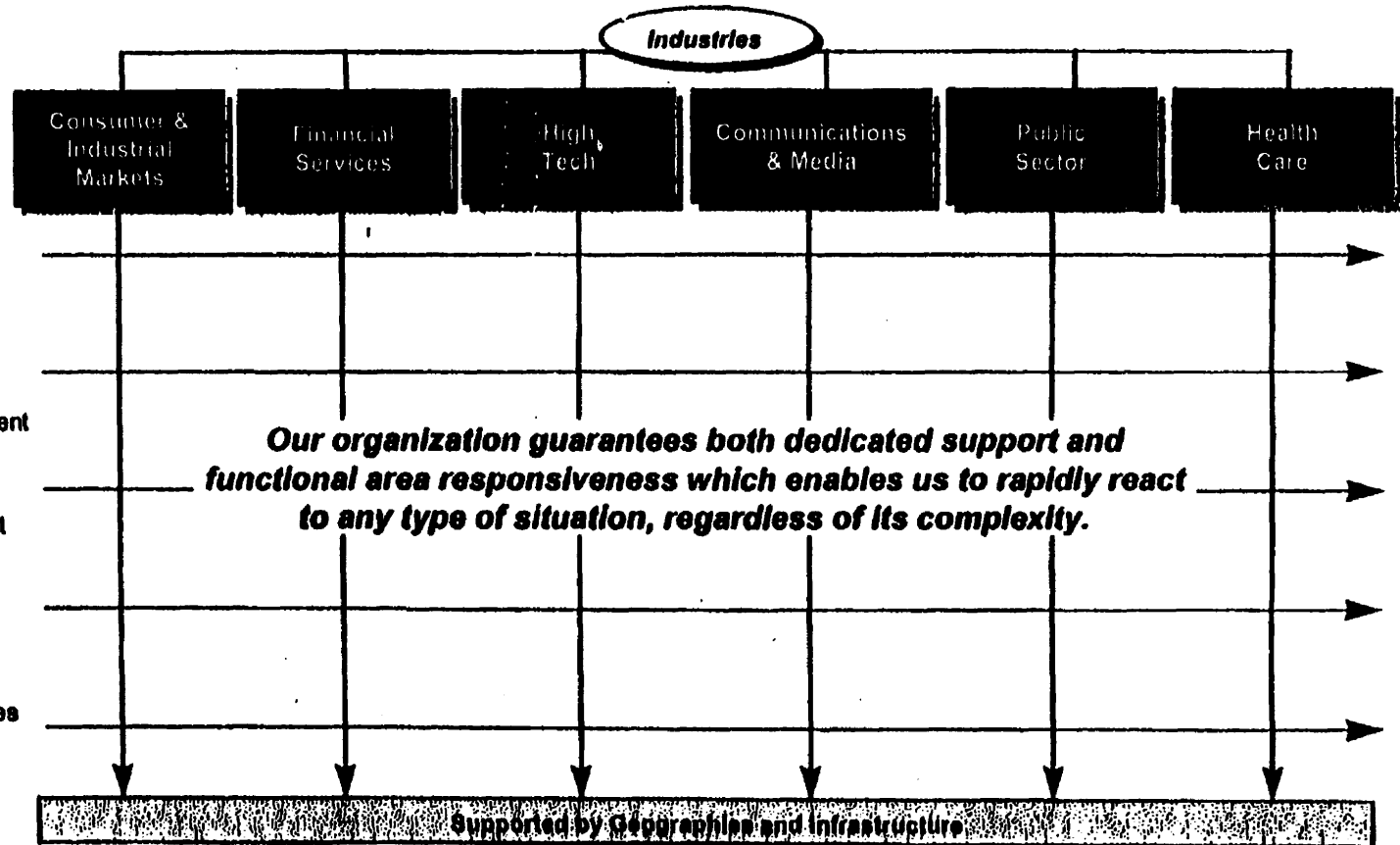
***In 1997 we proudly celebrated our 100th anniversary in business establishing a global reputation as a trusted and proven business partner***



KPMG Consulting is backed by KPMG's 100 years of experience and commitment to quality client service.



# KPMG Consulting Business Model



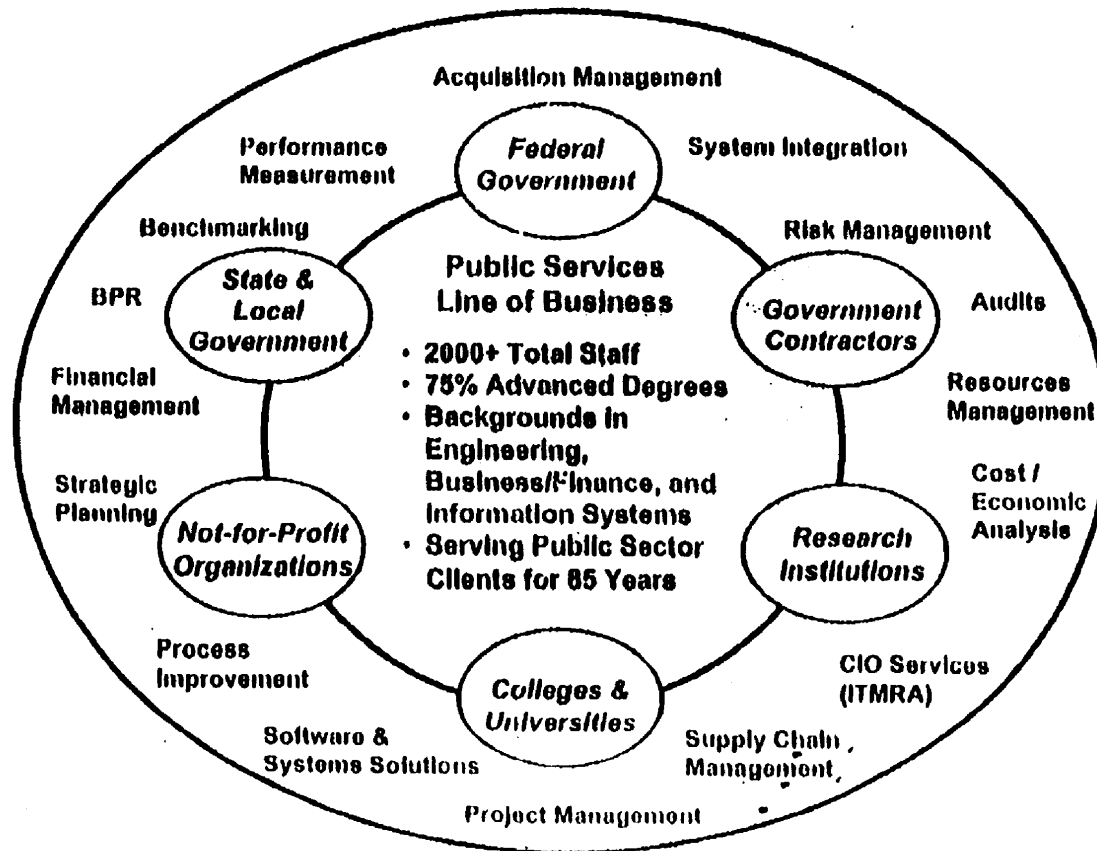
A-66



# KPMG Public Services



- KPMG was cited as the #1 Federal Management Consulting Firm by Government Executive Magazine
- KPMG is one of the “Top 200 Federal Contractors” based on annual revenues



A-67

# Introduction

ENTERPRISE 2 ENTERPRISE

***KPMG is a firm united around a compelling business vision: To help businesses capture, manage, refine, and use information to create knowledge that, when effectively applied, raises shareholder value.***

***From end-to-end solutions to end-to-end support, we assist our clients in achieving sustainable competitive advantage and business success.***

***KPMG has a global presence to support and serve our clients with over 100,000 people in over 1,100 offices around the world.***

A-68

The KPMG logo features the letters 'KPMG' in a bold, white, sans-serif font with a black outline. The letters are set against a black background that consists of several vertical bars of varying heights, creating a stylized, modern look.

***KPMG Consulting is backed by 102 years of experience and commitment to quality client service.***



# Introduction

ENTERPRISE 2 ENTERPRISE

***We believe that the business environment will continue to evolve, leading to a society which depends more on information and less on “physical assets” to succeed.***

***Based upon the above premise, the following Leading Edge Trends are emerging as “prerequisites to survival,” including:***

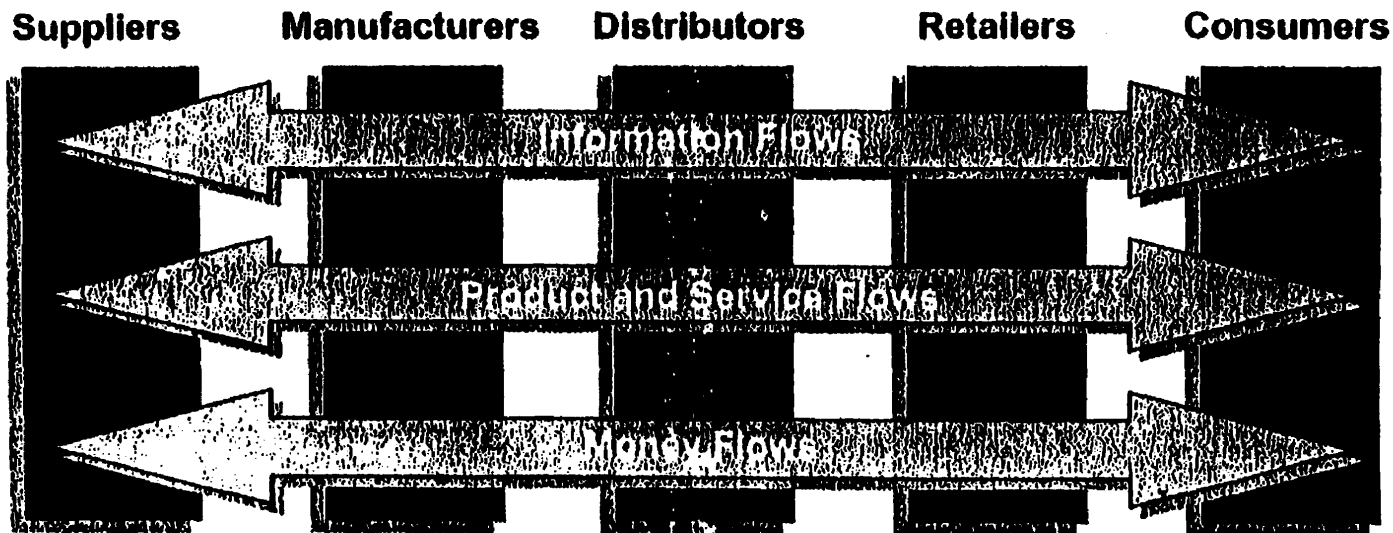
- Enterprise 2 Enterprise Collaboration between trading partners and competitors enabled by electronic commerce
- Disintermediation (the elimination of the “middle man”)
- Application Portfolio Assembly as it relates to technology
- Configure to Order enabled by Internet Technology replacing “Make to Stock” resulting in drastically shorter lead times

A-69

# Introduction

ENTERPRISE 2 ENTERPRISE

*Supply chain management encompasses the coordination, integration and profit maximization associated with the flow of product, information, money, and services across multiple trading partners' enterprises.*



A-70

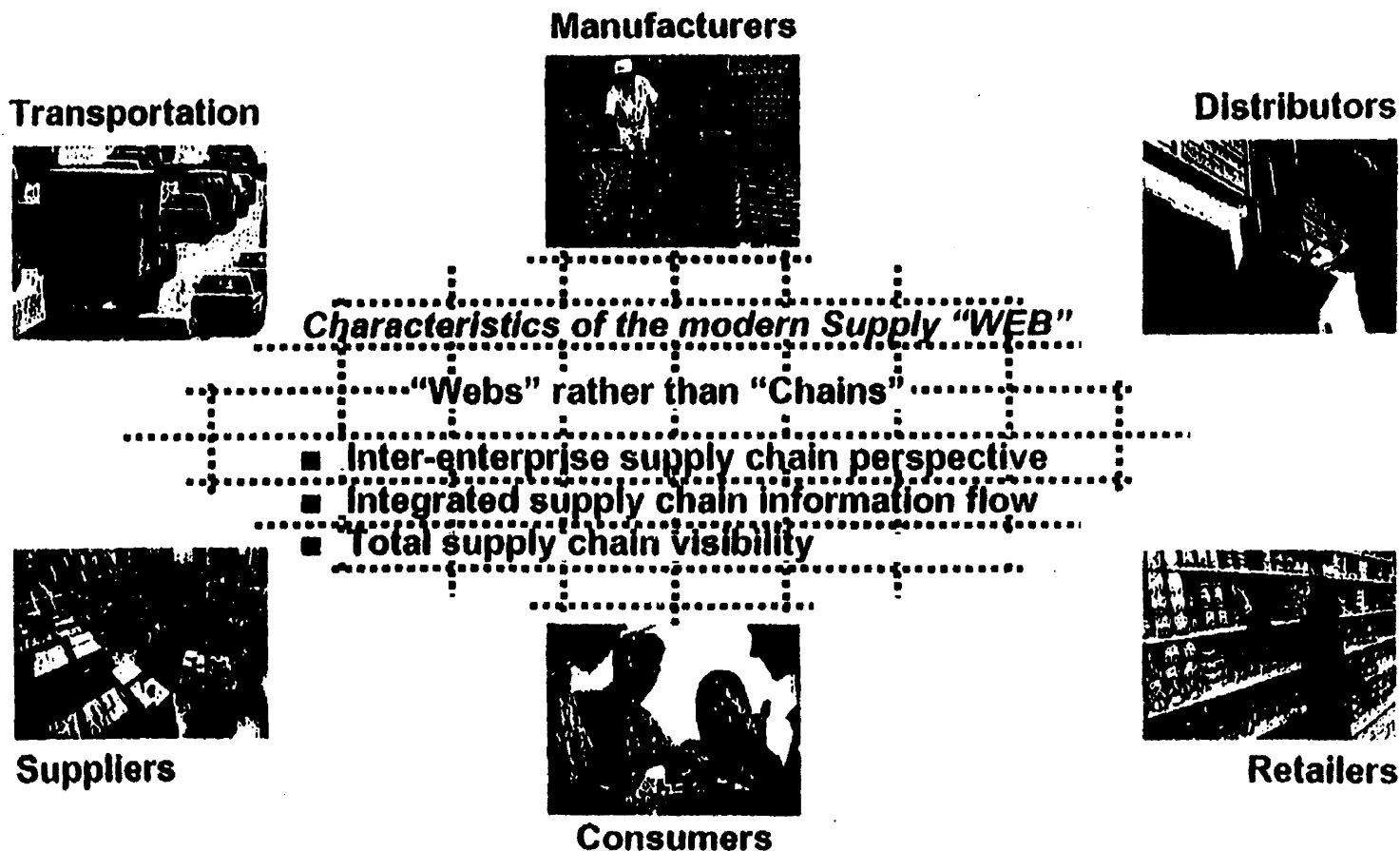
*This includes an end-to-end understanding of vendors, customers, channels, operations, and integration capabilities. Decisions are driven from the right to the left, beginning with the consumer.*



# Introduction

ENTERPRISE 2 ENTERPRISE

**Traditional Thinking no Longer Applies**



We believe that the Supply Chain is driven by the consumer and all segments must work together to meet the consumer's needs and expectations.

# Introduction



- **In tomorrow's Global economy, successful Supply Chain management will depend upon the ability to ENHANCE, not INHIBIT, the execution of a company's vision. Stated simply, we must have:**
  - *Flexibility* to adapt to changes in demand
  - *Trust* in our trading partners to deliver on their commitments
  - *Confidence* in the information upon which decisions are made
- **At the end of the day, companies will measure the performance of their Supply Chain based upon the perceived value and contribution to the bottom line.**
- **As stated earlier, keys to success include the ability to integrate seamlessly with your trading partners and, in some cases, your competitors.**

A-72

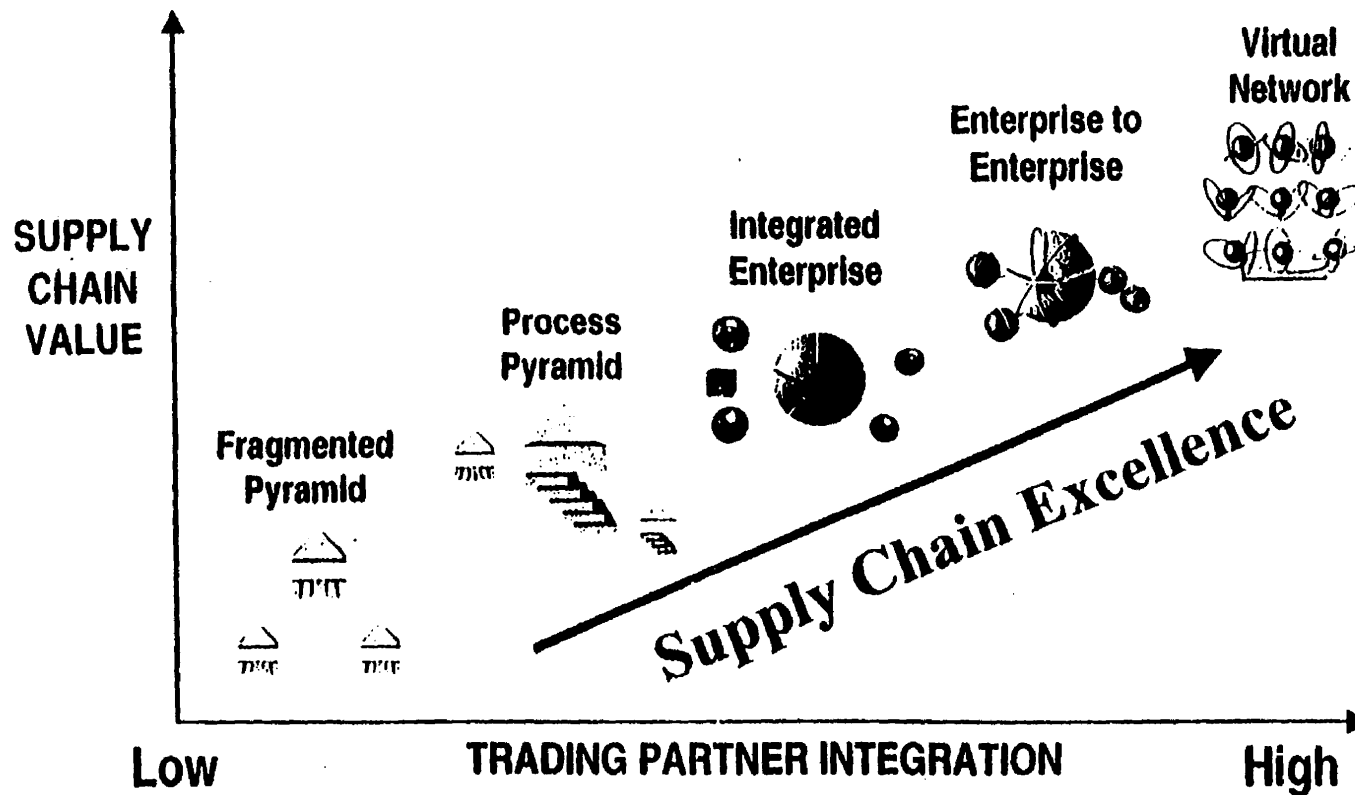


# Introduction

ENTERPRISE 2 ENTERPRISE

***We believe there are five stages of supply chain evolution. Each stage represents a milestone in supply chain performance.***

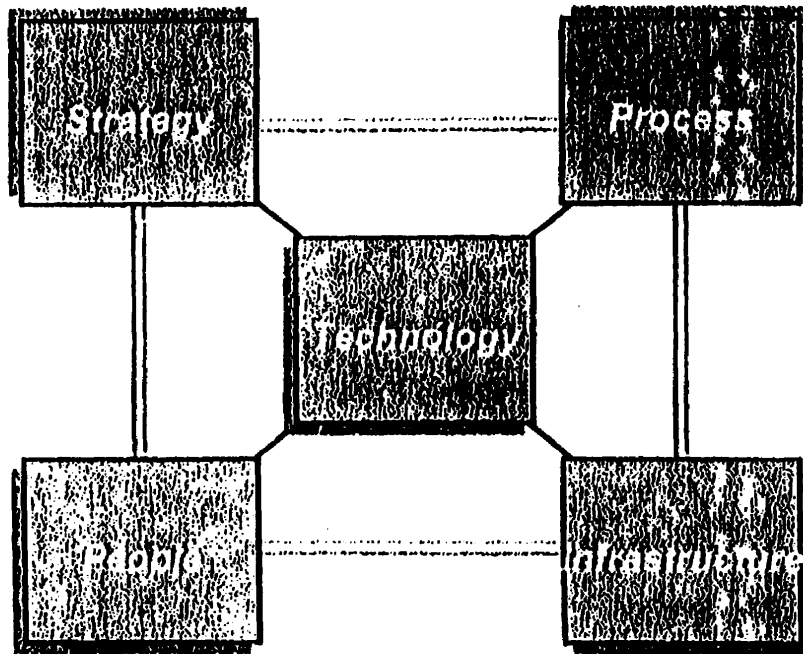
A-73



***Each stage displays distinguishing characteristics that form the foundation for identifying, or "targeting" improvement opportunities***

# Introduction

**The Solution Targeting Approach mentioned on the previous slide is driven off an opportunistic review of 5 key areas:**



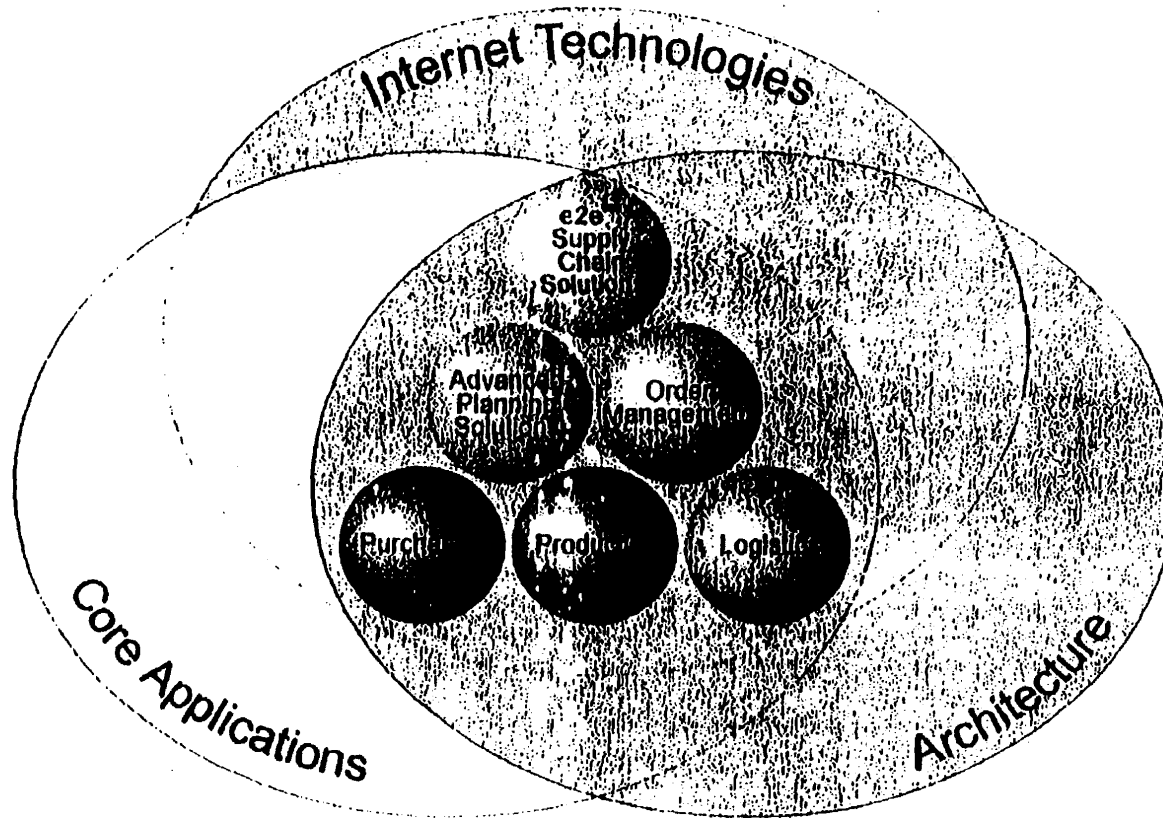
- **Map performance in 5 key areas: Strategy, Process, Technology, People, and Infrastructure**
- **The resulting performance "maps" reveal opportunities to "target" solutions**
- **This process focuses attention on areas which offer the highest return on investment**

A-74

**We call this the levers of change**

# Introduction

The resulting “diagnosis” highlights specific *solutions* within nine key areas, or “Themes”

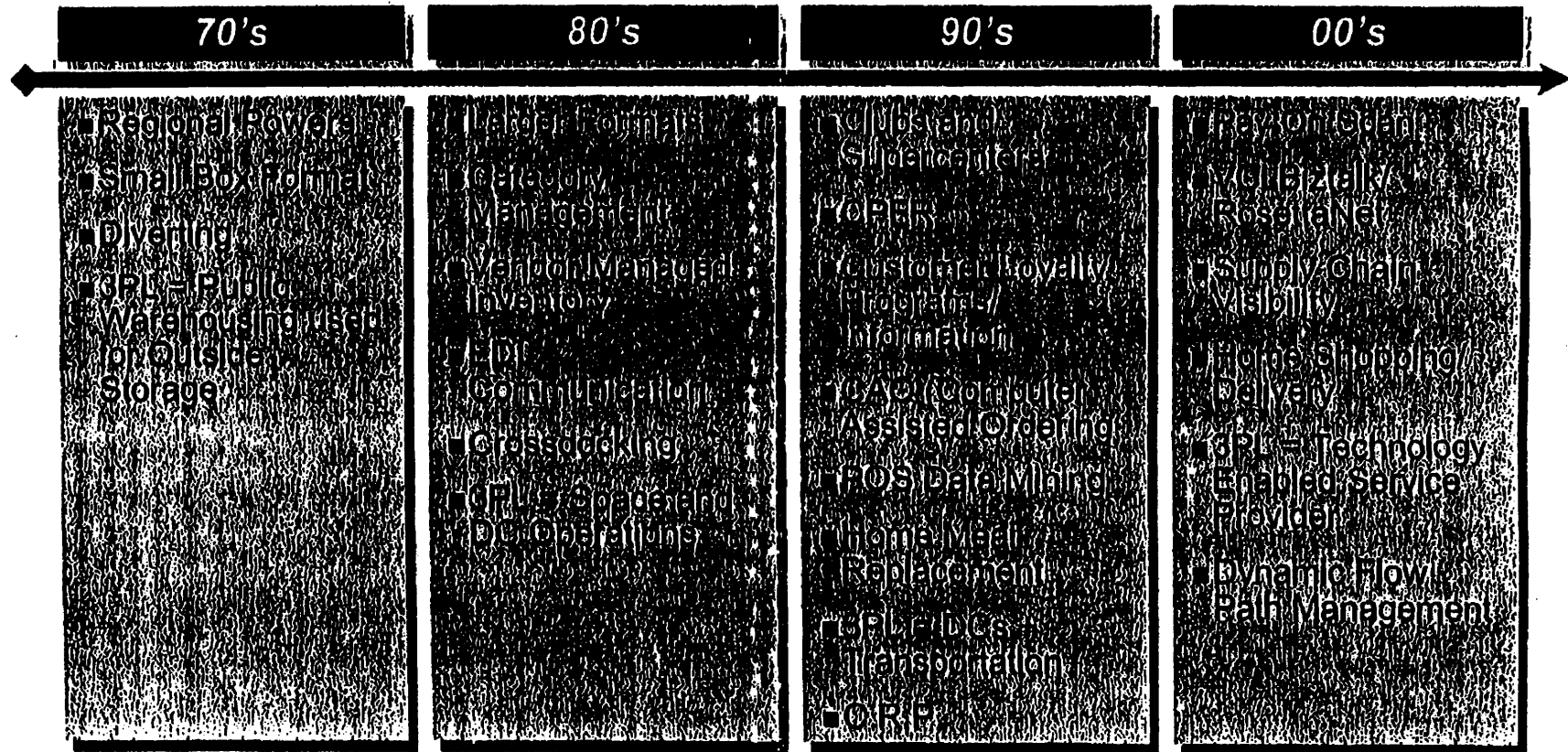


A-75

# The Business Context



**The Grocery industry continues to evolve in response to consumer demand and competitive pressures**



A-76



# The Business Context

**Performance is measured across many dimensions, some of which are shown below:**

<i>Performance Metric</i>	<i>Best Practice</i>	<i>Comment</i>
Order Fill Rate	98% Overall 99.5% on core items	Key service level measure
Delivery Frequency	2 to 7 deliveries per week	Small volume locations receive 2 deliveries per week and large volume locations receive daily deliveries
Inventory Turns	Dry Grocery > 20 Perishables > 50	Velocity is driven by low margins
Cost Per Case To Distribute	<\$0.40 Per Case	Physical Distribution Only

A-77

# e-Business

ENTERPRISE 2 ENTERPRISE

***The business world as we know it is changing at lightning or should we say internet speed! In fact, the issues and challenges are only getting greater:***

■ **Electronic Commerce itself is evolving:**

- Old Way - Transactional (electronic execution of transactions, ie, EDI)
- New Way - Information Sharing (electronic exchange of information, ie, web-based catalogs)
- Future Way - Collaborative (electronic collaboration on strategic, tactical, and operational plans, ie, networks)



A-78



# e-Business

ENTERPRISE 2 ENTERPRISE

## ■ Technology is the enabler

- The Internet Revolution
- The ERP Foundation
- The Application Portfolio Opportunity

A-79



# e-Business

ENTERPRISE 2 ENTERPRISE

*Traditional Thinking no Longer Applies*

Transportation



Manufacturers



Distributors



Suppliers

## Characteristics of the modern Supply "WEB"

- "Webs" rather than "Chains"
- Inter-enterprise supply chain perspective
- Integrated supply chain information flow
- Total supply chain visibility



Retailers



Consumers



# e-Business

ENTERPRISE 2 ENTERPRISE

**Integrated suites of services that build off ERP functionality to enhance communication between trading partners are the key**

## **Advanced Planning Systems**

- i2
- Manugistics
- SAP/APO

## **Supply Chain Visibility**

- Descartes
- Microsoft VCI/Biztalk
- Extricity

## **E - Purchasing**

- Aspect Development, Inc.
- Intelisys Electronic Commerce, LLC
- E-piphony
- Ariba

## **Distribution Center Management Systems**

- Exe
- Optum
- McHugh

# e - Business

ENTERPRISE<sup>2</sup>ENTERPRISE

## ***Within the Grocery industry, e-Business is gaining momentum***

### ■ **Home Shopping Services**

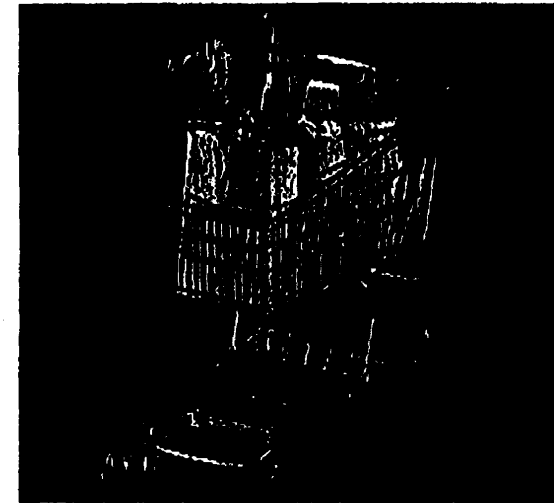
- Peapod
- Homegrocer.com
- Webvan
- NetGrocer, Inc
- Scotty's Home Market

### ■ **Pay On Scan / Scan Based Trading**

### ■ **POS Data Mining and Customer Loyalty Programs**

### ■ **Collaborative Forecasting and Replenishment (CPFR)**

### ■ **Electronic purchasing and replenishment enabled by CAO (computer assisted ordering) and EDI.**



A-82

# Collaboration



***“True” Collaboration is the future.....***

<b>Attribute:</b>	<b>Vendor managed inventory:</b>	<b>Collaboratively managed supply chain:</b>
Execution focus	Replenishment from the Retailer DC to the store	Manufacturer DC to shelf replenishment
Shelf line up	Static – controlled by the retailer	Dynamic – controlled jointly
Consumer channel	“Shelf” sale	Mixed channels
Decision style	Collaborative management of a set of activities	Collaborative management of the category
Types of technology	Separate system with periodic arms length sharing	Integrated information sharing on a more real time basis
Who perform activity	Based on company boundaries	Based on most capable
Key measures	Fill rate, stock out, etc.	Economic profit

A-83

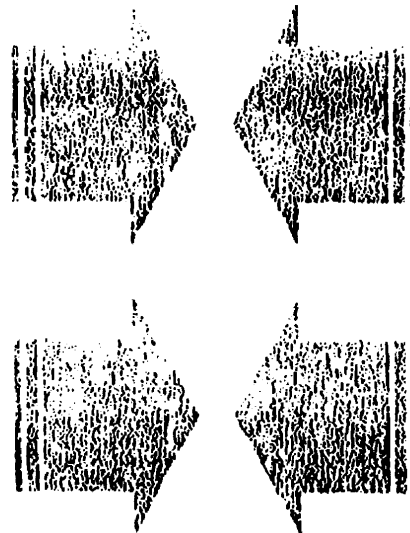
# Spotlight on Performance

***More and more, companies are looking at their Supply Chains as an integral part of the "Profitability Mix" and not as a "necessary evil."***

***Early adopters are tying Supply Chain performance directly to business objectives:***

## **Business Objectives**

- Revenue enhancement
- Quality improvement
- Trading partner flexibility
- Capital asset utilization
- Customer service enhancement
- Market responsiveness
- Inventory optimization



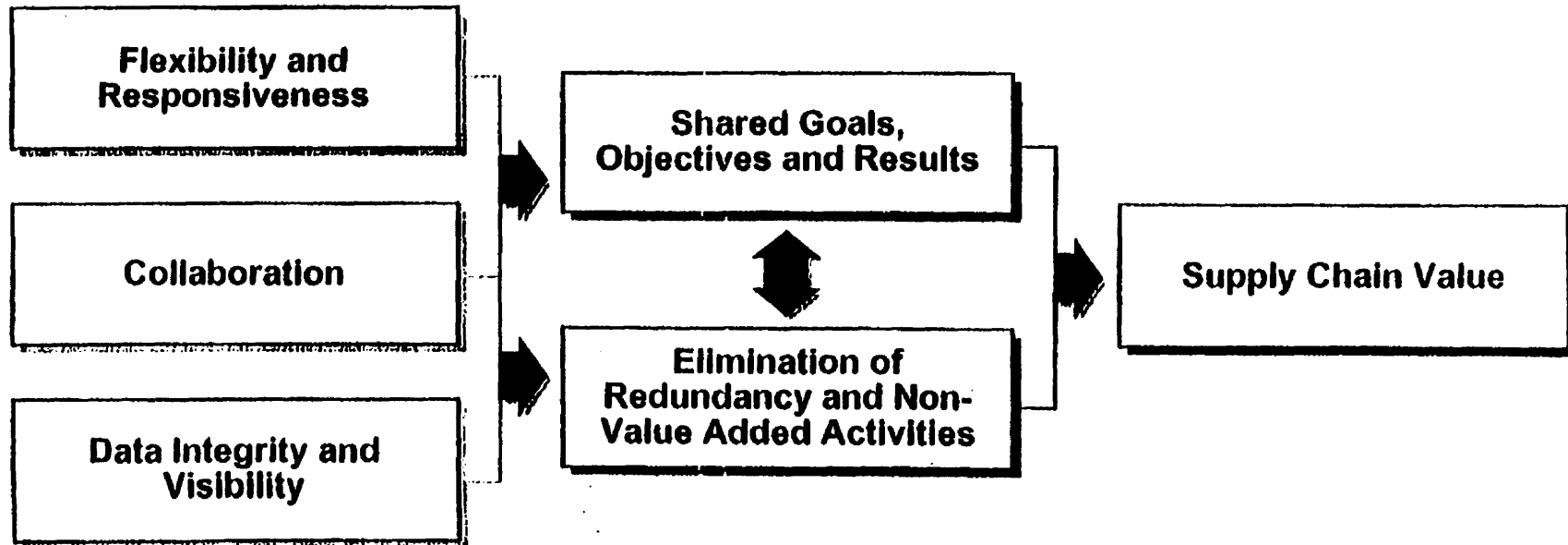
## **Supply Chain Drivers**

- Service Levels (Accuracy, Fill Rates, Cycle Times)
- Inventory (Redundancy, Accuracy, Shrink)
- Cost Control (Efficient vs Effective)
- Asset Management (Own vs Buy)
- Visibility - Latency Reduction

# Where Do We Go From Here ?

ENTERPRISE 2 ENTERPRISE

*In summary, we must continue to move forward, expanding our thinking past our "own" Supply Chain to include our trading partners and their trading partners Supply Chains.*



*If successful, we will reach a true "Enterprise 2:Enterprise" state which will allow all of us to achieve our goals.*

APPENDIX L  
DMHMRSAS  
PRESENTATION BRIEF



# **HJR 709**

---

**Food Service Delivery Systems  
in the  
Commonwealth of Virginia**

# Public institutional Food Service in health care

- Food Service Program in DMHMRSAS
  - ◆ Richard B. Fisher
  - ◆ Angela Chiang

# What is Cook/Chill technology?

- Food is prepared for menus several days in advance
- Prescribed recipes are used
- Food is cooked during one 8-hour shift, 5 days a week
- Food is blast chilled to 34°F and stored up to 5 days in bulk
- Just before consumption, food is reheated to 180°F (internal)

# How does DMHMRSAS use Cook/Chill technology?

- Blast chillers are used for rapid chilling process
- Rethermalization process is done with tray based retherm units and with bulk food retherm units
- Low temperature walk-in refrigerators are used to store food in bulk after production

# **How does DMHMRSAS use Cook/Chill technology?**

- Food is prepared and blast chilled 4 days prior to scheduled meal
- Chilled meals are assembled on trays, delivered to wards, and stored in retherm units in advance of meal
- 40 minutes prior to meal, retherm unit automatically switches in part from refrigeration to reheating process

# What has Cook/Chill Done for DMHMRSAS?

- Food production is done on one 8-hour shift, 5 days a week
- Skilled cooking staff are more fully utilized in food production duties
- Tray assembly is done on one 8-hour shift, 7 days a week

# What has Cook/Chill Done for DMHMRSAS?

- Food safety: food kept at temperature outside danger zone for bacteria growth
- Daily food production overage/waste is reduced
- Meals are served with “hot food hot and cold food cold”

APPENDIX M  
DEPARTMENT OF CORRECTIONS  
PRESENTATION BRIEF



**VIRGINIA DEPARTMENT OF  
CORRECTIONS**

***Warehouse Operations and Public Safety***

***HJR 709 Presentation***

***October 26, 1999***

- **The Virginia Department of Corrections is the largest State agency.**
- **We employ more than 13,000 people who work in more than 100 institutions and offices across the Commonwealth.**
- **We are responsible for meeting the basic human needs of more than 30,000 offenders, including food, clothing, shelter, health care, etc.**
- **We also provide educational, vocational, and therapeutic programs for thousands of offenders. It operates productive enterprises, including laundry, manufacturing plants, agri-business, and others.**

**We do all of this, but our primary mission is public safety.**

- **Based on Court orders, we provide secure incarceration for individuals convicted of serious felonies. In addition to providing the services mentioned earlier, the public expects that the individuals in our custody will remain securely within our care until they are legally released.**

## **Security overlays everything that happens in a correctional institution.**

- **Public safety-the prevention of escapes and the maintenance of a safe internal environment, is our primary focus.**
- **The perimeter of any facility, the fences that maintain the boundary between the inmate population and the community, is very carefully controlled. Movement in and out is tightly restricted.**
- **Everything and everybody, inmates, employees, and visitors. going in is searched to prevent the introduction of contraband, weapons, drugs, or seemingly innocent items which might adversely impact the safety of the facility.**
- **There is only one vehicular entry point and one pedestrian entry point at most facilities. Movement is tightly controlled for accountability.**
- **Counts of the inmate population are taken several times a day to ensure inmates are always accounted for and none escape.**

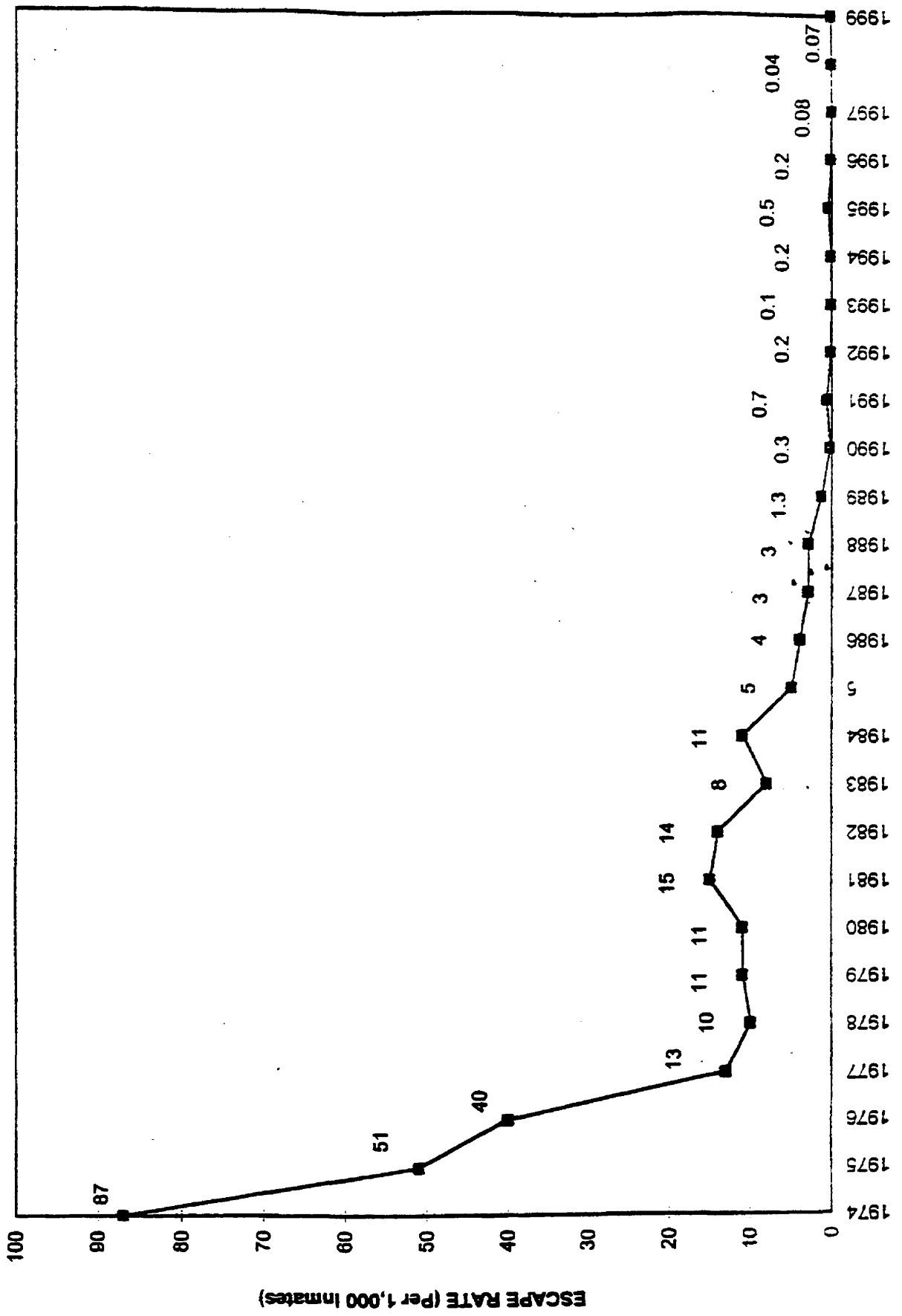
- **Everyone leaving the facility is verified for identity. All enclosed vehicles are searched and then held inside the perimeter until a count is cleared in order to prevent escapes.**
- **Movement of people and supplies in and out of the prison perimeter cannot be rushed. Security takes time if done right.**

### **Things have not always been managed so well.**

- **We did not always have warehouses at all facilities. Until the late 1980s, some facilities had deliveries come directly into the perimeter. It was very difficult to search big trucks loaded with supplies. Commercial delivery truck drivers were allowed to come and go without any security checks.**
- **In 1986, following several escapes from inside the secure perimeter, which included inmates hiding on trucks leaving the facility, the Department of Corrections established a requirement that no enclosed truck could leave the secure perimeter until it had been searched and a formal count had been cleared. Under this new rule, trucks could not leave the facility until inmate movement was stopped and a count verified.**

- **Those facilities without storage capacity outside the perimeter had difficulty with commercial delivery services. Drivers objected to the delays caused by searches and counts. Our security procedures caused them to be late to their other customers.**
- **Security and growing inmate populations drove the need for more warehouse capacity outside the perimeter. Today, Virginia is consistently among the top two or three states in the nation with the lowest escapes. This means safer communities and neighborhoods for Virginia citizens. The chart on the following page shows the dramatic decline in escapes from Virginia prisons as a result of tighter perimeter controls and other security enhancements.**

# TREND IN ESCAPE RATES, FY 74 TO FY 99



## **How have our warehouses helped meet our security mission?**

- Except during special situations, enclosed vehicles no longer enter the secure perimeter.
- Those that do generally are Department of Corrections vehicles with drivers who are Department of Corrections employees, trained in institutional security. They understand, support and comply with our security rules.
- Large deliveries of supplies are held in the outside warehouse, and smaller loads are ferried through the perimeter by means of an open transport system we call “a mule train.”
- With the warehouses, we can maintain a larger supply of materials to ensure that food, clothing, and other essential items are available, even when outside factors might disrupt our supply-unusual weather, floods, trucker strikes, etc.
- We do not have the ability to send our clients home during problems such as these, the way schools and some businesses can.

- **Random lockdowns and searches of each prison are conducted quarterly. Warehouses allow us to switch to a lockdown menu and schedule without placing special orders which would “telegraph” our intent to the inmate population.**
- **Warehouse staff coordinate the timing of the mule train deliveries to the schedules of housing units, laundry, kitchen administration, etc., in order to minimize disruption to daily activities, and to maximize efficiency.**

## **Emergency Services Support**

- **Just in the past two years, Hurricane Bonnie and Hurricane Floyd forced the evacuation of more than 3,000 inmates from threatened correctional facilities. With less than 12 hours notice, selected facilities added as many as 800 inmates to their count for several days, pulling food, clothing, bedding, and other supplies from their warehouses in order to survive.**
- **Evacuating a correctional facility is a monumental effort. Staff focus on the safe and secure evacuation, movement and relocation of these inmates, as roads are often being closed and power and telephone services are disrupted.**



- **Having an acceptable supply of food, clothing, and bedding, generally 30 days, in our warehouses is critical to safely relocating inmates in an emergency. Sussex I State Prison, which is piloting a private Food Service operation, was able to manage through the Hurricane Floyd problem, even though their food vendor does not maintain a large food inventory. However, given the severe flooding in Sussex and surrounding counties, there were delays to the normal food shipment, which could have impacted the food operation. The Sussex II State Prison, however, which shares the same site as Sussex I, stood ready to provide food supplies as required. The absence of Sussex II as a fall-back supplier could have created a problem that would have been difficult or expensive to resolve had the travel conditions continued much longer.**
- **Because we need to have these supplies on hand, the Department of Corrections serves as a vital link in the Virginia emergency services safety network. During Hurricane Floyd, several facilities provided aid to their local communities.**
- **Following are examples of how the Department helps communities in times of disaster (Hurricanes in 1999 and 1995) through the Virginia Emergency Operation Center:**

- **Greensville Correctional Center provided housing for 104 jail inmates from the Southampton County jail for five days. This required feeding, clothing, bedding, towels and washcloths, etc.**
- **Provided 30 inmates with shovels to fill sandbags at the town of Stony Creek.**
- **Southampton Correctional Center provided chain saws, which were used to help rescue, trapped families in Southampton County.**
- **Pocahontas Correctional Unit provided 50 blankets to a shelter opened in the City of Colonial Heights.**
- **Greensville Correctional Center provided 60 blankets for a shelter opened in the City of Franklin, as well as providing 150 meals for the people in the shelter.**
- **Nottoway Correctional center provided 100 pillows, pillow cases and sheets to a shelter opened in Cumberland County.**

- During the hurricane the delivery of supplies and food was disrupted at the following facilities for several days; Indian Creek, Greenville, Southampton, Deerfield, St. Brides and Southampton Reception and classification.
- The Department of Corrections also evacuated 3450 inmates from five facilities and relocated them to other facilities that had to bed and feed them for four days.
- In 1995, the Staunton, Buckingham and Dillwyn Correctional Centers delivered approximately 2000 blankets to a scout camp. The Augusta Correctional Center helped in the transporting, washing and drying of clothing and blankets for the group.
- The City of Buena Vista requested and received (2) 4000 kw portable generators on June 28, 1995. Staff from the Staunton Correctional Center made the delivery of these generators. The city used the generators for several days until power was restored.

- **The Culpeper County Sheriff made a request for correctional officers to assist his Deputies in traffic control in the town of Rapidan on June 28, and 30, 1995. The Coffeewood Correctional Center sent six officers to assist in this request as well as an additional twelve staff to assist in debris removal and general cleanup. Chain saws, shovels, rakes and two all-terrain vehicles were also provided for cleanup on June 29<sup>th</sup>, 1995. Six correctional officers were dispatched on June 30, 1995 to assist Deputies in traffic control in the community.**
  
- **The Madison County Sheriff made a request on June 29, 1995, for assistance in going door-to-door to assess and evacuate residents. The Northern Regional Office was contacted and fifty correctional officers were sent to the Madison County high School for staging. The officers were being relived by fresh troops from the Western and Central Regions every forty-eight hours. These officers were used by the Sheriff to assist in traffic control, search and rescue, and to prevent looting. The request was ongoing until services were not longer needed.**

- **On June 30, 1995, a request was received from the Shenandoah National Park Supervisor for a bulldozer to assist electrical power crews in restoring the power line in Madison County. With assistance from the Buckingham Correctional Center the bulldozer was delivered to the Big Meadow areas of the park**
  
- **A request was received from the Town of Glasgow on July 1, 1995 for manpower, front-end loaders, dump trucks, and equipment operators to be used for three to five days. The Western and Northern Regions provided a total of two front-end loaders, two dump trucks, and a total of eighteen workers and equipment.**

APPENDIX N  
STATE OF NEW YORK PRIME VENDOR  
"CONTRACT AWARD NOTIFICATION"

## **New York State Prime Vendor Program**

### **Background**

New York State first engaged the consulting firm of KPMG Consulting to study its food delivery system to state agencies during the administration of Governor Mario Cuomo. The current administration of Governor George Pataki supported the Prime Vendor concept and New York State initiated its statewide Prime Vendor program on July 1, 1995. At the time of the bid opening, the state had already closed its first food warehouse/distribution system.

The first contract with SYSCO Food Services of Albany was started as a "pilot" program and was limited to facilities in the New York City and Long Island regions that previously were serviced by the state's other food warehouse/distribution system. The state closed this second warehouse/distribution system in October 1995 and the Prime Vendor contract was extended to all state agencies throughout the state.

The central warehouses had been in business since the 1960's. The warehouse equipment was sold and part of the warehouse space is now leased to the private sector. The displaced personnel were reassigned to other state positions, took other jobs with the private sector, and some retired.

In addition to the main statewide Prime Vendor contract, the state also has other regional contracts for milk and bread.

The main Prime Vendor contract was rebid on November 3, 1998. Over eighty (80) vendors were solicited and two (2) responsible bids were received. The contract was awarded to SYSCO Food Services of Albany. It is a *statewide* contract to service 175 state locations and is open for the *first* time to *non-state* agencies and eligible *nonprofit* organizations to purchase food, food related items, household items, sundries, and custodial supplies. The contract period runs from May 1, 1999 to April 30, 2002, with the option to cancel the contract after April 30, 2000. The contract has an estimated value of \$61 million. A copy of the "Contract Award Notification" is enclosed in this appendix.

### **Participation**

In addition to servicing 175 state agency locations, the following non-state agencies and nonprofit organizations are also eligible to participate in the Prime Vendor contract:

- Any officer, board, or agency of a political subdivision, or of a district therein (counties, county nursing homes and jails, cities, towns, villages, school districts).

- Volunteer fire companies.
- Boards of Cooperative Educational Services.
- Institutions for the instruction of the deaf and blind.
- Volunteer ambulance services.
- Any public authority or public benefit corporation of the state.
- Nonprofit, non-public elementary and secondary schools.
- Nonprofit independent colleges and universities.
- Nonprofit, non-public hospitals, residential health care or mental hygiene facilities.

**Contract Components**

The main Prime Vendor contract is *not a mandatory* source for participants. For competitive purposes, state agencies may competitively purchase commodities in lieu of using the Prime Vendor contract when the resultant price is less than the contract price.

An agency must provide the state contractor with an opportunity to match the non-contract savings and the contractor is allowed a minimum of two business days to respond to the agency's request to match the non-contract savings.

In addition, the state reserves the right to negotiate lower pricing or to advertise for bids, whichever is in the state's best interest. Some of the main features of the Prime Vendor contract include:

- The Prime Vendor has a selection of over 10,000 items. Approximately 5,000 items are actually purchased. Four hundred items account for 80 percent of total purchases.
- The Prime Vendor's mark-up on products is as follows:

- Dairy Products	- 6.38%	Non-Food Items	- 7.24%
- Meat & Poultry	- 6.38%	Fresh Fruit	
- Frozen Foods	- 7.24%	& Produce	- 6.38%
- Bottled, Canned & Dry Items	- 7.00%		



- **Reductions For High Value Orders:**

- Delivery by Contractor

- \$10,000 to \$19,999.99: 1/4% reduction from total order

- \$20,000 or more: 1/2% reduction from total order

- Delivery by Manufacturer or Processor

- \$10,000 to \$19,999.99: 4% reduction from total order

- \$20,000 or more: 2.5% reduction from total order

**Drop Charges:** Agencies may be charged a “drop” charge for orders less than \$1,500.

- **Purchase Orders and Frequent Deliveries:** The contractor must accept electronically transmitted and facsimile transmitted orders up to 48 hours in advance of the regularly scheduled delivery date. The contractor must be able to deliver at least twice a week to all locations. Some larger facilities receive three deliveries per week.

- **Cook-Chill Production Plants:** The state operates two “cook-chill” plants, one in Rome, New York operated by the Department of Correctional Services, and one in Orangeburg, New York operated by the Office of Mental Health. Both plants order extensively from the Prime Vendor. In addition to direct deliveries to state agencies, the Prime Vendor delivers directly to the plants. Products produced by the plants are delivered to their client facilities with their own vehicles.

- **Addition of Products:** The contractor cannot refuse a request from the state to add a product if the product is readily available from a supplier.

- **Customer Support:**

**Software:** Agencies capable of electronic data interchange must be provided software by the Prime Vendor at no charge.

**Reports:** Every three months the Prime Vendor shall provide four types of reports:

- ◆ Aggregate total sales report for each site.
- ◆ A descending listing by total value for each item/product delivered.
- ◆ Aggregate sales by item showing quantity and value.
- ◆ Individual listing of total dollar value for each order/invoice for each site.

- **Rebates:** Rebates, allowances, and special pricing are provided in the Prime Vendor's costs and reflected in the prices charged to the state.

- **Auditing Requirements:** The state (or its designee) retains the right to verify and audit costs, billings, pricing, agreements, allowances, promotions, and rebates on a monthly basis. The state may also conduct on-site verification and auditing at least once a year.
- **Product Requirements:** The sites have the right to demand on request verification that the specifications and grades for the food ordered are being provided by the contractor, and the state has the right to request samples at no charge and test any product purchased by the sites in order to determine whether the item is acceptable and meets specifications and grades.

### **Historical Experience**

In the past, the State of New York maintained two warehouse/distribution centers and a fleet to deliver product. The maintenance of the fleet, employee costs, plant and equipment costs, tracking late deliveries have been eliminated. Client agencies are more satisfied with the current technology and a better fill rate, better delivery record, better product selection, lower on-site inventories, and contractor responsiveness to menu changes.

With a better fill rate and frequent deliveries based on “just-in-time” projections, the on-site food inventory has been reduced to 7 to 10 days. Overall, New York’s Prime Vendor program has reduced the annual cost of its food and food related delivery system for mental health hospitals, correctional facilities, prisons, and other facilities by \$3.3 million.



**NEW YORK STATE  
OFFICE OF GENERAL SERVICES  
PROCUREMENT SERVICES GROUP  
38th Floor - Corning Tower Building  
Empire State Plaza  
Albany, New York 12242  
<http://www.ogs.state.ny.us>**

## Contract Award Notification

<b>Title</b>	<b>: Group 02450 – FOOD, HOUSEHOLD ITEMS, SUNDRIES (STATEWIDE)</b>
<b>Award Number</b>	<b>: 3713-G (Replaces 1942)</b>
<b>Contract Period</b>	<b>: May 1, 1999 to April 30, 2002 With Option To cancel after April 30, 2000</b>
<b>Bid Opening Date</b>	<b>: November 24, 1998</b>
<b>Date of Issue</b>	<b>: April 22, 1999</b>
<b>Specification Reference</b>	<b>: As Incorporated in the Invitation for Bids</b>

### Address Inquiries To:

All State Agencies	Non-State Agencies
<b>Name : John Goetze</b>	<b>Name : Judy Gibbons</b>
<b>Title : Purchasing Officer I</b>	<b>Title : Purchase Coordinator</b>
<b>Phone : 518-474-2642</b>	<b>Phone : 518-474-6717</b>
<b>Fax : 518-473-7974</b>	<b>Fax : 518-474-2437</b>
<b>E-mail : <a href="mailto:john.goetze@ogs.state.ny.us">john.goetze@ogs.state.ny.us</a></b>	<b>E-mail : <a href="mailto:customer.services@ogs.state.ny.us">customer.services@ogs.state.ny.us</a></b>

### Description

The award is to provide State and eligible non-state facilities with food, household items and sundries. PRICE GUIDES are provided by the contractor.

State agencies have the option of using this award, other State contracts, or other purchasing alternatives consistent with their form, function and utility needs and established procedures as stated in "RESERVATIONS" clause.

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<u>CONTRACT #</u>	<u>CONTRACTOR &amp; ADDRESS</u>	<u>TELEPHONE #</u>	<u>FED. IDENT. #</u>
PC54751	SYSCO FOOD SERVICES-ALBANY 71 Fuller Road PO Box 5327 Albany, NY 12205	518-437-6228 518-459-3200, ext.228 800-735-3341, ext. 228 Hal L. Gold* FAX NO. 518-459-1856	741648137

\* = Hal L. Gold is Sysco's contract administrator. Questions regarding orders, shipping, product, etc., should be directed to each participating branch/company as follows:

<u>Branch/Company</u>	<u>Contact Person</u>	<u>Phone</u>
Albany	Mary Lou Sutliff	800-342-3201, ext. 209 518-459-3200, ext. 209 Fax 518-437-6288
Jamestown	Betsy Foe	800-366-5620, ext. 307 716-665-5620, ext. 307 Fax 716-665-8292
Horseheads	Margaret Lorden	800-396-4164, ext. 421 607-739-4164, ext. 421 Fax 607-739-8962
Syracuse	Jennifer Becker	800-726-800, ext. 436 315-672-8004, ext. 436 Fax 607-739-8962

Cash Discount, If Shown, Should be Given Special Attention.  
**INVOICES MUST BE SENT DIRECTLY TO THE ORDERING AGENCY FOR PAYMENT.**

AGENCIES SHOULD NOTIFY THE PROCUREMENT SERVICES GROUP PROMPTLY IF THE CONTRACTOR FAILS TO MEET THE DELIVERY TERMS OF THIS CONTRACT. DELIVERED ITEMS WHICH DO NOT COMPLY WITH THE SPECIFICATIONS OR ARE OTHERWISE UNSATISFACTORY TO THE AGENCY SHOULD ALSO BE REPORTED TO THE PROCUREMENT SERVICES GROUP.

FOR TAX FREE TRANSACTIONS UNDER THE INTERNAL REVENUE CODE, THE NEW YORK STATE REGISTRATION NUMBER IS **14740026K**.

NOTE TO ALL CONTRACT USERS:

We strongly advise all contract users to familiarize themselves with all terms and conditions before issuing a purchase order.

PRICE:

GENERAL - All prices for the contract are net FOB destination any point in New York State as designated by ordering agency and include:

- consolidated deliveries of all items requested by an ordering facility for all product categories listed herein on the facility's scheduled delivery date
- application of "Percent Upcharge Bid" to cost
- inside delivery if required
- pricing in effect on day of delivery
- pricing for products in the PRICE GUIDE being the same to each location regardless of shipping point
- palletized or cart/hand truck delivery as required by ordering facility (see separate "DELIVERY" clause)
- "restricted" delivery (see separate "DELIVERY" clause)
- furnishing of updated PRICE GUIDES to all sites on a timely basis
- use of appropriate vehicles to accommodate site limitations
- compliance with local ordinances and restrictions
- billing and payments in U.S. Dollars
- all custom duties and charges
- upon mutual agreement expansion of delivery locations in accordance with the "Extension of Use" clause.

PRICE CHANGES - For product listed in the PRICE GUIDE, price changes (either upward or downward) will be allowed weekly on DAIRY, etc., and MEAT, etc.; and monthly on FROZEN, etc., AMBIENT, etc., and NONFOOD, during the contract period. For product not listed in the PRICE GUIDE, price shall be based on the contractor's participating branch/company/warehouse/distribution center's product and incoming freight costs (less applicable allowances, etc.) in effect on the day of delivery.

UNIFORMITY IN PRICING - For products in PRICE GUIDE, all of contractor's participating branches/companies/warehouses/distribution centers shall charge the same pricing; pricing from one location shall not be different from another. For products not in PRICE GUIDE, pricing from each participating branch/company/warehouse/distribution center may differ based on costs, allowances, etc.

LOWER PRICING - The State reserves the right to negotiate lower pricing or to advertise for bids, whichever is in the State's best interest as determined by the Commissioner.

Also, contract participants must notify the contractor of any special agreements they may have with suppliers which would affect the price of contract deliveries.

REDUCTION(S) FOR HIGH VALUE AND/OR DROP SHIP ORDERS -

- Delivery By Contractor  
Deduction from total for an order when the total for the order using contract pricing exceeds the amount stated below and order is delivered by contractor:
  - \$10,000 to \$19,999.99: 1/4% reduction
  - \$20,000 or more: 1/2% reduction

PRICE: (Cont'd)

REDUCTION(S) FOR HIGH VALUE AND/OR DROP SHIP ORDERS - (Cont'd)

- Delivery By Manufacturer or Processor  
Deduction from total for an order when the total value for the order using contract pricing exceeds the amount stated below and order is delivered directly to the agency's facility by the manufacturer or processor:  
\$10,000 to \$19,999.99: 4% reduction  
\$20,000 or more: 2.5% reduction

MINIMUM DELIVERY WITHOUT DROP CHARGES:

GENERAL - Minimum delivery without a "drop" charge, (i.e., a delivery fee, an additional cost added to invoice, etc.), for each (single) destination shall be \$1,500. The \$1,500 minimum is for aggregate total of all products ordered for a delivery day; products may be on more than one purchase order, products may be on more than one invoice.

DELIVERIES BELOW \$1,500 - Charges for deliveries (not individual invoices) below \$1,500:

\$1,000.00 to \$1499.99:	\$ 58
\$ 500.00 to \$ 999.99:	\$ 80
\$ 499.99 or less:	\$105

"WILL CALL"/"PICK-UP" ORDERS - There is no price reduction for pick-ups. Each participating branch/company/warehouse/distribution center should be called regarding pick-up. Pick-ups may be made Monday through Friday, 8:30 AM - 4:30 PM.

"EMERGENCY" DELIVERY - There may be an additional \$500 charge for an "emergency delivery" which requires an unscheduled delivery and contractor has no delivery vehicles in the area.

BACK ORDERS - There are no additional charges, fees, delivery costs, etc., for back orders (product previously ordered and not delivered by contractor).

CONTRACT PAYMENTS:

Payments cannot be processed by State facilities until the contract items have been delivered in satisfactory condition. Payment will be based on any invoice used in the supplier's normal course of business. However, such invoice must contain sufficient data including but not limited to Contract No., description of material, quantity, unit and price per unit as well as Federal Identification Number.

State facilities are required to forward properly completed vouchers to the Office of the State Comptroller for audit and payment. All facilities particular attention to those involving cash discounts.

If the contract terms indicate political subdivisions and others authorized by law are allowed to participate, they are required to make payments directly to the contractor. Prior to processing such payment the contractor may be required to complete the ordering non-State agency's own voucher form.

NOTE TO CONTRACTOR:

This Contract Award Notification is not an order. Do not take any action under this contract except on the basis of a purchase order from the agency.

NOTE TO AGENCY:

NYS agencies and/or political subdivisions whose receiving facilities cannot accommodate entrance of an over the road trailer with a height of 13'-6" must specify on their purchase order - "Maximum trailer height for delivery to this location is \_\_\_\_\_." (Ordering agency to insert height.)

PURCHASE ORDERS:

The contractor will accept electronically transmitted and facsimile orders. The contractor shall accept orders up to 48 hours in advance of the regularly scheduled delivery day. [See also "DELIVERY" CLAUSE.]

Agencies which are capable of electronic data interchange must be provided software on request at no charge.

Purchase orders shall be effective and binding upon the contractor when transmitted to the contractor at the address shown on the award.

If a purchase order requires clarification, it is the contractor's responsibility to resolve it prior to shipment.

AUDITING:

The State (or the State's designee) shall have the right to verify and audit costs, billings, pricing, agreements, allowances, promotions, rebates, etc., as identified above in "PRICE". The contractor shall provide requested invoices, billings, etc., within seven calendar days of request.

The following signed and dated statement must be provided with invoices and other cost information provided to the State: "We certify the invoices and other cost information submitted are correct and include all applicable allowances, promotions, rebates, etc., available to the State of New York."

Failure to provide requested information within seven calendar days of request may be the basis to cancel a contract or initiate other appropriate action. There is the expectation that invoices, billings, etc., for approximately ten to forty products for auditing and verification for each month of the contract. The number of products involved and the frequency of requests may be modified.

The State (or the State's designee) shall have the right to verify costs, billings, etc., by contacting contractor's suppliers and shippers. Failure on the part of contractor's suppliers or shippers to provide requested information within eighteen calendar days of request may be the basis to cancel a contract, direct the contractor to use another supplier, or initiate other appropriate action.

AUDITING: (Cont'd)

The State (or the State's designee) may also conduct on-site verification and auditing. There is the expectation that this may occur at least once a year. It is anticipated the State (or the State's designee) will conduct on-site audits as follows:

- Duration to be for one day.
- A list of approximately half the items to be audited will be furnished to the contractor two days prior to the arrival of State personnel.
- A list of approximately half the items to be audited will be furnished to the contractor the day of the on-site audit.
- State personnel will review original invoices, bills, vendor agreements, payment documents, etc.
- Contractor will permit and arrange for copies to be made of material being reviewed. (Note: Such material is understood to be "confidential".)
- Any discrepancies will be discussed.
- A follow-up meeting to be held with the contractor to review audit findings. (This may be on another day.)

Periodically the State may compare photostats of invoices, etc., submitted for previous months off-site audits with original documents. This may involve approximately ten to forty invoices; half to be identified two days prior to review and the other half to be identified the day of review.

Summaries of monthly and on-site audits may be furnished to the Office of the State Comptroller. It is anticipated a summary will include a spreadsheet identifying time period, product, stock number, product cost, incoming freight, allowances, subtotal cost, upcharge factor, calculated Net NYS Delivered Price, price on Price Guide, comparison of "calculated" vs. Price Guide. Also, reasons for differences, monetary amounts involved, and follow-up action to be taken will be stated.

The above requirements are not intended to be restrictive; the State reserves the right to expand or diminish audit requirements as it deems proper and necessary to preserve the integrity of the contract.



PURCHASES FROM PRICE GUIDE:

GENERAL - Agencies are to make purchases from the contractor's PRICE GUIDE.

COST LISTS AND PRICE GUIDES - Contractor shall provide the Office of General Services with an updated COST LIST as the contractor prepares an updated PRICE GUIDE for participating facilities. The updated COST LISTS and "new" PRICE GUIDES shall arrive at the Office of General Services at least 3 days before effective date of Price Guide.

There shall be two PRICE GUIDES - - - a "main" PRICE GUIDE and a "DOCS" PRICE GUIDE with only those particular products the NYS Department of Correctional Services designates. The "DOCS" PRICE GUIDE will be a subset of the "main" PRICE GUIDE; fewer products will be listed but not different products.

PRICE GUIDES shall be updated weekly and monthly as noted in the "PRICE" clause (See "PRICE CHANGES" portion). Consequently, there will be separate weekly and monthly portions of the "main" PRICE GUIDE and the "DOCS" PRICE GUIDE.

FURNISHING PRICE GUIDES - At no charge to contract participants, the Contractor must prepare, supply, and keep current for all sites a PRICE GUIDE which is to include: Net NYS Delivered Prices; product descriptions; product brand or manufacturer; product stock number; and pack for each product accepted by the State. The monthly PRICE GUIDES must arrive at the facilities, either with hard copy or electronically, 3 days before the effective date of the PRICE GUIDE. Weekly PRICE GUIDES must arrive the Friday before the new week electronically and be mailed the Friday before the new week.

For NYS Department of Correctional Services sites only the "DOCS" PRICE GUIDE shall be provided. Failure to submit the proper PRICE GUIDES to all sites may result in disqualification of contractor for future contracts and/or cancellation of current contract.

ADDITION OF PRODUCTS - Subsequent to award, consideration may be given to the addition of products to contract as a part of the Price Guide, if such products are:

- Needed by a client agency;
- Similar to those already awarded, or are of the same product line, or are included in bidder's (and/or subsequently in contractor's) Product Catalog.

Contractor shall not refuse a request from the State to add a product to PRICE GUIDE if the product is readily available from a supplier.

SPECIAL PURCHASES:

The contractor may negotiate for, secure, deliver, etc., products needed by an agency which are not ordinarily a part of the contractor's standard product line or which represent a special value. If such a purchase is of high volume, to be shipped directly to ordering agency by manufacturer/processor, etc., contractor may offer a discount. Whenever a SPECIAL PURCHASE is made, the ordering agency is to document reasonableness of price.

DELIVERY:

GENERAL - Contractor shall be able to deliver at least twice a week to all locations on a consolidated basis of all items requested by an ordering facility for all product categories listed herein on the facility's scheduled delivery date. Deliveries shall be on weekdays during normal business hours. (NOTE: Some large facilities may require three deliveries a week.) Each delivery location shall be notified by the contractor at the inception of the contract of its regularly scheduled delivery day(s). Contractor shall contact ordering facility prior to making delivery if regularly scheduled delivery date is changed.

RESTRICTED DELIVERY - Price includes "restricted" delivery. Delivery to some facilities, particularly Correctional Facilities, have delivery "restricted" - - - delivery must be made during certain hours, generally between 8:30 a.m. to 10:30 a.m. and 12:30 p.m. to 2:30 p.m., and must be made only on weekdays (Monday through Friday) except/excluding holidays. (NOTE: Other restrictions, such as thorough inspection of vehicle & trailer, may also apply for deliveries to a Correctional Facility.)

OUT OF STOCK/NOT AVAILABLE PRODUCT - Contractor must have available, at least 95% of the items ordered. Contractor shall notify ordering facility, of out of stock/not available products as soon as practical after receipt of order, but in no event no later than the day before delivery. [NOTE: Out-of-stock/not available product situations may be a basis for cancellation of contract and/or charging back for obtaining such product elsewhere.]

Suitable substitution shall be made with the consent of the customer in the event of out of stock/not available product situations. Such substitutions shall be of same grade, quality, etc. Substitutions should not be made on a continuing basis - - - explanation of repeated/continued substitutions shall be made to the State.

REPLACEMENT - Any claim of product delivered that is unusable (damaged, rotten, unedible, unacceptable substitution, etc.), shall be resolved within three (3) days upon notice from receiving agency. If a satisfactory resolution is not reached between the ordering agency and the contractor, a decision may be made by Office of General Services which shall be final.

REFRIGERATION - Product integrity, wholesomeness, safety, fitness, etc., shall be preserved by maintaining proper temperature with the use of refrigerated/freezer trucks for refrigerated and frozen goods; ambient trailers shall not be used to ship refrigerated/frozen product.

PALLETIZATION - Contractor to furnish commodity palletized on either 48" x 40" OR 40" x 32" four way GMA pallets as required by ordering facility. Overall height, commodity plus pallet, shall not exceed 66"; maximum weight not to exceed 3,500 pounds. All shipping units shall have a uniform block and tier. Containers shall be strapped to pallets or shrink-wrapped to prevent movement of the load. Pallet will be returned or exchanged to contractor at time of delivery, on subsequent deliveries, OR as arranged between the contractor and the ordering agency.

DELIVERY: (Cont'd)

PALLETIZATION: (Cont'd)

While contractor may utilize double palleting in shipping, State facilities do NOT have the ability to unload or handle double pallets. If double palleting is used, contractor is responsible for unloading and ensuring safe handling.

Mixed loads of dissimilar products are to be avoided, as well as inappropriate stacking of heavy/dense items on top of light items.

Some facilities have limited receiving capabilities. Contractor must provide cart/hand truck delivery when required by ordering facility.

STRAPPING/SHRINK WRAPPING - Stacked product shall be adequately strapped or shrink wrapped to prevent tipping and other movement during shipping so as to prevent damage, to ensure prompt unloading, to avoid the need for restacking, etc.

STANDARD PACK - Orders are to be drawn in quantities reflecting contractor's standard packaging, as long as contractor's packaging is the industry standard for normal commercial accounts. EXCEPTION - See "Containers for Correctional Facilities".

CONTAINERS FOR CORRECTIONAL FACILITIES - Correctional Facilities, and possibly some other institutions or facilities, require packaging and containers which do not present security problems (i.e. wire, metal, sharp edges, glass, etc., which may possibly be fashioned into a weapon). Consequently, the contractor may be required to modify and/or change packaging and/or containers for delivery to some locations, in order to reduce potential security problems. There shall be no increase in pricing for making adjustments in packaging or containers used as a result of security requirements.

CONTRACT PERIOD:

CANCELLATION PROVISION - It is the intention of the State to enter into a contract for a maximum term as stated on page 1. However, either the contractor or the State may unilaterally cancel the contract on a monthly basis any time after "option to cancel" date, by providing written notification to the other party. Notification of cancellation must be received by the intended recipient at least six months prior to the requested date of cancellation. Cancellation will become effective the first day of the month which follows the six month notification.

DATES OF CONTRACT PERIOD - The minimum term of the contract shall be date of issue or begin date for contract period --- whichever is later, to "option to cancel" date.

CONTRACT PERIOD: (Cont;d)

CONTRACT EXTENSION - If mutually agreed between the State and the contractor, the contract may be extended under the same terms and conditions for an additional period not to exceed twenty-four months. Without mutual agreement, any contract or unit portion let and awarded hereunder by the State, may be extended by the State for an additional period(s) of up to one (1) month (cumulatively) upon notice to the contractor with the same terms and conditions as the original contract including, but not limited to, quantities [prorated for such one month], prices, and delivery requirements.

RESERVATIONS:

RESTRICTIONS ON PURCHASING - Alcoholic beverages are not to be purchased. In addition, prior approval of OSC must be secured by an ordering NYS agency for non-food items if the non-food item:

- Is not in the PRICE GUIDE; AND
- Unit Price exceeds \$1,000; OR
- Aggregate total exceeds \$15,000.

Also, no product containing any form of alcohol may be shipped to correctional facilities.

PURCHASING FROM OTHER SOURCES - Consistent with guidelines issued by the State Procurement Council, State agencies may competitively purchase commodities in accordance with Article 11, Section 163 of the STATE FINANCE LAW, in lieu of using centralized contracts when the resultant price is less than the centralized contract price. Also, when commodities are not available in the form, function and utility required by state agencies through preferred sources or centralized contracts, a state agency may, independently or in conjunction with other state agencies, procure commodities in accordance with the provisions of the STATE FINANCE LAW and guidelines issued by the State Procurement Council.

"OGS OR LESS" - State law allows agencies to acquire products directly from vendors or suppliers other than those participating in a centralized contract when such products are available in substantially similar function, form, or utility and at prices or other terms more economically beneficial to the acquiring state agency. This applies only to products not available from a Preferred Source. State agencies should refer to the PROCUREMENT GUIDELINES for complete procedural and reporting requirements. General guidelines are provided below:

- The agency must provide the State contractor with an opportunity to match the non-contract savings. The State contractor is allowed a minimum of two business days to respond to the agency's request to match the non-contract savings.

RESERVATIONS: (Cont'd)

- If the State contractor does not match the non-contract savings, the agency may proceed with the appropriate procurement process in accordance with legal and policy guidelines appropriate for the dollar value of the purchase (for example, Contract Reporter Notice for purchases over \$5,000, prior approval of the Office of the State Comptroller for transactions in excess of \$10,000, competitive bidding requirements over discretionary buying thresholds, etc.).

EXIGENCY - The State reserves the right to negotiate, and/or have a solicitation to meet exigencies arising from unforeseen causes at no expense to the contractor where there is an unanticipated need for product or quantity that the contractor is unable to furnish more expeditiously than agreed to under the contract terms.

CHANGES IN PROGRAM AND/OR FUNDING - In addition to, and in accordance with, Section 41 of the State Finance Law, the State shall have no liability or obligation to a contractor, supplier, firm or person, if there should be a change in an agency's or a facility's program, operations, responsibilities, funding, staffing, or appropriation, which results in a change in ordering, a change in requirements, a change in contract, a cancellation of contract, etc. The State's past history of ordering, as well as any "forecasts", may not be indicative of ordering in the future.

EXTENSION OF PRICES:

Political subdivisions and others authorized by law may participate in contract. These include, but are not limited to local governments, public school and fire districts and certain nonpublic/nonprofit organizations.

Upon request, all eligible non-State agencies must furnish contractors with the proper tax exemption certificates.

ASSIGNMENT OF MONIES:

Approval of the Commissioner is not required for the assignment of monies due for contract deliveries. On deliveries made to State agencies, such assignments must be filed by the contractor directly with the Office of the State Comptroller. For political subdivisions and other non-state facilities authorized by law to participate in State contracts, the contractor must notify these ordering facilities directly of any assignment of monies due.

Copies of any assignment of monies notification must also be sent by the contractor to the N.Y.S. Office of General Services, Procurement Services Group.

PAYMENTS OF INTEREST:

The payment of interest on certain payments due and owed by a State agency may be made in accordance with the criteria established in Article 11A of New York State Finance Law and the Comptroller's Bulletin No. A-91.

PAYMENTS OF INTEREST: (Cont'd)

The terms of Article 11A apply only to procurements by and the consequent payment obligations of State agencies. Neither expressly nor by any implication is the new statute applicable to non-State agency purchasers. Nor, of course, is the Office of General Services or the Office of the State Comptroller responsible for payments (see General Specification Clause 69) on any purchases made by a participating political subdivision or other authorized entity.

EXTENSION OF USE:

Any contract may be extended to additional States or governmental jurisdictions upon mutual written agreement between New York State (the lead contracting State) and the contractor. Political subdivisions and other authorized entities within each participating State or governmental jurisdiction may also participate in any resultant contract if such State normally allows participation by such entities.

DISPOSITION OF RESTITUTION, DAMAGES, ETC.:

The Office of General Services has the right to determine the disposition of any settlements, restitution, liquidated damages, etc., which arise from the administration of this contract.

PREFERRED SOURCE NOTE:

FIRST PRIORITY TO PRODUCTS OF PREFERRED SOURCES - Section 162 of the State Finance Law requires that agencies afford first priority to the products of preferred sources when such products meet the form, function and utility of the agency. Some items in the resultant contract(s) may be available from one or more preferred sources. Agencies are reminded to comply with the statutory requirements and resulting guidelines with respect to affording first priority to the preferred sources.

Contractor is required to prominently display the following language on all price lists and contract updates to agencies relative to the award:

Agencies Note: Some items in this contract may be available from one or more preferred sources. Agencies are reminded to comply with the statutory requirements under Section 162 of the State Finance Law and the guidelines issued by the State Procurement Council to afford first priority to products available from preferred sources which meet your form, function and utility requirements.

CONTRACTOR STOCKING AND FURNISHING PRODUCTS OF PREFERRED SOURCES -  
Contractor will be expected to stock and deliver products of preferred sources when:

- Requested by the involved preferred source;
- Delivered pricing to the receiving facilities from the contractor is no more than delivered pricing from the preferred source; and
- Anticipated volume is expected to be 100 cases or more a year.

Participating agencies may purchase products from preferred sources either directly from the involved preferred source OR from the contractor; either purchasing method complies with the "First Priority to Products of Preferred Sources" requirement.

OVERLAPPING CONTRACT ITEMS:

Items available in the resulting contract may also be available from other State contracts. Agencies are to select the most cost effective procurement alternative that meets their program requirements and to maintain a procurement record documenting the basis for this selection.

If not utilizing a "preferred source," agencies should consider awards (or the updates) for the following:

- **BATTERIES - - - AA, AAA, C, D, 9 Volt, etc.**  
Group 34401  
Award 3459  
B/O 05/18/98  
Expiration: 06/14/99  
Minimum Order: \$300.
  
- **DINNERWARE - - - Disposable Plates, Bowls, Cups, Knives, Forks  
Spoons, Trays**  
Group 21103  
Award 3480-G  
B/O 06/02/98  
Expiration: 07/31/99  
Minimum Order: \$100.
  
- **DINNERWARE - Polycarbonate**  
Group 21102  
Award 3009  
B/O 04/30/97  
Expiration: 06/30/99  
Minimum Order: \$150.
  
- **FACIAL TISSUE**  
Group 23300  
Award 3688  
B/O 11/02/98  
Expiration: 11/14/99  
Minimum Order: One Full Case (72 Boxes).

OVERLAPPING CONTRACT ITEMS: (Cont'd)

- **GROCERY AND HOUSEHOLD ITEMS FOR COMMUNITY RESIDENCES AND OTHERS**

Group	02400	AND	02400	AND	02400
Award	3553		969		2061
B/O	07/30/98		6/16/95		08/21/95
Contract	PC54021		P010527		P010832
Expiration:	09/30/2001		04/30/99		09/30/99
Minimum Order:	Varies - may involve drop charge.				
  
- **LAUNDRY DETERGENT - Powder**

Group 20108  
Award 2486  
B/O 05/06/96  
Expiration: 05/31/99  
Minimum Order: 10 Boxes (250 Pounds).
  
- **LIGHT BULBS - - - Electric Lamps**

Group 05400  
Award 3426  
B/O 04/29/98  
Expiration: 06/30/99  
Minimum Order: \$100.
  
- **PAPER NAPKINS**

Group 23300  
Award 3689  
B/O 11/02/98  
Expiration: 11/14/99  
Minimum Order: 1 case (6000 napkins).
  
- **TOILET PAPER - - - Toilet Tissue, Roll, etc.**

Group 23500  
Award 3694  
B/O 11/10/98  
Expiration: 06/09/99  
Minimum Order: One Full Case.
  
- **TRASH BAGS - - - Plastic Trash Collection Bags**

Group	19901	AND	19901
Award	3740		3179
B/O	12/18/98		10/14/97
Expiration:	02/29/2000		12/14/99
Minimum Order:	\$300		\$300;
			Smaller orders w/freight added.
  
- **PAPER TOWELS - - - Narrowfold, etc.**

Group 23400  
Award 3732  
B/O 12/01/98  
Expiration: 06/30/99  
Minimum Order: One Full Case.



CUSTOMER SUPPORT:

- The Contractor shall provide the following customer support:
- TELEPHONE CUSTOMER SERVICE REPRESENTATIVES to respond to inquiries from sites during normal business hours, from 9 a.m. to 5 p.m., to assist with routine problems related to ordering, shipment, and billing.
  - FIELD SERVICE REPRESENTATIVE to call on sites, if needed, to resolve problems. [NOTE: A field service representative is not required to make routine weekly calls to each site merely to take orders].
  - EMERGENCY SERVICE.
  - ACCEPTANCE OF FACSIMILE AND ELECTRONICALLY TRANSMITTED ORDERS.
  - EDI Software.

REPORTS:

Every three months the contractor shall provide four types of reports as noted below. Reports are to be forwarded to the Office of General Services and to the Central Office for the involved facilities.

- Aggregate Total - Total sales (cumulative to date) for the entire contract (all sites) by VALUE. [Not a breakdown by site - - - merely a single total.]
- By Descending Value - A descending listing by total value for each item product/delivered.
- By Item - Aggregate (cumulative to date) sales for each item/product listing showing QUANTITY and VALUE.
- By Location - Individual listing of total dollar value for each order/invoice for each site. To include name of facility, address, date of order/invoice, and value of order/invoice.

PRODUCT REQUIREMENTS:

GENERAL - Product shall be as described solicitation, in "DESCRIPTIONS FOR SELECTED PRODUCTS" and in "SUMMARY OF SALES FOR SELECTED ITEMS" which accompanied the solicitation, and shall be the same as furnished to the general trade, meet or exceed USDA, USDC, State, and industry standards and requirements; have a freshness parameter so that the facilities have sufficient time from the date of delivery to consume these foods before quality deteriorates; conform to State, Federal and industry standards with respect to safety. Conformance to standards and requirements shall include, but not be limited to: weights, measures, fill of containers, drained weights, contamination, or condition on delivery.

PRODUCT REQUIREMENTS: (Cont'd)

The contractor guarantees any product delivered complies in all respects with standards and regulations established by Federal or New York State laws - - - this includes the Federal Food, Drug and Cosmetic Act, decisions of the U.S. Department of Agriculture, and decisions of the U.S. Department of Commerce. The contractor also guarantees any product delivered is not adulterated or misbranded within the meaning of standards and regulations established by Federal or New York State laws. The contractor may be required to submit letter of guarantee from manufacturer stating their compliance with Federal and/or New York State laws and regulations.

PATHOGENS - No Escherichia coli 0157:H7, or any other pathogens, are permitted in any product.

FROZEN PRODUCT - The maximum time products may be held in a frozen state prior to delivery shall be as follows:

FRESH FROZEN MEAT (except Ground and Diced Meat) - 90 days.  
GROUND & DICED MEATS - 45 days.  
CURED & PROCESSED MEAT - 45 days.

KOSHER AND PASSOVER CERTIFICATION - Any product designated as "Kosher" shall comply with "Circle U" requirements and be labeled with the "Circle U" certification. Any product designated as "Passover" shall comply with "Circle U" requirements for Passover and be labeled with the "Circle U" certification. Acceptance of other Kosher labeling and requirements may occur only with written consent from involved agency.

GRADES & SPECIFICATIONS - The sites have the right on demand, to request verification that the specifications and grades for the food ordered are being provided by the contractor.

PRODUCT ACCEPTABILITY - if a site complains that a product is not acceptable due to poor quality, taste, color, etc., the Contractor shall offer a substitute product at the same or lower price. If the problem cannot be resolved within 72 hours, either the site or the Contractor can appeal to the Office of General Service whose decision shall be final.

SAMPLES AND TESTING - The State has the right to request samples at no charge and test any product purchased by the sites in order to determine whether the item is acceptable and meets specifications and grades.

\* \* \* \* \*



JOSEPH J. SEYMOUR  
COMMISSIONER

State of New York  
EXECUTIVE DEPARTMENT  
OFFICE OF GENERAL SERVICES  
Mayor Erastus Corning 2nd Tower  
The Governor Nelson A. Rockefeller Empire State Plaza  
Albany, N.Y. 12242

EDMOND F. SCHORNO  
FIRST DEPUTY COMMISSIONER

PAULA MOSKOWITZ  
DIRECTOR OF  
PROCUREMENT SERVICES GROUP

February 19, 1999

SYSKO FOOD SERVICE-ALBANY  
71 FULLER RD  
PO BOX 5327  
ALBANY NY 12205

Based upon your proposal (bid), a contract has been awarded to you by the Commissioner of General Services, in accordance with the provisions of the State Finance Law and, where applicable, with the State Printing Law.

This contract number must appear on all orders, invoices and correspondence relating to the contract.

Contract Number PC54751 . . .
----------------------------------

Contract references are:

Invitation For Bids No.	Bid Opening Date	Approximate Sum	Commodity Group
IFB 3713 G	11/24/1998	ESTIMATED	02450 FOOD, HOUSEHOLD ITEMS, SUNDRIES (STATEWIDE)

05/01/1999

04/30/2002

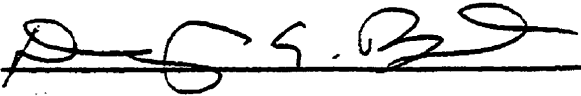
This is not an order; do not take any action under this contract except on the basis of purchase orders from the using agency or agencies.

JOSEPH J. SEYMOUR  
COMMISSIONER

By 

Approved APR 22 1999

FOR THE STATE COMPTROLLER

By 

APPENDIX O  
STATES' SURVEY INSTRUMENT

**Food Operations Systems  
Questionnaire/Survey**

**Part 1 - Information About Your Facilities and Operations:**

1. What is your current statewide inmate population? \_\_\_\_\_
  
2. Are your inmates involved in food preparation?
  - Yes. If yes, approximately how many are employed statewide in the food preparation process? \_\_\_\_\_
  - No
  
3. Who manages the food preparation process?
  - My agency
  - Private food contractors (Aramark, Marriot, etc.)
  - Combination of both
  
4. If you utilize any private food contractors to operate your dining facilities, please list who they are:  
\_\_\_\_\_  
\_\_\_\_\_
  
5. How many total facilities (prisons, correctional units, detention centers, etc.) do you have in your state? \_\_\_\_\_
  - a. How many of these facilities are state-operated? \_\_\_\_\_
  - b. How many of these facilities are privately managed and operated? \_\_\_\_\_
  - c. Please name the private firms that manage and operate your facilities:  
\_\_\_\_\_  
\_\_\_\_\_
  
6. How many of your facilities have their own on-site food warehouse? \_\_\_\_\_
  
7. If applicable, what is the total square footage space of your facility warehouses used for food and food related products? \_\_\_\_\_

8. If applicable, how much food inventory do your facilities keep on hand in their warehouse?
- 15 to 30 days  
 30 to 60 days  
 More than 60 days
9. If applicable, how many total people work in your facility food warehouses? \_\_\_\_\_  
 Of this total, how many are inmates? \_\_\_\_\_ and how many are state staff? \_\_\_\_\_
10. Does your on-site food warehousing represent an added and/or unnecessary expense?
- Yes, it is an added but necessary expense       No, it is not an added expense  
 Yes, it is an added but unnecessary expense
11. Does your state and/or agency conduct its own agribusiness operations, i.e., meat plant, dairy, produce?
- Yes. If yes, which ones?  meat plant \_\_\_  dairy \_\_\_  produce \_\_\_  
 No
12. If applicable, do your private food contractors and privately-operated prisons have access to the central warehouse and agribusiness products? Check (✓) which apply.
- Access to both                                       Access to agribusiness products only  
 Access to warehouse only                       No access to either one

**Part II - Food Operations and Procurement Questions:**

13. Does your state or agency operate its own central food warehouse to service your facilities?
- Yes  
 No
14. Is the central warehouse a mandated source of supply for your facilities?
- Yes  
 No
15. If applicable, how many food and food service supply stock items are carried in the state's central warehouse? \_\_\_\_\_
16. How much mark-up does the central warehouse charge on its products? \_\_\_\_\_%

17. Is your agency's statewide food purchasing centralized or decentralized?

Centralized. If centralized, who does the centralized purchasing? (please specify)

\_\_\_\_\_

\_\_\_\_\_

Decentralized

Combination (please describe)

\_\_\_\_\_

\_\_\_\_\_

18. Do your facilities also have the authority to buy directly from private food distributors?

Yes

No

19. How many private food and food service supply vendors did your facilities buy from in your latest fiscal year? \_\_\_\_\_

20. Why do you purchase food items and food service supply items from private vendors?

Check all that apply:

Less paperwork

Prices are better

Item not carried in state warehouse

Ordering system with the state warehouse requires longer lead time

More frequent deliveries

Less backorders than the state warehouse (availability & less frequently out of stock)

Less need for warehouse space

Reduces my exposure to food spoilage and lost items

Better delivery timeliness

More flexible delivery schedule

More completeness of deliveries ( delivers what was asked for)

Better fill rate ( correct quantities received)

Quality of goods is better

Better variety of food items

Better response to special needs

Other (please specify) \_\_\_\_\_

21. For fiscal year 1999 (7/1/98-6/30/99), or your latest fiscal year, please provide the following dollar amounts:
- a. The total amount of food and drink items, including perishables, purchased from the state's central warehouse \$ \_\_\_\_\_
  - b. The total amount of food service supply items purchased from the state's central warehouse \$ \_\_\_\_\_
  - c. The total amount of food and drink items, including perishables, purchased from private vendors \$ \_\_\_\_\_
  - d. The total amount of food service supply items purchased from private vendors \$ \_\_\_\_\_

22. What categories of food and food related products are purchased from private vendors?

_____	_____	_____
_____	_____	_____
_____	_____	_____

23. Based on the data in question 21, please calculate the following inmate cost per meal as follows:

The sum of (21a through 21d) ÷ by current inmate population = \$ \_\_\_\_\_ per inmate

**NOTE:** if your state has an established formula to calculate the per inmate food cost, please provide your latest figure with an explanation of your formula below:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

24. What is the standard delivery schedule by your state warehouse? \_\_\_\_\_

25. What is the standard delivery schedule by your private vendors? \_\_\_\_\_

26. Does your state have a contract with a private Prime Vendor/s food distributor?

Yes

No



27. If you use a Prime Vendor/s, please list the names and the amount of the contract with the Prime Vendor/s.

Names: \_\_\_\_\_ Value of Annual Contract \$ \_\_\_\_\_

\_\_\_\_\_ Value of Annual Contract \$ \_\_\_\_\_

\_\_\_\_\_ Value of Annual Contract \$ \_\_\_\_\_

28. If applicable, do you require the Prime Vendors to use "just in time" deliveries? "Just in time" delivery procurement means volume purchasing from food distributors who provide the necessary warehouse space and delivery of products to the end-user, usually the next day, to synchronize the delivery with planned usage.

Yes

No

29. If applicable, do you require your central food warehouse to use "just in time" deliveries?

Yes

No

30. If applicable, have your "just in time" deliveries resulted in the following: (check  all that apply)

Increase in the efficiency of your food operations

A reduction in warehouse space. How many square feet? \_\_\_\_\_

A reduction in warehouse staff. How many positions? \_\_\_\_\_

A reduction in required inventory. How much inventory reduction \$ \_\_\_\_\_

Other (please specify) \_\_\_\_\_

31. Comments: ( Please provide any additional comments and/or recommendations you wish to make that in your opinion have increased the efficiency and reduced the cost of your food operations/delivery systems: (Attach separate sheet if more space is needed!)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**THANK YOU VERY MUCH FOR YOUR COOPERATION**

Submitted By: \_\_\_\_\_ Title: \_\_\_\_\_

Your State: \_\_\_\_\_ Name of Your Agency: \_\_\_\_\_

Your Phone Number: \_\_\_\_\_ Your FAX Number: \_\_\_\_\_

Your E-mail Address: \_\_\_\_\_

APPENDIX P  
VIRGINIA CUSTOMER SURVEY INSTRUMENT

HOUSE JOINT RESOLUTION NO. 709 (1999)

A study to analyze the food delivery system and to examine alternatives to increase efficiency and lower the cost to the Commonwealth's taxpayers

Customer Questionnaire/Survey

Part I - Information About Your Facility and Operations

1. How many patients/clients/residents are presently served by your facility? \_\_\_\_\_
2. How many square feet of total food warehouse space do you have at your facility? \_\_\_\_\_

Of the total food warehouse space:

- a. How much is dry storage? \_\_\_\_\_
- b. How much is cold storage? \_\_\_\_\_
- c. How much is freezer space? \_\_\_\_\_
- d. How much is unused space? \_\_\_\_\_

Total warehouse space \_\_\_\_\_ (The sum of a through d must equal the total food warehouse space at your facility.)

3. How much food inventory do you keep on hand?  
 15 to 30 days  
 30 to 60 days  
 More than 60 days
4. In total, how many people work in your warehouse? \_\_\_\_\_
  - a. Of this total, how many are full-time positions? \_\_\_\_\_
  - b. Of this total, how many are part-time positions? \_\_\_\_\_

Part II - Procurement Questions:

5. For Fiscal Year 1999 (7/1/98 to 6/30/99) provide the following dollar amounts:
  - a. The total amount of food and drink items, including perishable items, purchased from the VDC (subject code 1362) \$ \_\_\_\_\_
  - b. The total amount of food service supply items purchased from the VDC (subject code 1363) \$ \_\_\_\_\_
  - c. The total amount of food and drink items, including perishable items, purchased from private vendors (subject code 1362) \$ \_\_\_\_\_
  - d. The total amount of food service supply items purchased from private vendors (subject code 1363) \$ \_\_\_\_\_

6. How many private food and food service supply vendors did you buy from in Fiscal Year 1999? \_\_\_\_\_ (insert the number)

7. Do you require the private vendors to have a Quality Assurance Program?

- Yes
- No
- Not necessary for the items purchased from private vendors

8. Why do you purchase food items and food service supply items from private vendors?

Check all that apply:

- Less paperwork
- Item not carried by the VDC
- VDC specifications for the item does not meet our needs
- Ordering system with VDC requires longer lead time
- More frequent deliveries
- Less backorders than the VDC ( availability and less frequently out of stock)
- Less need for warehouse space
- Reduces my exposure to food spoilage and lost items
- Other (please specify) \_\_\_\_\_

**Part III - Service, Quality, and Delivery Questions:**

9. Approximately how often do you order from the VDC and private vendors? (Check ✓ the one that applies for both the VDC and private vendors)

Virginia Distribution Center		Private Vendors	
Daily		Daily	
Once a week		Once a week	
2-3 times weekly		2-3 times weekly	
Once every two weeks		Once every two weeks	
Once every three weeks		Once every three weeks	
Once every 4 weeks		Once every 4 weeks	
Other ( please specify)		Other ( please specify)	

10. What is the frequency of food deliveries from the VDC and private vendors? (Check ✓ the one that applies for both the VDC and private vendors)

Virginia Distribution Center		Private Vendors	
Daily		Daily	
Once a week		Once a week	
2-3 times weekly		2-3 times weekly	
Once every two weeks		Once every two weeks	
Once every three weeks		Once every three weeks	
Once every 4 weeks		Once every 4 weeks	
Other ( please specify)		Other ( please specify)	

11. Please check ✓ one category in each of the following questions for both the VDC and private vendors

Food Delivery Questions	Virginia Distribution Center			Private Vendors		
	Poor	Satisfactory	Excellent	Poor	Satisfactory	Excellent
Delivery timeliness (do they deliver when you want and as scheduled? )						
Flexible delivery schedule						
Completeness of deliveries (do they deliver what you asked for? )						
Are you satisfied with the fill rate? (Correct quantities received)						
What is the quality of goods received?						
Are you satisfied with the variety of food items they have in stock?						
What is the willingness to respond to your special needs?						
How would you rank the procedures for placing orders?						

12. Please rate the cost of the VDC food and food service supply items (i.e., are VDC goods priced competitively?)
- Poor  
 Acceptable  
 Excellent
13. Please rate the cost of your private vendor food and food service supply items compared to the VDC.
- More expensive  
 About the same  
 Cheaper
14. How many food and food supply item purchase exceptions did you request from VDC in Fiscal Year 1999? \_\_\_\_\_ and how many were approved? \_\_\_\_\_

**Part IV - Industry Trend:**

**The major trend in the food industry by food distributors is to warehouse food, beverage, and food supply items in their own warehouses and provide next day (*"just-in-time"*) deliveries directly to customer sites. This approach allows customers to eliminate significant back-up stock and quickly obtain just about anything they require as needed, allowing for efficiencies and a potential reduction in facility warehouse space and warehouse staff. These cost savings measures are made possible through volume purchases that synchronize delivery with planned usage. NOTE: Attach separate sheet if more space is needed!**

15. Would "just in time" delivery of products reduce your warehouse needs?
- Yes, I could reduce my warehouse space by \_\_\_\_\_ square feet.  
 No
- If no, describe why not: \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_
16. Would "just in time" product delivery increase the efficiency of your food service operations?
- Yes  
 No
- If no, describe why not: \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

17. Would "just in time" delivery allow you to reduce warehouse staff and redeploy them in other important positions?

- Yes. I could redeploy \_\_\_\_\_ warehouse positions to other important positions.
- No

18. Would you support the state purchasing all its food, beverage, and food supply items directly from private food distributors/manufacturers and having those items distributed "just in time" to your facility, according to your planned usage?

- Yes
- No

If no, describe why not: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

19. Would you support the state purchasing all its food, beverage, and food supply items by the VDC and having those items distributed "just in time" to your facility, according to your planned usage?

- Yes
- No

If no, describe why not: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

20. Comments: (Please provide any additional comments and/or recommendations you wish to make that in your opinion will increase the efficiency and reduce the cost of the food delivery system)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**THANK YOU VERY MUCH FOR YOUR COOPERATION**

Submitted By: \_\_\_\_\_

Title: \_\_\_\_\_

Name of Your Institution: \_\_\_\_\_

Your Phone Number: \_\_\_\_\_

Your FAX number: \_\_\_\_\_

