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MEMORANDUM

TO: Ben Rosenfield, Controller
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Local 21- for the Public Employees' Committee

FROM: Peg Stevenson
Controller's Office, City Performance Director *Peg Stevenson*

DATE: May 9, 2011

SUBJECT: Controller's Office and Office of Contract Administration Report on
Commodity Purchasing

Attached please find a report from the Controller's Office and the Office of Contract Administration on the City of San Francisco's commodity purchasing and associated issues.

During the City's labor negotiations process in 2010 a group of public sector unions, the Public Employees' Committee (PEC), requested that the City expand an existing project coordinated by the Controller's Office on streamlining City contracting to have it specifically address commodity purchasing, blanket purchase orders and related issues. The full project effort included research and analysis of the city's purchasing, a survey of City employees working in commodity and materials procurement and a series of meetings on these matters between the City and the PEC. The attached report, which was completed in February of this year, summarizes these results and includes written recommendations made by the PEC (Section IV).

In summary, the City will benefit from creating new more flexible commodity and materials contracts in several areas and from clearing limits and restrictions that narrow the pool of suppliers. Additional "blanket" contracts will speed up procurement of commonly used items, lower costs and qualify more vendors for City business.

The Controller's Office, the Office of Contract Administration, the Human Rights Commission and the City Attorney's Office are continuing to work together to enact the recommendations arising from this research and other efforts to increase efficiency in the City's contracting and procurement processes. We appreciate the ongoing support in these areas from your departments and the PEC unions and welcome any comments on this report.



City and County of San Francisco

Citywide Contracting Process Improvement Program

Public Employee Committee - Commodities Purchasing

As part of the 2010 labor negotiations with the City, the Public Employees' Committee (PEC), a coalition of public sector unions, requested expansion of an effort underway in the Controller's Office—the Citywide Contracting Process Improvement (CCPI) program. In summary, the PEC requested that as part of this effort the City work to identify cost savings in commodities purchasing.

I. PROJECT SCOPE

The Controller's Office and the Office of Contract Administration (OCA) were asked to research, analyze and report on methods to reduce and streamline the City's costs for purchasing commodities, materials and supplies. The PEC request included the following potential objectives: create blanket purchase orders for more types of goods and services, identify methods to qualify more vendors to increase competition for City services, and review and streamline compliance and waiver processes for specialized and/or sole source vendors. The Controller's Office and OCA look forward to continued discussion to meet these objectives.

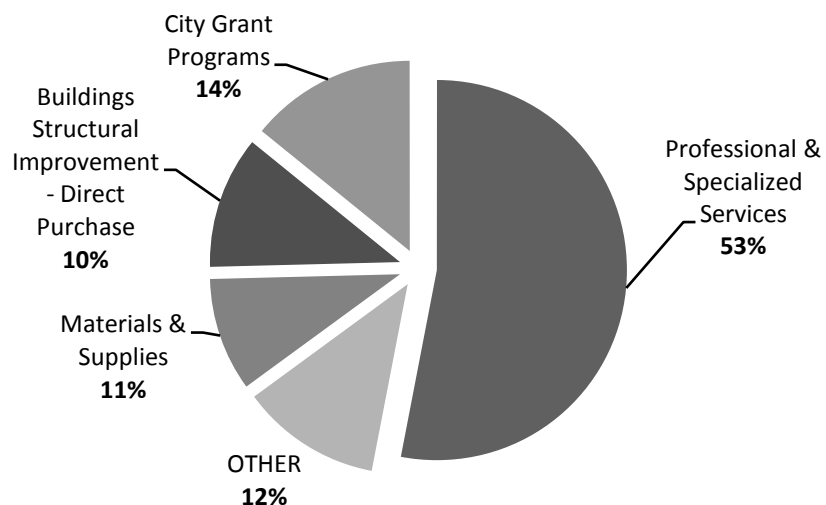
During the analytical process, the PEC proposed sixteen recommendations to assist in streamlining commodities procurement, reducing costs, and increasing accountability and transparency. Our responses to these recommendations have been incorporated into this report—please see pages 5-6.

II. CITY-WIDE PROCUREMENT EXPENDITURES

The City and County of San Francisco ("City") spends more than \$2 billion annually on the procurement of goods and services. A wide range of goods and services from professional services to office supplies, are procured through contracts with vendors. In FY 2009-10 (FY09-10), the City spent approximately \$2.3 billion on goods and services, representing nearly 22 percent of total City expenditures. Materials and supplies represent about 11 percent of the dollar value of City expenditures for contracted goods and services.

Exhibit 1

FY 2009-10 Actual City Uses for Contracted Goods and Services



Source: City and County of San Francisco FY2010-11 Budget. Note: FY09-10 Actual data is not final as of the date of this report as the FY09-10 Comprehensive Annual Financial Report (CAFR) has not yet been published.

A. Commodity Expenditures by City Departments

For the purposes of this report, we focused on materials and supplies purchases. Of the City's 121,049 total purchases in FY09-10, about 31% or 37,390 transactions were for materials and supplies, making it the procurement category with the highest percentage of transactions. For comparative purposes, while professional & specialized services represents 53% of total dollars spent by the City in FY09-10 on goods and services, the total number of transactions was 19,060, or only about 16% of overall purchasing transactions.

There are seven City departments that spend more than \$10 million annually on materials and supplies. The Department of Public Health (DPH) spent more than any other City department on materials and supplies in FY09-10 at \$97 million, roughly double the amount of the next highest City department – the Municipal Transportation Agency (MTA) – at \$49 million.

Exhibit 2	Top Five Commodity Objects Purchased by City Departments in FY09-10						
(\$ Millions)	DPH	MTA	PUC	AIR	ADM	LIB	DPW
Building & Construction Supplies	\$1.8	\$6.2	\$7.5	\$8.0	\$1.2	\$0.4	\$8.1
Equipment Maintenance Supplies	2.0	22.6	3.5	2.0	4.0	0.0	0.3
Hospital; Clinics & Laboratory Supplies	71.2	0.0	1.2	0.1	0.5	0.0	0.3
Other Materials & Supplies	14.2	3.0	3.5	2.0	0.4	11.0	1.5
Other	7.9	17.5	14.8	1.7	5.7	0.0	0.5
Total Materials & Supplies	\$97.1	\$49.3	\$30.5	\$13.9	\$11.8	\$11.4	\$10.7

Source: City and County of San Francisco FY2010-11 Budget. Note: FY09-10 Actual data is not final as of the date of this report as the FY09-10 Comprehensive Annual Financial Report (CAFR) has not yet been published.

B. Purchasing Commodities through Citywide Term Contracts

The City has three primary methods by which it can purchase commodities: citywide term contracts, departmental purchase orders for one-time purchases solicited through competitive bid processes, and departmental Prop Q purchase orders. Citywide term contracts benefit the City because vendors provide price discounts in exchange for a high volume of business. In addition, citywide term contracts may reduce redundant work and assist smaller departments that lack the resources to initiate or manage their own contracts. In FY09-10, citywide term contracts were used for about 13% of commodity purchase transactions, representing \$62.8 million in expenditures, and a \$2 million increase over term contract commodity expenditures in FY08-09.

Currently, there are 221 active citywide term contracts. These contracts involve many types of commodities including fuel, janitorial supplies, concrete, envelopes, and paper. Exhibit 3 shows the top five term contracts used by the City.

Exhibit 3	Top Five Citywide Term Contracts	
	Commodity Area	FY09-10 Expenditures
	Fuel	\$18,774,923
	Chemicals, Sodium Hydroxide	\$7,314,494
	Telecommunications	\$6,239,250
	Pest Control	\$4,578,279
	Hospital Laundry Services	\$4,518,685

C. Resources to Expand Citywide Term Contract Use

OCA currently has 19 full time equivalents (FTEs) in the Purchasers and Senior Purchasers job classifications handling 221 term contracts. These staff represent a ratio of approximately one FTE for every 12 term contracts, with each Purchaser/Senior Purchaser able to generate three to five new term contracts (re-bids or first time bids) per year. The amount of work to develop and maintain term contracts is about the same, regardless of the commodity type or amount spent on that commodity. Applying the existing ratio of FTEs to term contracts, in order to effectively develop an estimated 10-15 new term contracts, OCA will need a minimum of two additional FTEs.

OCA has already begun the process of identifying potential areas for new term contracts as part of its current quarterly business review process. Additional proposed term contracts have been identified through a Controller's phone survey of departmental purchasing staff. These suggestions for new term contracts are described in further detail below.

III. CURRENT EFFORTS TO IMPROVE PROCUREMENT PROCESSES

A. City-Wide Contracting Improvement Process Improvement Program

A working group comprised of representatives from the Controller's Office, OCA, Human Rights Commission (HRC), and City Attorney's Office has been meeting periodically over the last several months to discuss legislative and administrative mandates governing City contracting and to develop improvements for efficiency and effectiveness. Topics have included:

- i. Streamlined contracting requirements. OCA is in the process of obtaining Board of Supervisors approval to increase solicitation thresholds (minimum competitive amounts) for professional services, commodities, and general services, which will streamline requirements for lower cost purchases. Further work is being done to explore how standard City terms and conditions may be streamlined to simplify contract compliance and negotiations processes.
- ii. Improvements to Administrative Code Section 12B (Equal Benefits Ordinance) compliance process. HRC has recently updated its website to improve vendor understanding of contract compliance requirements. It has also adopted a new case management policy to help differentiate vendors' equal benefits declarations by the level of effort required to complete them and speed response times. These efforts and the addition of new staff have been helping HRC reduce its compliance review backlog and keep its caseload stable. HRC is currently updating its forms to clarify instructions and piloting electronic fillable forms for vendors to streamline paperwork completion and submission requirements. Additional work will be done to update the Equal Benefits database to ensure data and reports needed for decision-making are more readily available.
- iii. Updated vendor website and forms. OCA recently implemented a new website for vendors to help them better understand "how to do business with the City." The new website is attractively laid out and organized to enable vendors to more easily access the information they need. In addition, a team of OCA, Controller's Office, Department of Technology, and Treasurer/Tax Collector staff have been exploring electronic fillable form solutions to streamline the processes for completion and submission of vendor forms.

B. OCA Quarterly Business Review

OCA conducts a quarterly business review with its key purchasing staff. Objectives of the review are to identify:

- Future term contract opportunities based on analysis of prior year commodities purchases and Prop Q purchases (Prop Q items are small dollar value, short-term purchases);
- Areas for further commodities research;
- Opportunities for usage surveys and cross-departmental collaboration.

Areas of high Prop Q and commodities usage currently being reviewed include: work uniforms, water treatment materials and supplies, traffic control system materials and supplies, printing, heating, ventilation, air conditioning (HVAC), food, and transit system materials and supplies.

C. PEC Commodities Phone Survey Results

To obtain additional feedback on commodities purchasing process improvements, Controller's Office staff conducted phone interviews with end-user department purchasing staff from nine City departments: Airport, Fire, Human Services, Port, Public Health, Public Works, Public Utilities Commission, Recreation & Park, and Sheriff. The survey showed wide variance in use of term contracts, from purchasers who rarely or never use them to those that use term contracts for the majority of purchases.

Most purchasers interviewed would support an increased use of term contracts. These findings are consistent with issues identified by the PEC. Specific suggestions for improvement included:

1. Faster turnaround times to develop and activate (or renew) term contracts;
2. Broader groupings and "miscellaneous" categories of items that can be purchased through term contracts;
3. Greater flexibility to add items to term contracts; and
4. A streamlined method to identify existing term contracts using the electronic system for city purchasing transactions, ADPICS.

General suggestions included periodic surveys of City department staff to elicit suggested items for term contracts and replacement of ADPICS with a web-based purchasing system.

All purchasers interviewed said they would be willing to serve on a committee to explore term contract and other purchasing issues.

Commodities and services that were suggested as potential items for term contracts included: furniture, bottled water (for departments with an appropriate exemption), window treatments, compostable bags, locksmiths, elevator & HVAC repair services, process serving, document destruction, document imaging, laboratory materials, and large diameter pipes.

With the City's current data it was not possible to determine the amount spent in most of these specified areas. Among other issues, inconsistent coding in the financial and purchasing systems makes analysis of City expenditure details inconclusive. For example, a search for "laboratory" to find laboratory materials purchases revealed that they are coded as "laboratory supplies," "minor medical equipment," "medical; dental & laboratory equipment," "other hospital, clinic, and laboratory supplies," "cleaning supplies," or "dental/medical supplies." A search for "shred" to find document destruction expenditures found shredding and destruction service vendor transactions coded as "scavenger services," "other current expenses," "social services contracts" and as "other building maintenance services." The City's ability to analyze data for procurement decision-making will partly depend on providing City staff with an appropriately detailed coding structure and guidance to ensure increased consistency. This need is one the Controller's Office will take into consideration as part of its project to replace the City's financial system.

IV. RESPONSES TO PEC's RECOMMENDATIONS

In the list below, the PEC's recommendations are in bold text and our responses in plain text following. For many of the PEC's recommendations, our responses reflect progress being made through current Citywide Contracting Process Improvement Program initiatives, as well as OCA's existing business processes. Further discussion is welcomed.

- 1 **Provide single point of entry online to do business with the City, e.g. purchase portal and information on "how to do business with the City."** This recommendation is being addressed through the new vendor-oriented website maintained by OCA.
- 2 **Improve responsiveness to vendors by clearly illustrating what bidders/vendors need to submit and with quick turnaround on responding to questions and inquiries.** This recommendation is being addressed through the new vendor website and the 12B Equal Benefits improvements to response times, form updates, and case management system. The Controller's Office found that turnaround response times for other types of compliance requirements are, on average, between one to five business days, so are not likely to contribute independently to turnaround delays.
- 3 **Simplify forms, reduce types of forms required to submit, and make electronic fillable forms available.** This recommendation is being carried out through the HRC pilot for electronic fillable forms, as well as the working group comprising Controller, OCA, Department of Technology, and Treasurer/Tax Collector.
- 4 **Decrease business process turnaround for HRC to vendors.** This recommendation is being addressed through the newly adopted case management system and with new HRC staff hires.
- 5 **Establish timeline/time limits for vendor responsiveness to City with ability by City to move on to other eligible vendors or contractors.** This proposed recommendation may require further discussion with PEC. The City is prohibited from requiring vendor compliance prior to contract award. However, departments that have been able to provide vendor compliance requirements, forms and assistance to vendors in advance of contract awards, have had greater success in awarding contracts to successful bidders within reasonable timeframes.
- 6 **Implement periodic term contract survey and review of Prop Q purchases and department requisitions to determine term contract areas for cost savings.** OCA conducts annual and quarterly business reviews to monitor trends in purchasing behavior and opportunities for departmental blanket purchase orders and term contracts. To date, a number of term contracts have been executed or are in process as a result of these Prop Q audits. OCA plans to continue this review/audit practice and will publish findings on a quarterly basis.
- 7 **Inform departments about and encourage use of term contracts.** When new term contracts are awarded or contract modifications are executed, notification and usage instructions are e-mailed by OCA to all departmental end users and contracting officers.
- 8 **Broaden specification range to increase the number of potential competitive bidders.** OCA will continue to work with end-user departments to ensure that, wherever possible, specifications include the language "or equivalent substitute" so specifications are as general as possible while still ensuring the City's commodity needs are being met.
- 9 **Conduct periodic review of bid results when less than 3 bids for commodities and less than 5 bids for construction received; request explanation on what caused low bidder response.** OCA will work with the Controller's Office to include a review of bids with less than three bidders during the annual ADPICS data pull and review. OCA will identify areas or commodities where the City could benefit from an increased vendor pool (where an expanded

vendor pool may be available) and will work with Purchasers, HRC and via trade fairs to encourage greater competition in such areas/commodities.

- 10 Request at least 3 bids on dept purchases from \$5k up to \$10k, maintaining Prop Q authority purchase at \$10k.** OCA conducts Prop Q (Delegated Departmental Purchasing Authority) training twice per year for a pre-approved group of purchasers within each department. During this training, OCA recommends to all Prop Q purchasers that a minimum of three bids be obtained for purchases over \$5,000.
- 11 Review existing City requirements and identify which ones may limit the size of bid pool, with the purpose of maintaining the City's social programs and policies while addressing inefficiencies and barriers faced by potential bidders.** This recommendation is being addressed by the work completed and in progress to streamline contracting requirements, the 12B Equal Benefits process improvements, the new vendor website and the electronic fillable form research currently underway.
- 12 Identify licensed/authorized brokers, whose business model requires use of third party broker for retail purchasing, e.g. Microsoft, and understand the true cost dealing with these types of vendors.** OCA has reviewed the vendor payment database for all City payments made to possible 3rd party brokers. Of all payments made to City vendors, approximately 0.2% of dollars paid were to possible 3rd party brokers. Of all Prop Q payments made, approximately 28% of dollars paid were to possible 3rd party brokers. While a very small percentage of all payments made by the City are going to 3rd party brokers, OCA will continue to monitor spending with possible 3rd party brokers to ensure that all opportunities for departmental blankets and term contracts are being explored.
- 13 Set targets for achievable savings and specify goals on streamlining process of commodity purchasing and procurement.**
- 14 Develop mechanism to track progress and periodic report back by Controller, OCA and PEC on measurable progress and outcomes related to these goals.**
- 15 Jointly announce efforts to improve efficiency and promote cost savings, as well as pledge to report results of our success.**

For recommendations 13, 14 and 15, OCA will submit the results and output of Quarterly Business Reviews to the PEC. These reviews will address the following areas:

- Opportunities for term contracts
- Opportunities for departmental blankets
- City spending with possible 3rd party brokers
- Prop Q purchasing audit at the departmental level
- Commodity bids with less than three (3) bidders
- Annual survey of end-user departments addressing opportunities for new term contracts and process improvement

- 16 Perform periodic surveys of industry standard prices and the market prices paid by other counterpart public agencies on commonly purchase commodities.** When new term contracts are being written, OCA purchasers work with end user departments to understand current market rates and estimated costs for the term contract. Additionally, when conducting research into appropriate price adjustment indexes for various commodities and services and performance of these indexes for contract modifications, OCA gains an in-depth understanding of current competitive market rates. Since this research is conducted on an as-needed basis for new term contracts and contract modifications, there is no formal report out to departments but term contract-specific pricing information can be requested at any time.