

Management Audit

of the

**The City and County of San Francisco's
Commodity Purchasing Process**

Prepared for the

**Board of Supervisors
of the City and County of San Francisco**

by the

San Francisco Budget Analyst

December 7, 2009

CITY AND COUNTY



OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET ANALYST

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December 7, 2009

Supervisor David Chiu, President,
and Members of the Board of Supervisors
City and County of San Francisco
Room 244, City Hall
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4689

Dear President Chiu and Members of the Board of Supervisors:

The Budget Analyst is pleased to submit this *Management Audit of San Francisco's Commodity Purchasing Process*. In response to a motion adopted by the Board of Supervisors in April 2009 (Motion No. 09-65), the Budget Analyst conducted this management audit, pursuant to the Board of Supervisors powers of inquiry as defined in Charter Section 16.114 and in accordance with U.S. Government Accountability Office (GAO) standards, as detailed in the Introduction to the report.

The purpose of the audit has been to evaluate the efficiency, economy, and effectiveness of the Citywide purchasing processes for commodities, including materials and supplies, vehicles, information technology materials and supplies, and Department of Public Health medical supply and pharmaceutical purchases through the group purchasing organization (described below). This transmittal letter to the *Management Audit of San Francisco's Commodity Purchasing Process* summarizes the Budget Analyst's findings and recommendations.

The management audit report contains 16 findings and 66 recommendations. The Budget Analyst's recommendations are attached to this report.

The audit report findings include (1) the Citywide commodity purchasing process under the oversight of the Purchaser; (2) purchases of information technology materials and supplies through OCA's Technology Store; (3) purchases of vehicles; and (4) the

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Honorable David Chiu, President,
and Members of the Board of Supervisors
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Department of Public Health's purchasing processes through the group purchasing organization.

The Budget Analyst estimates that implementation of the audit recommendations would save the City approximately \$3.7 million annually. These savings are based on our estimates of reduced commodity costs by increasing the competitiveness of the purchasing process.

We would like to thank the management and staff of OCA, the General Services Agency, Office of Public Finance, Department of Public Health, Department of Technology, Controller, and other City departments for their cooperation during this management audit.

Respectfully submitted,



Harvey M. Rose
Budget Analyst

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Management Audit of the City and County of San Francisco's Commodity Purchasing Process

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Executive Summary

Overview of Commodity Purchasing

In FY 2008-09, the City issued 38,730 purchase orders for commodities with a combined value of \$383,550,523. Commodity purchases include materials and supplies, vehicles, information technology, pharmaceuticals, and medical supplies.

Under the Administrative Code, the Purchaser oversees the City's purchasing function. The Purchaser serves as the Director of the Office of Contract Administration (OCA) and the OCA Purchasing Division processes many of the City's commodity purchasing transactions. However, the Charter and the Administrative Code authorize City departments to directly purchase commodities or services in some instances, as discussed below.

The Charter authorizes:

- The Municipal Transportation Agency (MTA) to purchase all commodities and services for the MTA.

Additionally, the Administrative Code authorizes:

- Six City departments to directly enter into public works contracts¹;
- The Public Utilities Commission General Manager to purchase electricity, natural gas, and water.
- The Department of Public Health to purchase medical supplies, pharmaceuticals, and other commodities through the University Health Systems group purchasing organization, which is a consortium of university hospitals.

The Administrative Code defines the direct purchasing authority of City departments under various other circumstances. The Purchaser may also delegate to City departments authority to purchase commodities up to \$50,000.

Types of Purchasing Transactions

City departments can purchase commodities through a variety of transactions that include:

Purchase orders through the OCA: OCA processes purchase orders for commodities with values of \$10,000 or more on behalf of City departments.

¹ These departments are the: Municipal Transportation Agency (MTA), Airport, Public Utilities Commission (PUC), Department of Public Works (DPW), Recreation and Park Department, and the Port.

Citywide blanket/term contract: Citywide blankets (term contracts) are fixed price, indefinite quantity contracts from which City departments may place commodity orders during the course of the year. Generally, term contracts benefit the City because vendors provide price discounts in exchange for a high volume of business.

Departmental blanket agreements (or departmental blanket purchase orders): Departmental blanket agreements are used to secure OCA approval for anticipated purchases of certain commodities for a specific time period and dollar limit. Departmental blanket agreements are usually established for purchases from a specific vendor for a specific category of commodity not covered under other Citywide contracts, and usually cover small items with an unpredictable demand. When making a purchase, departments issue a purchase order release against the departmental blanket agreements. City departments may only purchase up to \$1,000 per day from each of the department's blanket agreements.

Delegated departmental purchase orders: Under the Administrative Code, the Purchaser may delegate to City departments authority to directly purchase up to \$50,000 in commodities, with the goal to streamline the City's purchasing process and reduce OCA workload, allowing OCA staff more time to develop contracts for larger purchases. Currently, the Purchaser has delegated City departments authority to purchase up to \$10,000 in commodities.

Direct Voucher: Direct vouchers are payment requests made for orders less than \$200, final payments under closed purchase orders, accounting errors, or payments for orders that did not follow standard procedures. All direct vouchers less than \$200 bypass OCA. Therefore the requesting department is responsible for reviewing and approving the transaction.

San Francisco Purchasing Trends

In FY 2008-09, the 10 departments issuing the most purchase orders issued 33,456 purchase orders, or 86.4 percent of the City's 38,730 purchase orders. The top 10 purchase order issuers are listed in Table 1 below.

Table 1
Top 10 Purchase Order Issuing Departments
FY 2008-09

Rank	Department	Purchase Orders
1	Public Utilities Commission	11,078
2	Municipal Transportation Agency	6,885
3	Department of Public Works	3,353
4	Department of Public Health	3,067
5	Recreation and Parks Department	2,177
6	General Services Agency	2,004
7	Airport	1,692
8	Port	1,352
9	Department of Technology	997
10	Human Services Agency	851
Total		33,456

Source: Advanced Purchasing Inventory Control System (ADPICS)

In FY 2008-09, the City spent more money on pharmaceuticals than any other commodity, as determined by City commodity codes, with purchases totaling \$39.5 million or 10.3 percent of all purchases. The 10 commodities receiving the most purchase dollars are listed in Table 2 below.

Table 2
Top Commodities Purchased, by Dollar Amount
FY 2008-09

Rank	Commodity	\$ Total	% of Total
1	Pharmaceuticals	\$39,464,576	10.3%
2	Fuels & Lubricants	25,127,100	6.6%
3	Miscellaneous	23,957,994	6.2%
4	Other Equip Maintenance	23,278,664	6.1%
5	Software Licensing Fees	17,507,918	4.6%
6	Other Equipment	14,692,070	3.8%
7	Food	11,923,866	3.1%
8	Water & Sewage Treatment Supplies	11,419,598	3.0%
9	Community Based Organization Services	10,521,460	2.7%
10	Other Professional Services	9,991,355	2.6%
	TOTAL (includes 129 additional commodities)	\$383,550,523	100%

Source: ADPICS

In FY 2008-09, the City issued purchase orders to 2,771 separate vendors. Table 3 below shows the top 10 vendors by FY 2008-2009 purchase order amounts.

Table 3
Top 10 Vendors, By Total Purchase Order Value
FY 2008-2009

Rank	Vendor Name	Total Purchase Orders Value
1	McKesson Corporation	\$39,307,259
2	Golden Gate Petroleum	\$16,605,401
3	XTech	\$11,690,852
4	Bombardier Transportation (Holdings) USA, Inc.	\$10,472,100
5	En Pointe Technologies Sales Inc	\$9,549,615
6	San Francisco Petroleum	\$8,904,068
7	Oracle USA Inc	\$5,447,940
8	Ciber Inc	\$5,151,089
9	Thyssenkrupp Elevator Corp	\$5,086,114
10	Sequoia Voting Systems Inc	\$4,682,391

Source: ADPICS

Summary of Audit Findings

1. The Purchaser's Oversight of the Purchasing Process

In 2004 the Mayor directed the Purchaser to establish a new business model to streamline purchasing functions and increase oversight over the purchasing process. While the Mayor has directed OCA to oversee the City's purchasing process through developing purchasing guidelines and standards, updating of the Administrative Code, and otherwise streamlining the purchasing process, OCA has not fully implemented these directives.

OCA defines purchasing guidelines and standards, but does not ensure that all purchasing processes consistently conform to OCA's standards. For example, in establishing departmental blanket agreements, City departments do not consistently solicit or document price discounts for departmental blanket agreements less than \$50,000, or competitively bid departmental blanket agreements greater than \$50,000, as required by OCA's standards.

The Mayor directed the Purchaser to participate in updating Administrative Code provisions on contracting but the management audit found outdated Administrative Code provisions. For example, the Administrative Code requires the Committee on Information Technology (COIT)² to set the Technology Store administrative fee charged to City departments for Technology Store purchases, but responsibility for the Technology Store

² The Committee on Information Technology (COIT) is the City body tasked with coordinating departmental information technology systems.

was transferred from COIT to OCA in 2006. The Administrative Code should be revised to assign OCA responsibility for the City's Technology Store, and designate the City Administrator, who oversees OCA, as being responsible for setting the Technology Store administrative fee.

OCA could do more to improve the purchasing process and ensure cost-effective purchase of commodities by re-allocating staff resources from day-to-day transaction processing to oversight of purchasing. Purchasing oversight would include increased analysis of trends in commodity purchasing, revising purchasing procedures to address commodity purchasing trends, enforcing purchasing standards, and providing training to OCA and City staff in purchasing processes that need improvement.

2. Purchasing Systems and Reporting

The City's Advanced Purchasing Inventory Control System (ADPICS) is a component of the City's Financial and Management Information System (FAMIS). ADPICS was first implemented in 1996 with the most recent upgrades in FY 2004-05. ADPICS has limited capabilities, including limited reporting capabilities, electronic processes and vendor access. In FY 2009-10, the Controller's Office plans to begin an evaluation of the scope and costs of replacing the FAMIS system, including ADPICS.

Understanding Citywide purchasing trends can help reduce procurement costs and improve purchasing efficiency. However, ADPICS data entry is sometimes incorrect or contradictory, reducing the usefulness of ADPICS data and reports for analyzing purchasing trends. For example, the Department of Public Health (DPH) purchases from its group purchasing organization were frequently entered into ADPICS as "departmental blanket purchase orders". However, DPH purchases through its group purchasing organization do not require OCA approval, while departmental blanket purchase orders do require OCA approval. Therefore, purchasing transactions processed directly by DPH would be identified as purchasing transactions processed by OCA when analyzing ADPICS data for purchasing trends. OCA cannot effectively monitor Citywide purchasing processes and address system wide problems without accurate information.

OCA management's current use of ADPICS data is limited. OCA uses ADPICS data to track its performance measures twice per year and purchaser workload once per year. OCA also periodically produces reports on specific issues, such as analyzing Citywide expenditures on food for the draft Sustainable Food Procurement Ordinance which was prepared by the Department of the Environment at the request of the Mayor.

However, OCA has not routinely developed summaries of purchasing trends from comprehensive ADPICS data, such as the summaries developed by the Budget Analyst for this report. OCA needs to expand its use of data for analyzing and overseeing Citywide purchasing trends, and incorporate this analysis into strategic and annual planning for the purchasing process.

3. Citywide Term Contracts

Term contracts are fixed price, indefinite quantity contracts from which City departments may place orders during the course of the year. Generally, term contracts benefit the City because vendors provide price discounts in exchange for a high volume of business.

OCA has set a target based on historical spending that 28 percent of all commodities are to be purchased through term contracts. While OCA has achieved this target, OCA has set the target too low. Because most City departments purchase the same types of commodities repeatedly (such as computer supplies or tools), most commodity purchases in the City should be obtained through term contracts. For example, while more than 90 percent of vehicles and computer purchases are obtained from term contracts, less than 10 percent of tools, building materials, or transit equipment purchases are obtained from term contracts.

OCA has not placed sufficient emphasis on establishing term contracts for commodities. Although OCA has recently rebid several high volume commodity contracts, including information technology and fuel contracts, at least one high volume commodity contract - lubricants - expired in 2006 and has not been rebid. Also, City departments purchase several high volume commodities, such as tools, mostly through open market purchases and delegated departmental purchases that are not competitively bid, rather than purchasing such commodities through term contracts.

4. Delegated Departmental Purchasing

The Purchaser has delegated City departments authority to purchase up to \$10,000 in commodities. Total delegated departmental purchasing in FY 2008-09 was \$50.4 million, or 13.1 percent of total Citywide commodity purchases of \$383.5 million.

While OCA's Rules and Regulations require all City department employees, designated to purchase commodities under the departments' delegated purchasing authority, to disclose conflicts of interest by filing a Statement of Economic Interests, OCA has neither ensured City departments' understanding of nor enforced compliance with this requirement. Currently, City departments do not require that all designated employees file a Statement of Economic Interests because these designated employees are either not decision makers, not in job classifications required by the City's Campaign and Governmental Conduct Code to file a Statement of Economic Interest, or other reasons. OCA should work with the Ethics Commission to determine which designated employees must file a Statement of Economic Interests and ensure that City departments comply with this determination.

Also, although the Controller audits certain departmental purchasing transactions, OCA does not formally follow-up with City departments to correct audit findings. In 2008, the Controller found that 1,398 purchase orders, totaling \$9.2 million, were not in compliance with OCA requirements. City departments (1) split purchase orders greater than \$10,000 into two or more purchase orders of less than \$10,000 each in order to purchase such commodities under the department's delegated authority rather than submit

the purchase order to OCA (as required for purchase orders greater than \$10,000); and (2) purchased professional services through delegated departmental purchasing authority, which is prohibited by OCA. OCA does not formally follow up with City departments on the Controller's audit findings and recommendations.

Also, although delegated departmental purchasing was intended to reduce OCA workload, allowing OCA staff to negotiate contracts for large volume purchases, OCA continues to process many transactions less than \$10,000. Most of these transactions (1,605 or 70 percent of 2,293 transactions less than \$10,000 processed by OCA in FY 2008-09) are for technology purchases, such as desktop and laptop computers and printers, through the City's Technology Store. The Department of Technology reviews desktop and laptop computer and printer purchase requests prior to the Technology Store processing these purchase requests with the goal of standardizing or volume purchasing these commodities. However, neither OCA nor the City's Chief Information Officer in the Department of Technology have developed a procedure for standardizing these purchases or batching requisitions from multiple departments for volume purchasing.

Currently, one OCA purchaser processes transactions less than \$10,000 for the Technology Store. The City achieves no benefit from having OCA rather than City departments process these transactions if OCA and the Chief Information Officer are not actively implementing standardization and volume purchasing for computers, laptops, and printers.

5. Departmental Blanket Agreements

Departments have increased their use of departmental blanket agreements for commodity purchases by 47.7 percent, from 1,282 in FY 2006-07 to 1,893 in FY 2008-09, an increase of 611 agreements. City departments purchased approximately \$91.0 million through departmental blanket agreements in FY 2008-09, or approximately 23.7 percent of all City commodity purchases.

Most departmental blanket agreements are open market purchases and therefore, not competitively bid. Although OCA instructs City departments to obtain price discounts for departmental blanket agreements of \$50,000 or less (which are not subject to the City's competitive bid requirements), City departments do not consistently document if they obtained price discounts in ADPICS, as required by OCA. Also, OCA does not ensure that departmental blanket agreements greater than \$50,000, which are subject to the City's competitive bid requirements, are competitively bid. For example, OCA approved a departmental blanket agreement between the General Services Agency Central Shops and First Automotive Distributors for a not-to-exceed amount of \$95,000 without a competitive bid or notation in ADPICS of obtaining price discounts

OCA does not consistently identify if multiple departmental blanket agreements with a specific vendor could be incorporated into term contracts, thus saving money through discounted pricing. For example, from FY 2006-07 to FY 2008-09 the Airport has had a total of 44 departmental blanket agreements with Center Hardware Company—with total not-to-exceed expenditures of \$554,291. Additionally, in FY 2008-09 alone, Center

Hardware Company had a total of 38 departmental blanket agreements Citywide with total not-to-exceed expenditures of \$514,080, indicating Citywide demand (i.e., beyond the Airport) for commodities available from Center Hardware Company. OCA could leverage these separate departmental blanket agreements into one contract to obtain competitive term contract discounted prices.

6. Commodity Specifications and the Bid Process

The Administrative Code requires competitive bidding for commodity purchases greater than \$50,000 to ensure that the City is receiving the lowest available price. OCA oversees formal competitive bids. In the Budget Analyst's review of 20 one-time purchase orders and contracts greater than \$50,000 which were competitively bid, OCA received from 3 to 7 bids on average for each purchase order or contract.

When competitively bidding commodity purchases greater than \$50,000, commodity specifications that are too general or too narrow in scope can adversely impact the bid process. For example, only one vendor bid on a purchase order for replacement carpeting in the Main Library. The bid documents specified that only one type of carpeting from a specific manufacturer was acceptable, restricting the number of qualified vendors who could bid on the purchase order.³

City departments are responsible for developing commodity specifications, subject to review by OCA purchasers. Although some City departments evaluate commodities for meeting safety standards or other criteria, few departments evaluate commodities for cost-effectiveness. City departments can reject low bids if the commodity does not meet their specifications, and in a sample of 20 bids, City departments rejected 3 bids resulting in awards to vendors with prices from \$5,000 to \$30,000 greater than the low bid.

According to the Administrative Code, OCA should discount commodity bids from San Francisco-based vendors to account for sales tax receipts to the City from the purchase of the commodity. Currently, OCA discounts bids from San Francisco vendors by one percent. OCA collaborated with the Controller and Tax Collector in determining the one percent discount in the late 1990s but has not reviewed the bid discount since that time. According to OCA, in response to the Budget Analyst's audit, the City Attorney advised OCA that the sales tax discount should be increased from 1.0 percent to 1.25 percent.

7. Direct Vouchers

Direct vouchers are payment requests for commodity purchases that do not encumber the funds to pay for the purchase in the City's financial system, FAMIS. Although the City Charter requires funds to be encumbered before goods or services are purchased, City departments may pay vendors through direct vouchers for (a) purchases less than \$200, (b) to correct clerical or accounting transactions, or (c) because the City department has

³ According to the Library staff, the specified manufacturer, who had provided the original carpeting, was the only manufacturer able to match the dye and construction of the existing carpet the Main Library.

not complied with OCA's purchasing guidelines. In FY 2008-09, City departments generated 8,956 direct vouchers for commodity purchases, totaling \$3,722,077.

City departments sometimes use direct vouchers to compensate for purchases that do not conform with OCA guidelines. In a sample of 60 direct vouchers greater than \$200, City departments used direct vouchers in 16 instances because they failed to comply with OCA guidelines. These exceptions to OCA's purchasing guidelines occurred because City department staff purchased commodities without issuing purchase orders; did not tell the appropriate managers that invoices or deliveries had been received; or made errors in requisitions, purchase orders, or commodity specifications.

Delays in OCA or Human Rights Commission approval processes for sole source vendors can also result in the need for direct vouchers if the City department requires the commodity or associated maintenance service prior to obtaining sole source approval. For example, one department issued a direct voucher for \$122,542 to pay a sole source vendor for routine software maintenance two years after the original invoice, in part because the Human Rights Commission's review of the vendor's compliance "extended over a year's term". Another department issued a direct voucher for \$59,589 for the maintenance of software during a time period when the vendor's contract was still awaiting liability insurance, sole source, and Equal Benefits Ordinance waivers. The vendor was the sole service provider for Jail Health Services medical charting software.

8. Information Technology Purchasing

Citywide planning and purchasing for information technology (IT) supplies has been historically uneven due to the decentralized and short term nature of IT funding. Numerous efforts have been made over the last three years to enhance IT planning collaboration among City departments with some progress toward coordinated resource planning.

The Committee on Information Technology (COIT) has initiated departmental IT plans with a review of proposed IT projects. Although the plans provide a framework for citywide IT planning, such plans are not fully and consistently completed by departments and often do not include performance measures.

The City continues to lack centralized IT equipment inventory management tools although the 2007 Budget Analyst's management audit of City IT practices found that departments had an inconsistent level of inventory accountability. The Budget Analyst recommended that COIT develop citywide policies on maintaining computer inventories and implement a quality control process to ensure adequate compliance with such policies.

The City also lacks Citywide agreements with large manufacturers of goods and services, such as Oracle, although City leaders have agreed on the need for these agreements. For example, the Controller reported that the City has 40 individual contracts with Oracle resulting in the purchase of \$17 million in licenses from Oracle over a 10-year period. The Controller recommended that the Director of the Department of Technology convene

a four to five person negotiation team to negotiate Citywide agreements with large manufacturers of information goods and services to be led by the Department of Technology with a representative from OCA to assist with contract compliance. While four positions were included in the Department of Technology FY 2009-10 budget, the Mayor's Office has not yet approved the position requisitions.

The Chief Information Officer (CIO) of the Department of Technology, at the direction of the Mayor, began reviewing all IT-related purchases to address FY 2008-09 mid-year budget reductions and the Mayor's IT environmental goals. According to the CIO, the review is now "to gather very specific data and information on technology procurements and to identify opportunities for consolidation and standardization." Continued CIO review of IT requisitions is justified if OCA and the CIO develop procedures for standardizing IT equipment and batching purchases from multiple departments for volume purchasing, as discussed in Section 4. However, the CIO should develop written criteria for reviewing requisitions, establish review timelines, and measure the impact of the CIO-review on the purchasing process.

9. Technology Store Purchasing

The City's Technology Store consists of 14 separate as-needed contracts, awarded by OCA through a competitive Request for Proposals process, for the procurement of information technology (IT) goods and services. The Technology Store is intended to provide an expedited IT purchasing process for City departments with discounted rates from Technology Store vendors. In FY 2008-09, City departments purchased \$28.1 million in IT commodities through Technology Store vendors, or 48 percent of Citywide IT commodity purchases of \$58.5 million.

While the Technology Store is structured to encourage competitive pricing, the controls in place are inadequate to ensure that vendors provide goods at prices consistent with contracted discount rates. Specifically, OCA does not have a structured review (or post audit) process to verify that Technology Store pricing is consistent with the contracted rates.

According to OCA policies, City departments should solicit a minimum of three price quotes for Technology Store commodity purchases greater than \$100,000, but City managers are often not able to obtain three quotes. OCA policy encourages City departments to solicit more than one price quote for Technology Store commodity purchases under \$100,000, but a review of 10 Technology Store purchase orders under \$100,000 found that 8 of these purchase orders had only one vendor quote.

OCA has implemented a pilot program to increase participation of small local businesses in the purchase of information technology supplies, although purchases from these small businesses (Micro Local Business Enterprises, or Micro-LBEs) have been significantly less than the contract not-to-exceed amount. As of June 2009, \$11,913 in commodities had been purchased directly from Micro-LBEs under a pilot program initiated in January 2009. This amount is only 17.9 percent of expected purchases of \$66,667 under contracts

with four separate Micro Local Business Enterprises for products for the six-month period.

The Administrative Code allows the Technology Store to assess an administrative fee for all purchases. COIT and OCA have not adjusted this fee and the current fee of 1.9 percent of purchase price exceeds OCA's costs for administering the Technology Store by an estimated \$330,000 annually. Further, City departments are charged for the costs of OCA's Purchasing Division, including Technology Store costs, through the Countywide Cost Allocation Plan, resulting in City departments paying directly for Technology Store purchases through the administrative fee and indirectly for the Technology Store through allocation of OCA's Purchasing Division costs, including Technology Store costs, through the Countywide Cost Allocation Plan (COWCAP).

10. Vehicle Management and Procurement

How the City manages its general purpose vehicle fleet impacts the demand for and procurement of vehicles in the City. The City maintains a total of 1,645 vehicles in vehicle fleets managed by five City departments. The City's Director of Fleet Management, under the General Services Agency, oversees approximately half of this fleet, with the remaining vehicles under the independent fleet management of the SFMTA, Port, Airport, and the PUC. While the City's Director of Fleet Management and the four City departmental fleet managers do meet regularly, vehicle fleet management is inconsistent across the City. In 2009, a vehicle fleet consultant found various shortcomings in the City's fleet management and procurement practices.

Vehicle replacement policies and practices are inadequate. Four of the five fleets have fleet replacement thresholds, though only two fleets have written replacement policies. Although deferred replacement exacerbates vehicle maintenance costs, only one of the City's five fleets is factoring maintenance costs into its vehicle replacement decision making.

The Director of Fleet Management charges General Fund departments a flat annual fee for each general purpose vehicle assigned to that department. This annual lease fee includes the cost of regular maintenance and repair, which are provided by Fleet Management, as well as a contribution to a vehicle replacement reserve. Cumulatively, however, the vehicle replacement reserve contribution is only sufficient to fund replacement of a vehicle when it is approximately 20 years old. This replacement rate lacks both financial and environmental justifications, failing to account for the maintenance or environmental costs of aging vehicles.

The City's five independent fleets consist of a wide array of vehicle make and models. While the Mayor has requested that departments standardize vehicles where possible, the City has not established policies or guidelines for implementing this request. The City has taken some steps toward standardizing vehicle specifications, such as standardizing the color of new general purpose vehicles in order to encourage vehicle sharing between departments. However, lack of standardization for all general purpose vehicles increases the City's vehicle purchase costs due to increased OCA costs for bidding separate

contracts for different models of vehicles and the reduced ability to purchase standardized vehicles in volume to achieve volume discounts.

11. OCA's Role in Vehicle Purchasing

The vehicle procurement process is slow. Once OCA receives a vehicle requisition, OCA takes an average of 87 days to issue a vehicle purchase order. Because the City purchases vehicles that are not available in vendor inventories, the vendor must order the vehicles from the manufacturer, with an expected delivery wait time of 90 days. With an average purchase order issuance wait of 87 days under term contracts, plus delivery wait time of at least 90 days, the total time between OCA's receipt of a requisition and the City's receipt of the vehicle under a term contract is approximately 177 days or approximately 6 months. Long processing times increase costs to the City because such slow processing times increase the requesting departments' use of rental vehicles and older vehicles with higher fuel, repair, and depreciation costs.

Slow processing of vehicle requisitions is due, in part, to inadequate OCA staffing, as vehicle requisitions are processed by only one purchaser who has a number of other duties. In order to reduce processing times, the Purchaser should increase the number of staff assigned to vehicle purchasing during periods of the year with the greatest number of vehicle requests (March through May and/or November through January). The Purchaser should also establish performance standards in order to measure processing times and identify possible obstacles to expedite the issuance of purchase orders.

Also, OCA is not taking full advantage of their term contracts. Under the Administrative Code, if a vendor fails to deliver a vehicle under a term contract at the contract price, and the City must procure another vehicle outside of the existing term contract at a higher price, the City may charge the difference between the term contract price and the actual purchase price to the term contract vendor.

A targeted sampling of 8 requisitions revealed at least two instances of a vendor not honoring the term contract price. In the first instance, OCA, in conjunction with the requesting department, issued a new bid, and eventually purchased six alternate vehicles at a total cost of \$6,690 more than they would have paid under the term contract. In the second instance, OCA, in consultation with the requesting department, cancelled the purchase order because the vendor was unable to deliver the vehicle. In neither case did OCA pursue penalties against the vendor pursuant to Section 21.33 of the Administrative Code.

12. Department of Public Health Inventory Controls

San Francisco General Hospital (SFGH) and Laguna Honda Hospital (LHH) receive "just-in-time" deliveries of medical supplies and pharmaceuticals, in which the authorized distributor delivers orders within 12 hours. This reduces the need to maintain large storeroom inventories and the resulting overstocking of supplies.

Nonetheless, the potential for overstocking and wastage of medical supplies on SFGH's clinical units exists. Although SFGH's Department of Nursing has policies to limit stockpiling of supplies on the clinical units, the SFGH Materials Manager does not currently review clinical unit purchases of less than \$3,000 per day. Clinical unit staff can directly order from vendors up to \$300 per day and clinical unit managers can directly order from vendors up to \$3,000 per day without Materials Manager approval. Also, the SFGH Materials Manager does not inventory informal stockpiles of medical supplies on the clinical units.

SFGH and LHH pharmacy inventory controls are largely informal. Par levels⁴ for drugs stored in the pharmacies are not specifically defined, and according to pharmacy staff, neither SFGH nor LHH has sufficient staff or computer capacity to maintain close count of pharmaceutical par levels. Pharmacy staff at both SFGH and LHH check pharmacy inventory daily by "experience and eyeballing."

13. The Department of Public Health's Group Purchasing Organization

Under the Administrative Code, the Department of Public Health can purchase medical supplies through Novation, a group purchasing organization. Participation in Novation is intended to achieve cost savings through group purchasing power. In FY 2008-09, SFGH and LHH purchased 52.4 percent of their medical supplies through Novation, or \$19.1 million of total medical supply purchases of \$37.6 million.

SFGH and LHH can purchase medical supplies at a discounted price from Novation vendors. However, SFGH and LHH purchase from vendors other than Novation if Novation vendors are not able to provide the specific medical supply. For purchases less than \$50,000, for which the City does not require formal competitive bids, the SFGH Materials Manager informally solicits favorable prices from specific vendors. However, SFGH Materials Management staff do not consistently seek competitive price quotes from more than one vendor to leverage the best possible price.

SFGH and LHH also purchase non-medical supplies from Novation vendors although the City sometimes has Citywide term contracts with the same vendors. For example, in FY 2008-09, SFGH purchased \$1.3 million in non-medical supplies from Novation vendors, including purchases through vendors such as Grainger and Pacific Omega Electrical Supply with whom the City also has term contracts. According to the SFGH Materials Manager, SFGH Materials Management staff check Citywide contract prices when purchasing from the same vendor through Novation. However, neither SFGH nor LHH have formal procedures requiring comparative price checks when purchasing non-medical supplies through Novation vendors

⁴ "Par level" is the number of specific materials, supplies, or pharmaceuticals maintained in stock.

14. Vendor Payments

City departments are primarily responsible for ensuring timely and accurate payment of vendor invoices, although the Administrative Code requires the Controller and Purchaser to establish vendor payment procedures. Neither the Controller's Officer nor OCA have a consolidated document outlining the vendor payment process. The Budget Analyst compiled a description of the vendor payment processes from various documents on the City's intranet or provided by OCA and through interviews.

Not all City departments have developed internal vendor payment guidelines. Nor do department vendor guidelines ensure conformance with the Controller's vendor payment policies. While 10 of the 15 City departments surveyed by the Budget Analyst have formal or informal internal vendor payment guidelines, two of these City departments with formal vendor payment guidelines were found non-compliant with procedures considered high priority by the Controller in the 2008 post audit of financial transactions. The risk of vendor payment errors would be reduced if City department managers implement and enforce vendor payment guidelines, including communicating these guidelines to staff.

Some City departments' vendor payment practices expose the City to over- or fraudulent pricing for commodities. For example, City departments do not consistently list specific commodity prices on purchase orders or require vendors to list specific commodity prices on invoices. In the Budget Analyst's review of 27 purchases, 9 purchase orders and 6 invoices failed to list specific commodity prices. One purchase order for \$20,000 was for "lighting, fixtures, portable units, flashlights, lamps, and bulbs." The department's accounting staff paid the invoice of \$20,050 (exceeding the purchase order by \$50) with no verification of either the specific commodities purchased, the quantity purchased, or the purchase price.

15. Administrative and Social Requirements

The City and County of San Francisco has numerous administrative and social policy requirements for City contractors. Administrative requirements can include business tax, insurance, and other requirements. Social policy requirements can include minimum compensation, health care, food service waste reduction, and other requirements. These administrative and social policy requirements are codified in the City's Charter and in the City's Administrative and Municipal Codes. Several different City departments are responsible for enforcing specific requirements. For example, the Human Rights Commission, Ethics Commission, Department of the Environment, and OCA each have responsibility for enforcing specific administrative or social policy requirements included in contracts. However, in some instances no City department has been designated to enforce specific requirements, such as the drug-free workplace or prohibition on the use of preserved wood treated with arsenic. OCA does not maintain a comprehensive list of these requirements. Nor has OCA documented procedures, defining the extent of OCA's responsibility for implementing these requirements in purchasing contracts.

The City's Local Business Enterprise (LBE) Ordinance was established to enable small local businesses to compete for public contracts. OCA's rules and regulations provide that departments should use good faith efforts to use LBE vendors in purchasing commodities. Despite these policies, the Budget Analyst found that only 4.2 percent, or 117 vendors, out of the 2,771 commodity vendors used by City departments in FY 2008-09 were LBE certified.

16. Vendor Performance

The City has not established guidelines to ensure that City vendors are qualified and responsible, although evaluating vendor performance is considered best practices by the federal government and various local governments. Further, OCA does not have a vendor evaluation process, and instead relies on City departments' complaints to identify poor vendor performance.

OCA generally resolves vendor complaints informally without implementing more formal procedures, such as terminating vendor contracts or debarring vendors from bidding on City contracts if violations have occurred by such vendors. However, in the past year OCA terminated two contracts because the vendor went out of business and one contract because the vendor failed to pay its Local Business Enterprise (LBE) subcontractors. Additionally, OCA cancelled the purchase order for two fire trucks when the vendor who was awarded the purchase order missed the original delivery date and could not give assurances, or even a schedule, for manufacturing and delivering the fire trucks.

However, OCA cannot reject a vendor from bidding on a new contract or purchase order for prior poor performance unless the vendor has been formally disqualified under Administrative Code provisions. This differs from the practice utilized by the federal Office of Management and Budget, in which vendor performance evaluations are used in future contract award decisions.

The OCA Purchasing Division's Accomplishments, FY 2008-09 to FY 2009-10

OCA is pleased to describe some of our recent major accomplishments. To summarize, OCA supports the operations of all other City departments by buying products and services competitively, timely, and in conformance with federal, state and local laws and regulations. The following material is organized into these categories: Term contracts; LBE opportunities; Green purchasing; Emergency preparedness; Personnel; City social policies; and Training.

A. Term contracts

1. The new Technology Store is our biggest term contract, enabling the City to buy \$40 million annually of IT-related products and services in a timely fashion and at competitive prices. The Store lets the City keep up with advances in technology. And a major step forward from the previous Computer Store is the pilot program set aside contracts for Micro-LBEs.

a. LBE opportunities. As the City's Computer Store contract ended and OCA formulated the RFP for the successor Technology Store, we broadened opportunities for vendor participation by creating three contract types: (1) Services and Products; (2) Products only; and, (3) Micro-LBE set-aside. Dividing the Store into smaller pieces made it easier for LBEs to participate, and OCA worked with HRC to include a pilot Micro-LBE set-aside program and subcontracting goals for the Store's service component. Four Micro-LBEs were awarded seven contracts for \$100,000 each, the maximum amount allowed by the Ordinance.

b. Green purchasing. Prior to issuing the RFP, OCA and the Department of the Environment met with manufacturers to discuss our desire to purchase products with less toxic waste, the smallest carbon footprint, and the least amount of packaging. The RFP emphasized the City's desire to work cooperatively with Store vendors to promote environmentally responsible procurement. Vendors have created materials to highlight and promote products that meet the criteria set by the Department of Environment and COIT. Store vendors are also reporting to DOE product purchases on an annual basis.

c. Training for City employees. The Technology Store emphasizes the City's desire to seek training for our workforce and to reduce the need and dependency on outsourcing. OCA works cooperatively with Local 21 to identify additional training opportunities and utilize the City's workforce wherever possible

2. The Fuel contract is our second-largest contract, with an annual volume of \$25 million.

a. Emergency preparedness. The previous contract did not have a back-up contractor. OCA restructured the bid, organizing the contract by location and creating back-up contracts. The new bid resulted in more bidders and three contracts, with a primary contractor, and a secondary and a tertiary contractor if the primary cannot fulfill its responsibilities. The Office of Emergency Management considered this a major improvement over the City's previous fuel contract.

b. Green purchasing. Because the Municipal Railway's tests of using biodiesel in the buses during the prior contract were a success, we estimate that most of the diesel fuel purchased under the new contract will be biodiesel.

3. CopySmart program

This contract, split among three vendors, has annual spending of about \$1.5 million. The contract advances Green purchasing because departments consolidate their copiers, printers, scanners and fax machines into single multi-function devices, which are also certified as being energy-efficient.. The City has made significant progress in saving money and energy, reducing the number of devices, and standardizing on supplies.

B. LBE opportunities

OCA has been closely involved with the implementation of the LBE ordinance since its inception, going back to the original MBE program in 1984. Our activities include:

- Encouraging local businesses to apply to HRC for certification into the program.
- Unbundling large contracts to make it easier for LBEs to bid on them.
- Applying the bid discount on product and service bids
- Working with HRC on subcontracting goals for service bids
- Working with HRC on set-asides for Micro-LBEs. To date, these contracts have been set aside:
 - Office supply contract for the Mayor's Office
 - As part of the Technology Store, seven contracts awarded to four vendors for IT products and services
 - Security guard services for the Alemany Farmers' Market.
- Proposed to HRC that the Ordinance be amended to raise the \$100,000 ceiling on set-asides.
- Working with minority Chambers of Commerce on trade fairs.

C. Green purchasing

The City's Environmentally Preferable Purchasing Ordinance (a.k.a. Green purchasing) affects much of what OCA does. OCA consults with DOE on an increasing number of contracts. Green purchasing has had major impacts on these contracts, among others: Technology Store; Fuel; Office supplies, CopySmart; Paper; Lighting; Chemicals; and Pest control. As OCA and DOE work together, the City's contracting is becoming greener and more energy-efficient.

D. Emergency preparedness

In the event of an emergency, Purchasing will play a major role in obtaining the supplies and services used by disaster service workers. The Purchaser sits on the City's Disaster Council. OCA has worked with the Office of Emergency Services to modify several term contracts to better prepare for emergencies (fuel, equipment rental, safety supplies), and has distributed citywide a list of term contracts that might be of particular use during an emergency. All OCA personnel have taken Disaster Service Worker training, Personal Preparedness training, and, if applicable, NIMS (National Incident Management System) training. Finally, OCA played a major role in ensuring that contracts funded by UASI grants were issued within the time specified in the grants.

E. Personnel

A challenge for OCA has been to meet our citywide responsibilities while the composition of the buying staff has evolved. In FY 06-07, OCA had 17 General Fund positions and 9 Work Order positions. In FY 09-10, that had changed to 12 General Fund and 16 Work Order positions. This means that OCA's efforts are directed increasingly to enterprise departments rather than General Fund departments.

F. City social policies

Since the advent of the MBE program in 1984, the City has used its purchasing power to implement social policies. OCA's has major roles in these areas: LBE Ordinance; Green purchasing; and Sweatfree contracting. For the latter ordinance, OCA fulfilled its unfunded mandate by devoting thousands of staff hours to surveying and educating vendors, developing standards for assessing vendors' relative compliance with the ordinance's many requirements, providing information to the ordinance's advisory group, and evaluating bids from non-compliant bidders.

G. Training programs

Purchasing participates in many types of training: Annual training in advance of the new fiscal year; Annual Prop. Q training; annual for new accountants; quarterly OCA staff meetings; training for new buyers; ad hoc sessions, as requested by departments. In addition, OCA has developed "how to order" primers to acquaint departments with how these major contracts operate: Fuel; Trash bills; Technology Store; Official and outreach advertising; Selling surplus property; Office supplies; and Telecommunications equipment and services

The Written Response from the Purchaser, Department of Technology, Department of Public Health, Controller, and City Administrator

The management audit report contains 66 recommendations directed to the Purchaser, Department of Technology, Department of Public Health, Controller, and City Administrator. The written responses of these five departments to the management audit recommendations are attached to this report, beginning on page 158. Overall, the five departments agree or partially agree with 65 of the 66 recommendations, or approximately 98.5 percent.

The City Administrator has disagreed with one recommendation directed to the City Administrator.

- The City Administrator disagrees with Recommendation 6.1, recommending that the City Administrator “develop commodity specification guidelines for City departments for specialized or technical purchases in conjunction with the Purchaser”. According to the City Administrator, the City Administrator “does not have the subject matter expertise to develop commodity specification guidelines for specialized or technical purchases. This responsibility rests with the Departments for particular bids per the Administrative Code”.

As noted on page 58 of the management audit report, City departments lack standard procedures for determining commodity specifications. None of the ten City departments surveyed by the Budget Analyst had formal procedures for evaluating commodities and writing specifications. While each City department is responsible for developing commodity specifications for commodities purchased by the department, City departments should have standard procedures for developing commodity specifications, especially procedures for evaluating the cost-effectiveness of these commodities. Because the City Administrator oversees OCA and Citywide administrative processes, the City Administrator is the most appropriate City official to develop Citywide guidelines that City departments can adapt to their specific processes.

Introduction

Purpose and Scope of the Management Audit

The purpose of this management audit is to evaluate the City and County of San Francisco's (City's) purchasing process for commodities. In particular, this management audit examines the purchasing processes of the Office of Contract Administration (OCA) and the Department of Public Health (DPH). The scope of this management audit includes City departments' compliance with applicable laws, rules, regulations, and government code provisions; conformance to policies, procedures, and established best practices; and overall economy, efficiency, and effectiveness of the City's purchasing processes.

Audit Methodology

The management audit was conducted in accordance with *Government Auditing Standards, 2007 Revision*, issued by the Comptroller General of the United States, U.S. Government Accountability Office. In accordance with these requirements and standard management audit practices, we performed the following management audit procedures:

- Conducted interviews with the OCA managers and staff and representatives from other City departments to gain an understanding of the Citywide purchasing process.
- Reviewed the City codes and regulations, and other documents detailing the purchasing process.
- Conducted field work, including (a) roundtable interviews with OCA purchasers; (b) analysis of comprehensive commodity purchasing data from the City's Advanced Purchasing Inventory Control System (ADPICS); (c) file review and sampling of specific types of purchasing transactions; (d) analysis of other relevant documents, such as vehicle purchasing logs; (e) analysis of DPH purchasing systems, inventory controls, and pharmacy purchasing functions; (f) review of Department of Technology, Committee on Information Technology (COIT) and other information technology (IT) purchasing processes; (g) review of the Controller's 2008 post audits of City departments' financial transactions; and (h) follow up interviews with OCA and City department staff.
- Prepared a draft report based on analysis of the information and data collected, containing our initial findings, conclusions and recommendations, and submitted the draft report on October 7, 2009 to the Director of OCA and report sections as applicable to representatives from the Department of Technology (DT), DPH, and the Controller's Office.
- Conducted exit conferences or follow up discussions with representatives from OCA, DT, DPH, and the Controller's Office. We revised the draft report based on exit

conference discussions and new information provided by OCA and other City departments, and submitted the final draft report to the Director of OCA on November 13, 2009. The final report was submitted to the Board of Supervisors on December 7, 2009.

Overview of Purchasing

In FY 2008-09, the City issued more than 38,000 purchase orders with a combined value of more than \$383 million. The City's Administrative Code determines the various authorities under which these purchases take place.

Legal Authority

The City's purchasing rules and regulations are primarily determined by Chapter 21 of the City's Administrative Code, "Acquisition of Commodities and Services." Section 21.01, "Scope of Chapter" states:

Chapter 21 governs the acquisition of Commodities and Services. Chapter 21 shall not apply to contracts for public works or improvements or to contracts for the purchase, sale or lease of any interest in real property.

Chapter 6 of the City Administrative Code, "Public Works Policies and Procedures," governs public works contracts. Chapter 6.00, "Scope of Chapter," states:

Chapter 6 shall govern public work or improvement contracting policies and procedures, including the procurement of professional design, consulting and construction management services for public work projects.

San Francisco voters approved Proposition E in 1999, which granted the Municipal Transportation Agency (SFMTA) greater autonomy from the City's purchasing requirements. While the SFMTA purchases some commodities through their own authority, the SFMTA continues to purchase many commodities through OCA.

The San Francisco Administrative Code also authorizes the Department of Public Health (DPH) to purchase medical supplies and pharmaceuticals through a group purchasing organization, as discussed in Sections 12 and 13.

Types of Purchasing Transactions

The City has a variety of procurement transaction methods.

- Purchase order through OCA: OCA purchases individual goods or total orders of \$10,000 or more on behalf of City departments.
- Citywide blanket/term contract: Citywide blankets (term contracts) are fixed price, indefinite quantity contracts from which City departments may place orders

during the course of the year. Generally, term contracts benefit the City because vendors provide price discounts in exchange for a high volume of business.

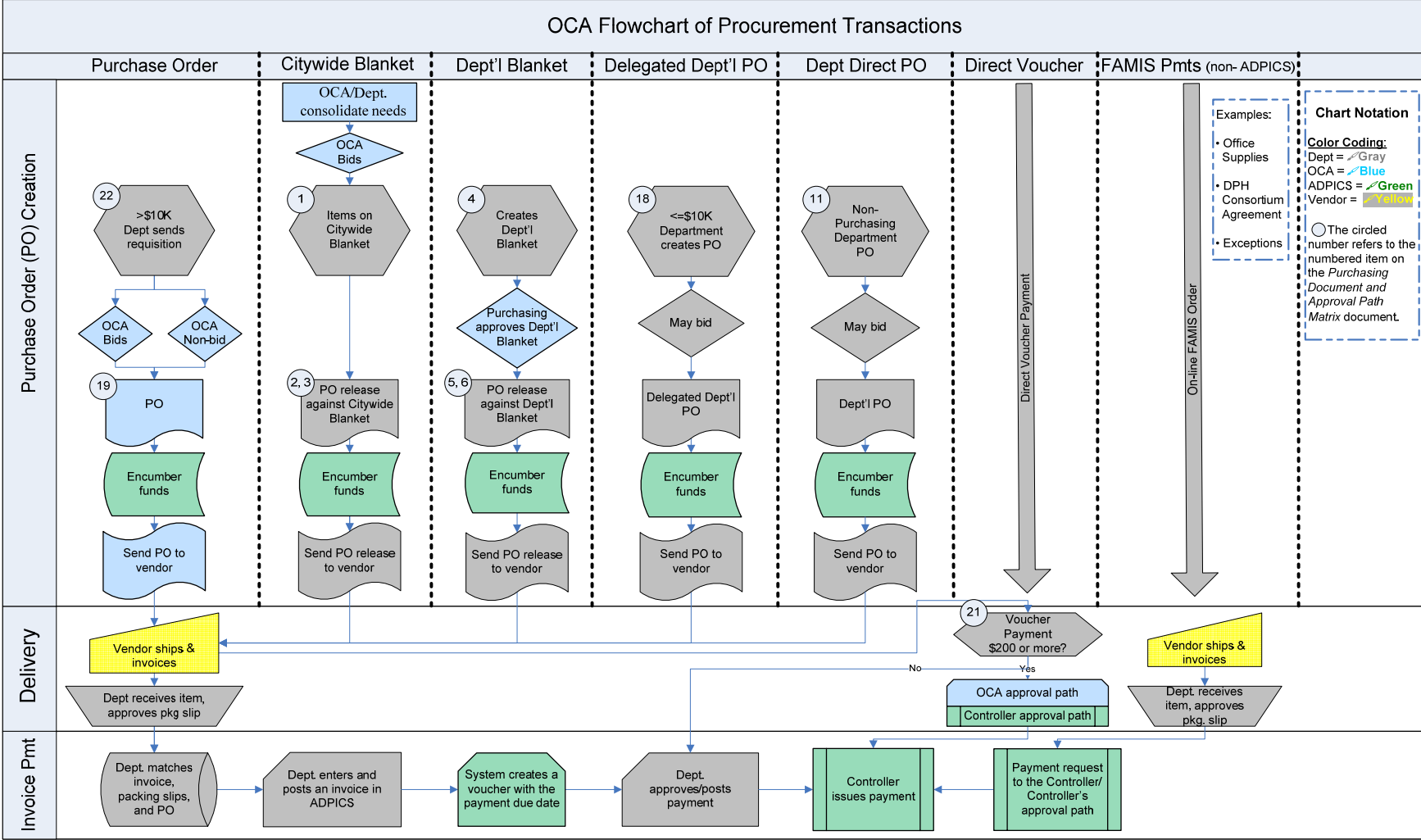
- Departmental blanket agreements (or departmental blanket purchase orders): Departmental blanket agreements are used to secure OCA approval for anticipated purchases of certain commodities for a specific time period and dollar limit. When making a purchase, departments issue a purchase order release against the departmental blanket agreements. Departmental blanket agreements are usually developed for purchases from a specific vendor for a specific category of product or service not covered under other Citywide contracts. Departmental blanket agreements usually cover small items with an unpredictable demand.
- Delegated departmental purchase orders: Under the Administrative Code, the Purchaser may delegate to City departments authority to directly purchase up to \$50,000, with the goal to streamline the City's purchasing process and reduce OCA workload, allowing OCA staff more time to develop contracts for large purchases. Currently, the Purchaser has delegated City departments authority to purchase up to \$10,000.
- Direct Voucher: Direct vouchers are payment requests made for low-dollar orders (less than \$200), final payments under closed purchase orders, accounting errors, or payments for orders that did not follow standard procedures. All direct vouchers less than \$200 bypass OCA; therefore, the requesting department is responsible for reviewing and approving the transaction.

Process Flow

A commodity purchase request must progress through a variety of requirements, which vary depending on the purchasing transaction. The flow chart in Figure 1 on page 4, prepared by OCA for the Budget Analyst details the commodity purchasing process.

Most purchasing transactions are entered into the City's purchasing system, ADPICS, as shown in Figure 2 on page 5. Some commodity purchasing transactions, such as vehicle transactions purchased through the City's lease financing program or DPH transactions purchased through the group purchasing organization, are not entered into ADPICS.

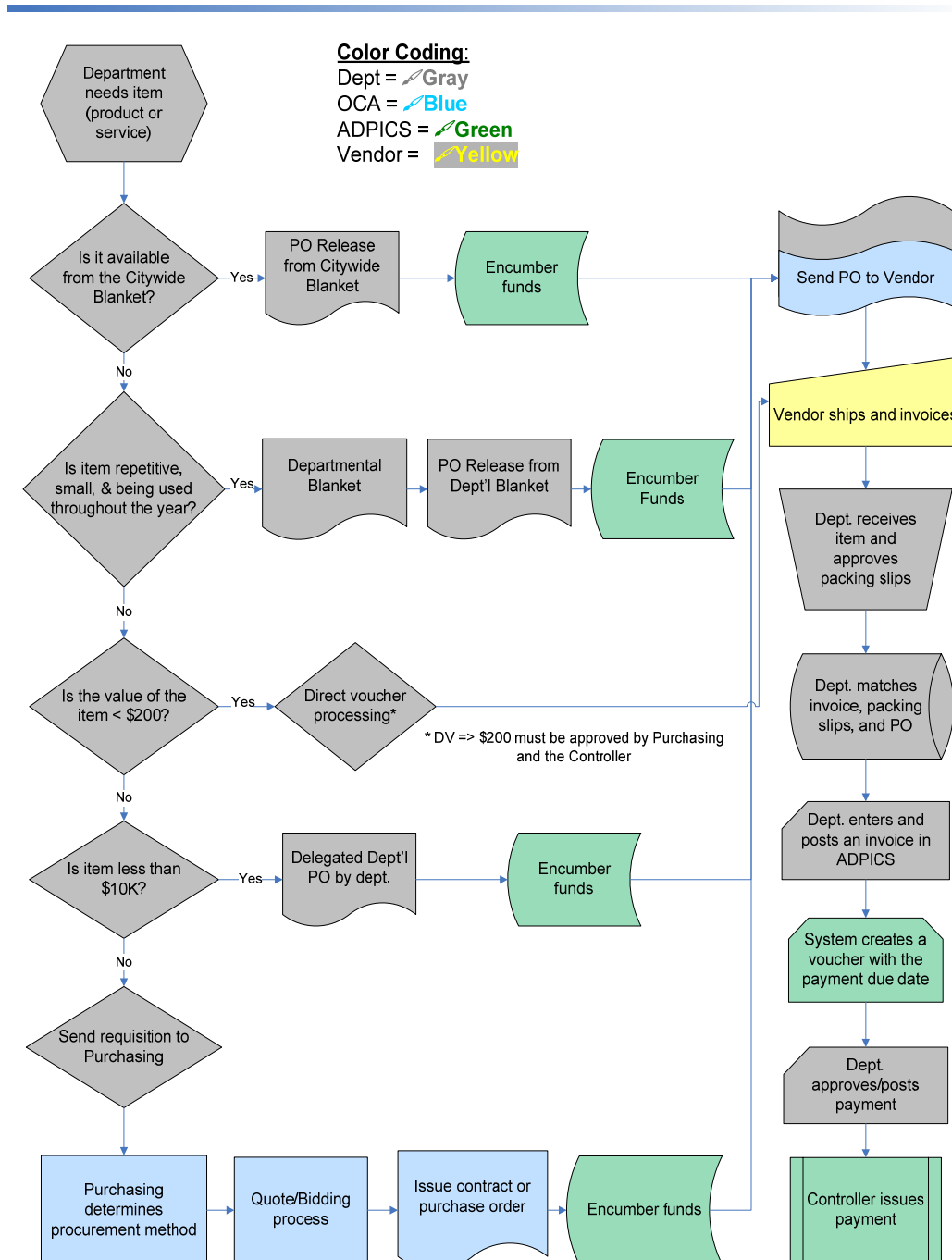
Figure 1: Commodity Purchasing Flow Chart



Source: Prepared by OCA for the Budget Analyst

Figure 2: ADPICS Process

OCA Flowchart on How to Buy Something in ADPICS



Source: Prepared by OCA for the Budget Analyst

San Francisco Purchasing Trends

Table 1, below, shows the total amount and number of purchase orders processed by City departments as well as the number of unique vendors in FY 2006-07 through FY 2008-09.

Table 1
City Department Purchases
FY 2006-07 to FY 2008-09

	FY 2006-07	FY 2007-08	FY 2008-09	Three Year Average
Number of Purchase Orders	38,862	39,871	38,730	39,155
Number of Unique Vendors	2,712	2,726	2,771	2,736
Total Amount	\$351,370,488	\$415,784,222	\$383,550,523	383,568,564

Source: ADPICS

In FY 2008-09, the 10 departments issuing the most purchase orders issued 33,456 purchase orders, or 86.4 percent of the City's 38,730 purchase orders. The top 10 purchase order issuers are listed in Table 2 below.

Table 2
Top 10 Purchase Order Issuing Departments
FY 2008-09

Rank	Department	Purchase Orders
1	Public Utilities Commission	11,078
2	Municipal Transportation Agency	6,885
3	Department of Public Works	3,353
4	Department of Public Health	3,067
5	Recreation and Parks Department	2,177
6	General Services Agency	2,004
7	Airport	1,692
8	Port	1,352
9	Department of Technology	997
10	Human Services Agency	851

Source: ADPICS

The largest number of purchase orders were for commodities with total values of less than \$10,000, purchased through City departments' delegated purchasing authority. In FY 2008-09, delegated departmental purchase orders accounted for 25,645, or 66.2 percent of all purchase orders, for purchases totaling \$50.8 million.

The largest dollar amount of purchases were through departmental blanket agreements, totaling \$90.8 million, or approximately one-quarter of the value of all purchases. The number and amount of purchases, by transaction type, are summarized in Table 3.

Table 3
Purchase Orders and Costs by Transaction Type
FY 2008-09

Transaction Types	Total Amount of Purchase Orders	Percent of Total Amount	Number of Purchase Orders	Percent of Total Number
Departmental Blanket	\$90,779,107	23.7%	4,637	12.0%
Purchase Orders through OCA	80,485,877	21.0%	3,923	10.1%
Citywide Blanket/ Term Contract	70,107,242	18.3%	3,896	10.1%
Purchase Order Not through OCA	58,492,599	15.2%	580	1.5%
Delegated Departmental Purchase Order	50,843,941	13.3%	25,645	66.2%
Department of Public Health Group Purchasing Organization	32,841,757	8.5%	49	0.1%
TOTAL	\$383,550,523	100.00%	38,730	100.00%

Source: ADPICS

While most of the City's purchasing dollars were allotted to purchase orders approved through OCA processes (\$241.4 million, or approximately 63 percent), most of the purchase orders were issued through non-OCA authorizing channels (26,274 purchase orders, or 67.8 percent).

Table 4
Total Amount and Number of Purchase Orders under OCA Oversight
FY 2008-09

	Dollar Amount	% of Total	# of Purchase Orders	% of Total
OCA	\$241,372,226	62.9%	12,456	32.2%
Non-OCA	142,178,297	37.1%	26,274	67.8%
TOTAL	\$383,550,523	100.0%	38,730	100.0%

Source: ADPICS

In FY 2008-09, the City spent more money on pharmaceuticals than any other commodity, as determined by City commodity codes, with purchases totaling \$39.5 million or 10.3 percent of all purchases. The 10 commodities receiving the most purchase dollars are listed in Table 5 below.

Table 5
Top Commodities Purchased by Dollar Amount
FY 2008-09

Rank	Commodity	\$ Total	% of Total
1	Pharmaceuticals	\$39,464,576	10.3%
2	Fuels & Lubricants	25,127,100	6.6%
3	Miscellaneous	23,957,994	6.2%
4	Other Equip Maintenance	23,278,664	6.1%
5	Software Licensing Fees	17,507,918	4.6%
6	Other Equipment	14,692,070	3.8%
7	Food	11,923,866	3.1%
8	Water & Sewage Treatment Supplies	11,419,598	3.0%
9	Community Based Organization Services	10,521,460	2.7%
10	Other Professional Services	9,991,355	2.6%
	TOTAL (includes 129 additional commodities)	\$383,550,523	100%

Source: ADPICS

Of the \$383.6 million in total purchases in FY 2008-09, more than 38 percent (\$146 .3 million) were attributed to purchases that did not have a buyer name entered into the system, which generally means that the purchase orders were processed by a non-OCA employee/buyer. In terms of the number of purchase orders, approximately 68 percent of all purchase orders processed in FY 2008-09 did not have a buyer name associated with them.

Table 6
Named versus Unnamed Buyers on Purchase Orders
FY 2008-09

Buyer Name	Dollar Amount	% of Total	# of Purchase Orders	% of Total
No Name or No Buyer	\$146,271,684	38.1%	26,305	67.9%
Named Buyer	237,278,841	61.9%	12,425	32.1%
TOTAL	\$383,550,525	100.0%	38,730	100.0%

Source: ADPICS

In FY 2008-09, the City issued purchase orders to 2,771 separate vendors. Table 7 below shows the top 10 vendors by FY 2008-2009 purchase order amounts.

Table 7
Top 10 Vendors, By Total Purchase Order Value
FY 2008-2009

Rank	Vendor Name	Total Purchase Orders Value
1	McKesson Corporation	\$39,307,259
2	Golden Gate Petroleum	\$16,605,401
3	XTech	\$11,690,852
4	Bombardier Transportation USA, Inc.	\$10,472,100
5	En Pointe Technologies Sales Inc	\$9,549,615
6	San Francisco Petroleum	\$8,904,068
7	Oracle USA Inc	\$5,447,940
8	Ciber Inc	\$5,151,089
9	Thyssenkrupp Elevator Corp	\$5,086,114
10	Sequoia Voting Systems Inc	\$4,682,391

Source: ADPICS

Acknowledgements

It would not have been possible to conduct this management audit without the cooperation of numerous City employees. We would like to thank the management and staff of OCA, the General Services Agency, Office of Public Finance, Department of Public Health, Department of Technology, Controller, and other City departments for their cooperation during this management audit. We hope the findings contained in this report provide useful tools for the City and its staff as they work to improve the City's purchasing practices and processes.

1. The Purchaser's Oversight of the Purchasing Process

- In 2004 the Mayor directed the Purchaser to establish a new business model to streamline purchasing functions and increase oversight over the purchasing process. While the Mayor has directed OCA to oversee the City's purchasing process through developing purchasing guidelines and standards, updating of the Administrative Code, and otherwise streamlining the purchasing process, OCA has not fully implemented these directives.
- OCA defines purchasing guidelines and standards, but does not ensure that all purchasing processes consistently conform to OCA's standards. For example, in establishing departmental blanket agreements, City departments do not consistently solicit or document price discounts for departmental blanket agreements less than \$50,000, or competitively bid departmental blanket agreements greater than \$50,000, as required by OCA's standards.
- The Mayor directed the Purchaser to participate in updating Administrative Code provisions on contracting but the management audit found outdated Administrative Code provisions. For example, the Administrative Code requires the Committee on Information Technology (COIT) to set the Technology Store administrative fee charged to City departments for Technology Store purchases, but responsibility for the Technology Store was transferred from COIT to OCA in 2006. The Administrative Code should be revised to assign the City Administrator, who oversees OCA, responsibility for setting the Technology Store administrative fee.
- OCA could do more to improve the purchasing process and ensure cost-effective purchase of commodities by re-allocating staff resources from day-to-day transaction processing to oversight of purchasing. Purchasing oversight would include increased analysis of trends in commodity purchasing, revising purchasing procedures to address commodity purchasing trends, enforcing purchasing standards, and providing training to OCA and City staff in purchasing processes that need improvement.

The Administrative Code gives the Purchaser responsibility for purchasing all commodities and services required by City departments with some exceptions, including:

- The Charter gives the Municipal Transportation Agency (MTA) exclusive authority over purchasing although the MTA currently follows the purchasing procedures established by the Purchaser.
- The Administrative Code gives public work contracting authority to City departments.
- The Administrative Code gives the Public Utilities Commission General Manager the authority to purchase electricity, natural gas, and water.
- The Administrative Code allows the Department of Public Health to purchase medical supplies, pharmaceuticals, and other commodities through the University Health Systems group purchasing organization.

The Administrative Code defines the direct purchasing authority of City departments under various other circumstances. The Purchaser may also delegate to City departments authority to purchase commodities and services up to \$50,000.

The Mayor's Directive and the Purchaser's Priorities

Purchasing is a division within the Department of Administrative Services Office of Contract Administration (OCA). The Director of OCA also serves as the City's Purchaser.

According to the Purchaser's Mission Statement,

“The mission of the Purchasing Division of the OCA is to support the procurement of the material, equipment and services that are essential to providing governmental services for the citizens of San Francisco. The contracting and procurement services we provide support the operations of the City departments who provide services to the public. In serving the City's needs, the staff of the Division is dedicated to providing efficient and responsive service, in full compliance with the City's legal requirements, while upholding the highest ethical and professional standards.”

The Purchaser further states that her goal is to “improve the cost-effectiveness and quality of city operations by maximizing competition for city contracts.”

In 2004 the Mayor directed the Purchaser to develop a new business model for the City's purchasing process. This model includes both daily processing of purchasing transactions and oversight of the purchasing process as a whole. The Mayor's directive addressed professional services and construction contracting as well as commodity purchasing, directing the Purchaser to:

- Delegate all appropriate processes to City Departments and avoid duplicate work and approvals.

- Assume contracting work for smaller departments without capacity to perform these functions efficiently.
- Develop citywide contracts for widely used services.
- Work to bring more vendors into the City pool.
- Establish guidelines and standards covering contracting processes.
- Coordinate and provide training on all aspects of contracting for City departments and vendors.
- Work with Departments to change invoice approval processes to provide for prompt payment.
- Use technology to make the process easier for all involved.
- Participate in a rewrite of Administrative Code provisions on contracting to ensure that they are consistent and clear.

In response to the Mayor's directive, the Purchaser developed six priorities:

- Eliminate all month-to-month contracts.
- Create new citywide term contracts.
- Ensure transactions are processed in a timely fashion.
- Provide better customer service to departments.
- Uphold high ethical and professional standard.
- Improved communication and training for OCA staff, City departments, and vendors.

OCA's Implementation of the New Business Model

While the Mayor has directed OCA to oversee the City's purchasing process through development of purchasing guidelines and standards, updating of the Administrative Code, establishing Citywide term contracts, and otherwise streamlining the purchasing process, OCA has moved forward in some but not all of these areas.

Delegating Purchasing Processes to City Departments and Avoiding Duplicated Work and Approvals

OCA could streamline transaction processing by eliminating (1) multiple reviews by OCA and other City departments of technology or vehicle purchases, and (2) OCA processing of low dollar transactions.

- As discussed in Section 11, several City departments review vehicle request options and trim levels for suitability. The Budget Analyst has recommended that the City Administrator determine whether the Director of Fleet Management or OCA should review the technical appropriateness of requested vehicle options and trim levels, reducing duplicative work.
- As discussed in Section 4, OCA continues to process many transactions less than \$10,000 that could be processed by City departments under their delegated departmental authority. Most of these low-dollar transactions (1,605 or 70 percent of 2,293) are for technology purchases through the Technology Store, which are also reviewed by the Chief Information Officer to standardize and purchase in volume desktops, laptops, and printer purchases. Neither OCA nor the Chief Information Officer have yet developed procedures for standardizing these purchases or batching requisitions from multiple departments for volume purchasing. The Budget Analyst has recommended that OCA and the Chief Information Officer jointly develop effective procedure to purchase low-dollar value technology equipment.

Establishing Citywide Contracts for Widely Used Services

OCA has set a performance target that purchases from Citywide contracts will make up 28 percent of commodity purchases based on historical contract expenditures. While OCA has achieved this goal, the percentage of commodity purchases through term contracts should be much higher. Because City departments purchase most commodities repeatedly over time, most commodity purchases in the City should be through term contracts. Although the Budget Analyst was unable to find benchmarks for local government commodity purchasing through term contracts, the City should increase the percent of commodity purchases through term contracts.

Establishing Purchasing Guidelines and Standards

OCA's standards and procedures have been defined through several documents.

- OCA's Rules and Regulations, implementing Administrative Code provisions, were written in June 2005.
- Specific procedures have been defined in various training documents: "Procurement Process for Requisitions", June 2004; "Procurement Process for Equipment and

Supplies”, September 2005; “Guidelines for Vehicle Purchasing”, November 2006; and other training documents.

- OCA staff have prepared and posted in the City’s intranet system various instructions for user departments on specific purchasing procedures.
- OCA produced a booklet for vendors, “How to Do Business in San Francisco” in the 1990s that was revised in 2006.

OCA wrote formal internal policies and procedures covering many of OCA’s practices in May 2009 and developed process flow charts for the Budget Analyst.

While OCA conforms to its internal standards for some core functions, such as competitive bids of purchase orders and contracts, OCA does not ensure that other processes consistently conform to OCA’s standards. For example:

- City departments do not consistently adhere to OCA’s policies and procedures for informal and formal competitive bids of departmental blanket agreements, with 10 of 23 departmental blanket agreements less than \$50,000 reviewed by the Budget Analyst not recording competitive pricing and one of four departmental blanket agreements greater than \$50,000 reviewed by the Budget Analyst not competitively bid as required by OCA (see Section 5).
- Vendors can be paid through direct voucher rather than through purchase orders and encumbrance of funds if the purchase is an exception to OCA’s normal guidelines. In a sample of 60 direct vouchers, 16 were issued because the department had not followed OCA’s purchasing guidelines (see Section 7).

Training on the Purchasing Process

The Mayor directed OCA to coordinate and provide training for City departments and vendors. The Purchaser’s annual performance goals include coordinating and providing training on all aspects of purchasing for OCA staff and City user departments.

According to the Purchaser, OCA conducts training for City department staff on the policy, rules, and regulations on the procurement process. Additionally, OCA requires City department staff designated to purchase commodities under delegated departmental authority to receive training once every three years. OCA maintains training records for these department staff.

However, despite the Purchaser’s training goals for City departments, City department staff do not consistently implement OCA’s purchasing standards. For example, as discussed in Section 7, City departments use direct voucher payments in lieu of encumbering funds through purchase orders for some commonly occurring purchasing errors, and the Purchaser in conjunction with the Controller needs to provide training to City department staff to avoid these errors.

According to roundtable interviews with purchasers, training and knowledge sharing for OCA purchasers is largely informal. One of the Purchaser's stated objectives is to conduct monthly training for staff purchasers. According to the Purchaser, staff training on various aspects of the purchasing process is included in staff meetings. The Purchaser also says that OCA managers and supervisors provide one-on-one training. However, staff purchasers continue to need enhanced training in purchasing functions that need improvement, including establishing term contracts and departmental blanket agreements, as discussed in Sections 3 and 5.

Technology and Management Reporting

The Mayor directed the Purchaser to use technology to make the purchasing process easier for all involved. The City's purchasing system, ADPICS, is a main frame system with limited capabilities, including limited reporting capabilities, electronic processes and vendor access. In FY 2009-10, the Controller's Office will begin an evaluation of the scope and costs of replacing the FAMIS system, including ADPICS. The Purchaser will need to assess the City's purchasing system requirements for both transaction processing and management reporting as part of the evaluation process (see Section 2).

Management Reports

OCA managers frequently point to lack of data in managing the purchasing process. ADPICS data entry can be incorrect or contradictory, reducing the usefulness of ADPICS data and reports for analyzing purchasing trends, as discussed in Section 2. Also, OCA management's current use of ADPICS data is limited. OCA uses ADPICS data to track its performance measures twice per year and purchaser workload once per year. OCA also periodically produces reports on specific issues, such as spending for food in preparing for the draft ordinance on sustainable food procurement. However, OCA has not routinely developed summaries of purchasing trends, such as the summaries developed by the Budget Analyst for this report, from comprehensive ADPICS data. OCA needs to expand its use of data for analyzing and overseeing Citywide purchasing trends, and incorporate this analysis into strategic and annual planning for the purchasing process (see Section 2).

Administrative Code

Administrative Code Chapter 21 governs the acquisition of commodities and services.¹ The Mayor directed the Purchaser to participate in a rewrite of Administrative Code provisions on contracting to ensure that they are clear and consistent. This management audit has identified two Code provisions that need clarification or updating.

- The Administrative Code establishes an administrative fee for Technology Store purchases subject to annual review by the Committee on Information Technology

¹ Administrative Code Chapter 21 does not apply to public works contracts or to real property.

(COIT), but responsibility for the Technology Store was transferred from COIT to OCA in 2006. Neither COIT nor OCA has adjusted this fee since its implementation in the 1990s. The Administrative Code needs to be revised to reassign responsibility for administering the administrative fee to the City Administrator (see Section 9).

- The Administrative Code authorizes OCA to discount bids from San Francisco vendors according to sales tax revenues returned to the City. OCA has been discounting San Francisco vendor bids by one percent since the late 1990s without revisiting the amount since it was implemented. (see Section 6).

Oversight of the Purchasing Process and Allocation of Resources

Under the Mayor's 2004 directive and the Purchasers' priorities, City departments should assume low-dollar value transaction processing while OCA establishes Citywide contracts and purchasing standards. The Director of Administrative Services increased the dollar limit for City department's delegated purchasing authority from \$5,000 to \$10,000 in response to the Mayor's 2004 directive. By increasing City departments' delegated purchasing authority, OCA purchasers could focus on processing high-dollar value transactions and establishing new term contracts.

According to the Purchaser, since the approval of delegated departmental purchasing authority under Proposition Q in 1993, the City has approved additional legislation requiring OCA oversight - Equal Benefits, Precautionary Purchasing Ordinance, Sweatfree Contracting Ordinance, Minimum Compensation Ordinance, Health Care Accountability Ordinance, and Local Business Enterprise (LBE) Ordinance. These provisions are included in purchasing agreements, but compliance oversight is dispersed among the Human Rights Commission, Department of the Environment, OCA Office of Labor Standards Enforcement, and the OCA Purchasing Division.

The total dollar amount of commodity purchases has increased over the past three fiscal years although the number of purchasing transactions has not, as shown in Table 1.1.

Table 1.1
Total Amount and Number of Purchasing Transactions
FY 2006-07 to FY 2008-09

Transaction Types	FY 2006-07	FY 2007-08	FY 2008-09	Increase/ (Decrease) FY 2006-07 to FY 2008-09	Percent Increase/ (Decrease)
<u>Amount of Transactions</u>					
Departmental Blanket	\$51,925,629	\$90,569,094	\$90,779,107	\$38,853,478	75%
Purchase Orders through OCA	107,074,782	103,396,023	80,485,877	(26,588,905)	(25%)
Citywide Blanket/ Term Contract	73,938,912	77,163,785	70,107,242	(3,831,670)	(5%)
Purchase Order Not through OCA	47,254,249	62,158,935	58,492,599	11,238,350	24%
Delegated Departmental Purchase Order	43,362,401	50,717,720	50,843,941	7,481,540	17%
Department of Public Health Group Purchasing Organization	27,814,515	31,778,665	32,841,757	5,027,243	17%
TOTAL	\$351,370,488	\$415,784,222	\$383,550,523	\$32,180,035	9%

Transaction Types	FY 2006-07	FY 2007-08	FY 2008-09	Increase/ (Decrease) FY 2006-07 to FY 2008-09	Percent Increase/ (Decrease)
<u>Number of Transactions</u>					
Departmental Blanket Purchase Orders Processed by OCA	4,895	5,464	4,637	(258)	(5%)
Citywide Blanket/ Term Contract	5,202	4,959	3,923	(1,279)	(25%)
Purchase Orders Not Processed by OCA	4,014	3,925	3,896	(118)	(3%)
Delegated Departmental Purchase Order	590	481	580	(10)	(2%)
Department of Public Health Group Purchasing Organization	24,089	24,979	25,645	1,556	6%
	72	63	49	(23)	(32%)
Total	38,862	39,871	38,730	(132)	0%

Source: ADPICS

- The number and amount of purchase orders processed by OCA purchasers has decreased over the past three years while the number and amount of purchase orders processed by City departments through their delegated purchasing authority has increased.
- The number of departmental blanket agreements increased by 48 percent, from 1,282 agreements in FY 2006-07 to 1,893 in FY 2008-09. OCA purchasers review and approve departmental blanket agreements initiated by City departments. Once approved, City departments can purchase directly from the vendor through a blanket order release.

Overall, OCA purchasers' workload has shifted over the past three years as City departments purchase a larger number of commodities through their delegated departmental purchasing authority and departmental blanket agreements.

OCA purchasing staffing has also increased. OCA added two new purchaser positions in FY 2008-09 and one new purchaser position in FY 2009-10, resulting in three additional positions in FY 2009-10 compared to FY 2006-07.

Table 1.2
Budgeted and Actual Purchaser Positions
FY 2006-07 to FY 2009-10

Classification	FY 2006-07			FY 2007-08			FY 2008-09			FY 2009-10
	Budget	Actual	Diff	Budget	Actual	Diff	Budget	Actual	Diff	Budget
1952 Purchaser	11.92	8.04	(3.88)	11.42	10.00	(1.42)	11.92	10.00	(1.92)	11.92
1956 Senior Purchaser	10.00	9.00	(1.00)	10.00	9.00	(1.00)	11.00	10.00	(1.00)	12.00
1958 Supervising Purchaser	3.00	3.00	0.00	3.00	2.00	(1.00)	4.00	3.00	(1.00)	4.00
Total	24.92	20.04	(4.88)	24.42	21.00	(3.42)	26.92	23.00	(3.92)	27.92

Source: OCA

OCA evaluates staffing and workload each year based on ADPICS data to determine purchaser assignments. Organizationally, purchasers are assigned to (1) enterprise departments through work order agreements; (2) vehicles and capital equipment; (3) services and facilities; and (4) information technology. The new 1956 Senior Purchaser position in the FY 2009-10 budget is allocated to information technology.

According to the Purchaser, as of October 2009, OCA had approximately 27 filled positions and one vacant position. OCA needs to develop a staffing work plan that

increases time allocated to collecting and analyzing purchasing data, developing guidelines and overseeing City departments' compliance with purchasing requirements, and establishing Citywide term contracts. By increasing the number of term contracts, OCA purchasers will process fewer individual transactions and have more time available for analysis and oversight of the purchasing function.

Conclusion

The Purchaser has implemented some but not all of the Mayor's priorities set forth in his 2004 directive. As discussed throughout this audit report, OCA purchasers focus on day-to-day transactions with insufficient evaluation of the overall purchasing process. As a result, many purchasing functions - such as departmental blanket agreements or direct voucher payments resulting from exceptions to OCA's normal guidelines - do not consistently adhere to the Purchaser's standards.

OCA could do more to improve the purchasing process and ensure cost-effective purchase of commodities by re-allocating staff resources from day-to-day transaction processing to oversight of purchasing. The process would be more effective - in terms of staff time and City dollars - if OCA were to establish a larger number of Citywide contracts for widely purchased commodities to more analytical tasks.

Also, we have compiled results of the Controller's post audit of City department transactions (see Sections 4, 14, and 15) pertaining to commodity purchasing. The Purchaser, in conjunction with the Controller, should follow up with City departments to ensure that departments are correcting their deficiencies identified in the Controller's post audit.

Recommendations

In order to fully implement the Mayor's business model for purchasing, the Purchaser should:

- 1.1 Develop an annual staff plan that assigns management and staff resources to (a) analyzing trends in commodity purchasing, (b) revising purchasing procedures to address commodity purchasing trends, (c) enforcing purchasing standards, and (d) providing training.
- 1.2 Develop an annual training plan for OCA purchasers that includes purchasing best practices and process improvements. This training plan should (a) address OCA priorities (such as establishing term contracts) and areas needing improvement (such as establishing departmental blanket agreements); and (b) provide for follow up to ensure staff understanding and compliance.
- 1.3 Review the Controller's financial post audit findings and recommendations pertaining to delegated departmental purchasing, application of Administrative

Code requirements, or vendor payment, and work with City departments to ensure implementation of the Controller's recommendations.

Costs and Benefits

OCA would have to reassign management and purchasers to implement the annual staff and training plans, and to work with City departments to correct errors in the purchasing process or noncompliance with purchasing standards. Overall, implementation of these recommendations should lead to more efficient commodity purchasing processes.

2. Purchasing Systems and Reporting

- **The City's ADPICS purchasing system is a component of the City's financial system, FAMIS. The system was first implemented in 1996 with the most recent upgrades in FY 2004-05. ADPICS has limited capabilities, including limited reporting capabilities, electronic processes and vendor access. In FY 2009-10, the Controller's Office will begin an evaluation of the scope and costs of replacing the FAMIS system, including ADPICS.**
- **Understanding Citywide purchasing trends can help reduce procurement costs and improve purchasing efficiency. However, ADPICS data entry can be incorrect or contradictory, reducing the usefulness of ADPICS data and reports for analyzing purchasing trends. For example, the Department of Public Health (DPH) purchases from its group purchasing organization were frequently entered into ADPICS as "departmental blanket purchase orders" which are overseen by OCA although the Administrative Code authorizes DPH to enter into agreements with a group purchasing organization without OCA oversight. OCA cannot effectively monitor Citywide purchasing processes and address system wide problems without accurate information.**
- **OCA management's current use of ADPICS data is limited. OCA uses ADPICS data to track its performance measures twice per year and purchaser workload once per year. OCA also periodically produces reports on specific issues, such as evaluating Citywide expenditures for food for the Department of Environment's draft sustainable food procurement ordinance. However, OCA has not routinely developed summaries of purchasing trends, such as the summaries developed by the Budget Analyst for this report, from comprehensive ADPICS data. OCA needs to expand its use of data for analyzing and overseeing Citywide purchasing trends, and incorporate this analysis into strategic and annual planning for the purchasing process.**

The City's Purchasing System

The City's ADPICS (Advanced Purchasing Inventory Control System) purchasing system is a component of the City's main frame Financial and Management Information System (FAMIS). ADPICS interfaces with FAMIS so that setting up a purchase order in ADPICS will encumber the necessary funds in FAMIS to pay for the purchase.

The Controller upgraded FAMIS and ADPICS in FY 2004-05 to allow for electronic document approval and on-line submission of invoices, but ADPICS is limited in its electronic processing and reporting capabilities.

ADPICS Capabilities

ADPICS processes purchasing transactions, allowing department and OCA staff to create and approve requisitions, purchase orders, and invoices electronically.

- Requesting departments enter requisitions for commodity purchases into ADPICS, which are processed electronically. Department accounting staff “pre-encumber” funds in FAMIS to pay for the requested commodity.
- After the requisition is approved and the purchase order is created in ADPICS, funds are encumbered in FAMIS.
- The purchase order is printed and a hard copy of the purchase order is sent to the vendor. ADPICS lacks capacity to send purchase orders electronically to vendors.
- Department staff can create electronic invoices in ADPICS once the hard copy invoices have been received from the vendors. Department accounting staff enter invoice information into ADPICS, creating a voucher. When the voucher is created in ADPICS, accounting staff can establish a “voucher payable” in FAMIS to pay the vendor.

For several steps in the purchasing process, ADPICS does not allow electronic transactions. For example, department accounting staff must manually match purchases with invoices. ADPICS cannot send purchase orders to vendors or receive invoices electronically. Purchase orders must be printed and delivered hard copy. Many invoices are received in hard copy from vendors and entered into ADPICS.

ADPICS Data and Reporting

Understanding patterns of Citywide expenditures can help reduce procurement costs and improve purchasing efficiency. However, ADPICS data entry is not uniform or consistent, reducing the usefulness of ADPICS data and reports for analyzing purchasing trends.

In reviewing three fiscal years of ADPICS data, the Budget Analyst found that:

- Entries were inconsistent. In the ADPICS field for “document type”, the same types of purchase orders could be entered as different types of documents. For example, Department of Public Health group purchasing organization purchase orders were entered interchangeably as either (1) “PD” or “RD” for departmental blanket purchase order releases, or (2) “YR” or “YP” for purchases through code-delegated authority.
- Entries were contradictory. For example, in the ADPICS field for “document type”, specific purchase orders were coded as “PQ” for delegated departmental purchases under \$10,000 but were entered as purchases from term contracts in the ADPICS field for “purchasing authority”.

Also, while ADPICS contains fields for the OCA's buyer's (purchaser's) name, ADPICS does not currently contain entries for City department staff who purchase commodities through the department's delegated authority.

OCA's purchasing procedures manual includes a section on how to enter documents into and verify data in ADPICS. These procedures require that data be validated and verified during each data entry step for the various types of documents. For example, the purchasing procedures manual requires that staff:

- Verify that the vendor name, address, and vendor number in ADPICS match the information on the form;
- Verify the vendor status (e.g., business tax must be current and vendor must be either 12B compliant or have a 12B waiver from the Human Rights Commission);
- Enter the appropriate purchasing type and the requesting department's 3-character code;
- Enter the appropriate commodity code and commodity description;
- Enter the correct Bill To and Ship To Codes for the department; and
- Type in quantity, appropriate tax code, unit of measure, unit cost, and description of items being purchased.

In addition to the verification and validation steps included in the purchasing procedures manual, the ADPICS system also has embedded system features that allow for automatic data entry prompts to ensure that a valid value has been entered in a data field (e.g., if the wrong data type or field size is entered, the ADPICS system detects an error during validation and issues an appropriate error message). Furthermore, the Controller's Office performs nightly process controls once the ADPICS information has been posted to the FAMIS.

The Controller's Office also conducts annual post-audits of financial and purchasing transactions to test for the accuracy of the information entered into ADPICS and FAMIS, and to identify errors in transaction processing or non-compliance with required procedures.

Incorrect ADPICS Entries Identified in the Controller’s Post Audits of City Departments’ Financial Transactions

According to the Controller’s post-audit results for Calendar Year 2008, most City departments made some form of incorrect ADPICS entry, as shown in Table 2.1, although the total number of incorrect entries was less than 4 percent of the total transactions reviewed.

Table 2.1

**Number of Transactions with Incorrect Entry of Invoice, Vendor, Document Type or Sub-object Code
Controller’s 2008 Post Audit Results**

	Total Number of Transactions with Incorrect Entry	Total Number of Transactions Reviewed	Percent of Incorrect Entries	Number of Departments with One or More Entry Errors N = 55	Percent of Departments with One or More Entry Errors
Incorrect input or use of invoice, vendor, document type, or sub-object	131	3,687	3.6%	39	70.9%

Source: Controller

Needed Improvements to ADPICS Data and Reporting

The measures currently in place to ensure correct entry of ADPICS data are essential for maintaining a sufficiently reliable ADPICS database. However, more can be done to further ensure that all purchasing information entered into ADPICS is complete and accurate. For example:

- OCA does not have a policy to ensure correct data entry for data reporting and analysis; and
- OCA has not created a single data dictionary for end-users that provides definitions of ADPICS fields and entries into each field.

OCA’s purchasing procedures manual includes a section on how to enter documents into and verify data in ADPICS with the purpose of ensuring accurate purchase order processing. OCA has not, however, explicitly linked the need for accurate data entry to data reporting and analysis of purchasing trends.

ADPICS data entry would be more accurate and consistent if OCA developed for end-users:

- (1) A dictionary, defining each ADPICS field and the entries into each ADPICS field; and
- (2) A matrix for end-users, linking entries into specific ADPICS fields to ensure consistency (i.e., which entries into the “document type” field correspond to entries into the “purchasing authority” field).

Some of the existing fields are not specific. For example:

- The “document status” field definition does not define the entry codes (i.e., “cancelled”, “closed”, “partially vouchered”, “posted”, “change order in progress”, or “in approval”).
- The “document type” field is only vaguely defined as “used by the system to derive approval paths”. OCA has a matrix that provides examples for but does not specifically define each document type. Document types can include “citywide blanket purchase order releases”, “departmental blanket order releases”, “code delegation”, “departmental purchase order”, and other entries.

The matrix does not list which document types correspond to each entry category in the “purchasing authority” field. Purchasing authority entry categories can include Administrative Code provisions (“21.15”, “21.16”, “21.3(G)”, etc.); “NOS” (no other source, or sole source); “BID”; “Prop Q” (delegated departmental purchasing authority); specific term contract numbers (such as “TC60731”); and other entries. Specific purchasing authority entries corresponds to specific document types.

Maintaining a single data dictionary for end users is necessary in order to ensure that all City staff are applying the same definitions and values to the data field entries and that sufficient data quality control measures are established, communicated, and implemented to all staff. At a minimum, this data dictionary should (a) contain clear and understandable data field definitions, (b) include a complete list of all valid data values, (c) be included in the purchasing procedures manual, and (d) be communicated and made available to all relevant City staff (e.g., through the City’s Intranet website or OCA’s website).

Buyer Name Field

Entering the buyer’s name who either initiated the purchase order or who completed the purchase order is not a mandatory field. The “buyer code” field, which is related to the “buyer name” field, is the “three character code to identify buyers” and “... is not required and can be NKEY (none) or N/A (none).” As such, the Budget Analyst found that most of the FY 2008-09 purchase order entries did not include a buyer name. For example, out of the total 38,731 purchase orders in FY 2008-09, approximately 68

percent (or 26,305) did not have a buyer name associated with them. OCA should consider making this field a mandatory field (i.e., for both OCA buyers and departmental buyers) to ensure that all purchases can be tracked to the appropriate staff who either initiated or completed the purchase order request not only for data completeness purposes, but also for process accountability purposes.

Management's Use of ADPICS Data

OCA needs reliable data to make informed decisions about the purchasing process. ADPICS can generate reports that would allow management staff to identify purchasing trends, including (a) vendors and commodities most commonly used by departments; (b) potential opportunities for establishing Citywide contracts in order to negotiate volume-based price discounts for the City; and (c) potential patterns of abuse at various levels of the City's purchasing mechanisms.

Despite the importance of using available data to generate management reports, however, OCA managers' use of ADPICS data for management purposes is limited. Although OCA regularly tracks and analyzes specific ADPICS data, OCA mostly uses ADPICS data on an ad hoc basis.

According to OCA management staff, OCA uses the following ADPICS reports:

- Technology Store – Monthly: The Controller provides an ADPICS download on monthly Technology Store purchases;
- Performance Measures – Semi-annual: OCA tracks and reports on performance measures: (1) the percentage of spending done on term contracts (a general indicator of how well OCA is doing its job to save the City money); and (2) the average processing time for requisitions that were not bid (a general indicator of service level to departments).
- Buyer Workload – Annual: OCA obtains ADPICS reports on buyer workload, which is used by OCA managers to determine workload and assist in evaluating staff. OCA management staff use buyer workload statistics with the possibility of reassigning departments to staff purchasers so that the workload is more evenly distributed.

In addition to these regular (i.e., ongoing) uses of the ADPICS data for management purposes, OCA management also uses ADPICS data on an as needed (i.e., ad hoc) basis. Below are some of the examples of such ad-hoc reports:

- A report on direct voucher spending was used to analyze the potential impact of raising the \$200 threshold for direct vouchers;
- A report on food spending (by department and by vendor) was obtained in conjunction with OCA's review of the draft sustainable food procurement ordinance;

- A report on bottled water was used as the Mayor developed his directive for all City departments to stop buying bottled water; and
- A report on recycled paper was used as OCA drafted the next paper contract.

The Controller's Office periodically produces reports for OCA, providing ADPICS data in various ways: (a) purchase orders pursuant to Administrative Code provisions; (b) other types of purchase orders not processed by OCA; and (c) direct vouchers.

The Controller's Office also periodically produces reports on purchase orders processed by City departments under their delegated authority. These reports would allow OCA to track high volume of purchases through departments' delegated purchasing authority for specific commodities or from specific vendors in order to identify opportunities for new or expanded term contracts.

Additionally, the Controller's Office periodically produces a report showing commodity, purchasing authority, and amount. This report would allow OCA to track commodity purchases by purchasing authority.

However, OCA has not routinely developed summaries of purchasing trends, such as the summaries developed by the Budget Analyst for this report, from comprehensive ADPICS data. OCA needs to more routinely, strategically, and systematically analyze ADPICS purchasing data to effectively manage Citywide purchasing activities. For example, OCA management should routinely (e.g., monthly or quarterly) collect, monitor, and report the following basic Citywide procurement statistics:

- (a) Number and type of all purchasing transactions (e.g., Citywide blanket purchases, departmental blanket purchases, delegated departmental purchases, direct voucher purchases, etc.), by department and by vendor;
- (b) Total dollar amounts for all procurement activities, by department, by vendor, and by purchasing mechanism;
- (c) Number of and total dollar amounts for all purchasing transactions, by commodity title and by commodity group;
- (d) Number of and total dollar amounts for all purchasing transactions, by purchase order authority; and
- (e) Number of and total dollar amounts for all purchasing transactions processed by each buyer, by department, vendor, and purchasing mechanism.

Conclusions

Although the ADPICS database contains information on most City purchases, OCA currently does not use ADPICS data to full advantage. ADPICS data entries can be inconsistent, incorrect, or contradictory for reporting purposes. Because successful

analysis of Citywide purchasing trends depends on the quality of the purchasing data available, OCA needs to develop a policy for correct data entry and an end-users' dictionary for consistent data entry. In addition, although OCA obtains some limited reports on an ongoing, as well as ad-hoc, basis, OCA does not have a routine, strategic, and systematic approach for analyzing ADPICS data to effectively monitor and track all purchasing activities Citywide.

Recommendations

In order to ensure accurate ADPICS data for purposes of management reporting, the Purchaser should:

- 2.1 Develop a policy to ensure correct data entry for data reporting and analysis.
- 2.2 Develop (1) a dictionary for end-users, defining each ADPICS field and the entries into each ADPICS field; and (2) a matrix for end-users, linking entries into specific ADPICS fields to ensure consistency.
- 2.3 Consider making the "Buyer Name" data field to be a mandatory field (i.e., for both OCA buyers and departmental buyers) to ensure that all purchases can be tracked to the appropriate staff who either initiated or completed the purchase order request.
- 2.4 Create monthly, quarterly, and annual management reports to identify purchasing trends. In order to implement this recommendation, the Purchaser should:
 - (1) Identify high risk areas requiring monitoring (such as high volume purchases for specific commodities or from specific vendors to identify contracting opportunities; or frequent use of direct vouchers exceeding \$200);
 - (2) Work with the Controller's Office to identify data needs and schedule routine ADPICS downloads;
 - (3) Develop a reporting structure for analysis and oversight of purchasing data; and
 - (4) Incorporate analysis into strategic and annual work plans.

Costs and Benefits

Both OCA and the Controller's Office would need to allocate some additional staff resources to developing ADPICS reports and analyzing ADPICS data. OCA would need to evaluate current staff purchaser assignments to reduce routine and low value, or duplicative tasks, in order to reassign staff purchaser time to analytical tasks.

The benefits from improved ADPICS data entry include a more reliable purchasing database that could assist OCA's management staff in making better decisions in terms of resource allocations and strategic purchasing opportunities and directions. In addition, establishing a routine, strategic, and systematic approach for analyzing ADPICS data to better track purchasing trends and patterns Citywide would ensure that public dollars are put to effective and efficient use and reduce unnecessary costs through enhanced Citywide procurement decision-making.

3. Citywide Term Contracts

- **Term contracts are fixed price, indefinite quantity contracts from which City departments may place orders during the course of the year. Generally, term contracts benefit the City because vendors provide price discounts in exchange for a high volume of business.**
- **OCA's target and actual expenditures for commodity purchases through term contracts of 28 percent of all commodity purchases is based on historical spending rather than best practices. Because City departments purchase most commodities repeatedly over time, most commodity purchases in the City should be through term contracts. Therefore, the Purchaser should set a higher percentage target for term contract purchases. For example, while City departments purchase more than 90 percent of vehicles and computers from term contracts, City departments purchase less than 10 percent of tools, building materials, or transit equipment from term contracts.**
- **OCA has not placed sufficient emphasis on establishing term contracts for commodities. Although OCA has recently rebid several high volume commodity contracts, including information technology and fuel contracts, and renewed recently expired contracts, at least one high volume commodity contract - lubricants - has not been bid since 2006. City departments purchase several high volume commodities, such as tools for which the City spends \$7.5 million per year, mostly through open market purchases or delegated departmental purchasing, which are not competitively bid, rather than through term contracts.**
- **Further, City department staff do not consistently purchase from term contracts. In a review of 27 off-contract purchases of commodities for which term contracts existed, at least four purchases should have been purchased through the contract. OCA needs to work on an ongoing basis with City departments to ensure that department staff purchase available commodities from term contracts.**

The Importance of Term Contracts

One goal of the Mayor and the Purchaser is to develop Citywide term contracts for purchasing commodities. Term contracts are fixed price, indefinite quantity contracts from which City departments may place orders during the course of the year. Generally, term contracts benefit the City because vendors provide price discounts in exchange for a high volume of business. Use of term contracts also saves time and effort by allowing City departments to purchase directly from the contract.

OCA measures the percent of all commodity purchases made through term contracts as one of two performance measures. OCA's FY 2008-09 target and actual percent of commodity purchases through term contracts was 28 percent. OCA set the target of 28 percent based on actual historical spending rather than known best practices or other benchmarks.

Because City departments purchase most commodities repeatedly over time, most commodity purchases in the City should be through term contracts. Although the Budget Analyst was unable to find benchmarks for local government commodity purchasing through term contracts, the City should increase the percent of commodity purchases through term contracts.

Establishing New Term Contracts

OCA's goal is for each staff purchaser to bid at least three term contracts per year, but according to roundtable interviews with staff purchasers, purchasers do not often initiate new term contracts for commodities. OCA has not provided formal training to staff purchasers on creating new term contracts, but according to the Purchaser, staff training on various aspects of the purchasing process, including term contracts, is included in staff meetings. The Purchaser also says that OCA managers and supervisors provide one-on-one training in establishing term contracts.

OCA developed formal procedures for initiating term contracts in 2006. These procedures do not set quantitative criteria for initiating term contracts. OCA's procedures manual states "To determine if a new term contract is advisable, review City usage, based on requisitions or OMP blankets¹". In comparison, the City of Los Angeles has quantitative criteria for which term contracts are to be established, including: (1) commodities to be purchased on multiple occasions with annual expenditures of \$25,000 or more; or (2) commodities with annual expenditures of less than \$25,000 but with high frequency of one-time purchase orders.

OCA Has Not Implemented Term Contracts For Several High Volume Commodities

The City purchases 42 classes of commodities. These commodities are identified in ADPICS by a four-letter commodity code based on National Institute of Governmental Purchasing classifications.

Table 3.1 shows total FY 2008-09 purchases for the 11 commodity classes that represent 62 percent of all commodity purchases. As shown in Table 3.1, several classes of high volume commodities have only a small percentage of purchases through term contracts.

¹ City departments can set up "OMP" blankets - or departmental blanket purchase orders - with specific vendors for frequent, low dollar purchases (see Section 5).

Table 3.1
Purchasing Authority and Total Amount of Purchases
for 11 of the Highest Volume Commodity Classes
FY 2008-09

Class	Purchases under Special City or State Code Provisions	Sole Source	One-Time Bid	Purchases Delegated to Department	Open Market Purchase (OMP)	Term Contract	Total	Term Contracts as Percent of Combined OMP, Term Contract, and Department Delegated Purchases
Transit Equipment	\$1,972,261	\$0	\$8,431,847	\$6,917,120	\$201,096	\$43,560	\$17,565,884	0.6%
Building Materials	3,312,868	114,480	626,686	2,030,178	718,060	55,570	\$6,857,841	2.0%
Tools	270,606	15,857	2,592,918	3,190,365	1,135,263	346,840	\$7,551,849	7.4%
Auto Supplies	523,405	1,329,920	1,421,534	2,377,309	3,563,475	2,482,937	\$11,698,580	29.5%
Elevator & Electrical Equipment	2,323,901	353,462	9,644,530	3,345,011	1,585,553	3,396,858	\$20,649,317	40.8%
Hardware	207,288	249,553	6,008,288	3,089,186	777,111	4,000,235	\$14,331,661	50.9%
GPS and Cell Phones	185,524	90,791	4,447,387	1,510,770	124,039	7,120,028	\$13,478,539	81.3%
Food	116,216	1,766,745	11,521,866	973,415	212,108	6,283,715	\$20,874,066	84.1%
Detergent Solvents & Chemicals	585,004	2,406,264	1,563,278	3,380,603	1,473,543	38,494,166	\$47,902,859	88.8%
Vehicles	1,273,149	4,081,080	10,831,335	124,264	78,190	3,287,148	\$19,675,166	94.2%
Computer & Technology Equipment	11,735,245	2,978,769	12,648,910	1,006,824	785,557	29,125,063	\$58,280,367	94.2%

Source: ADPICS

Open market and delegated departmental purchases are not competitively bid, although OCA encourages soliciting multiple price quotes. The City could potentially achieve cost savings for high volume commodities purchased through open market or delegated departmental purchases by consolidating these commodities into competitively-bid term contracts.

The number of term contracts varies significantly by commodity class. As shown in Table 3.1, term contract purchases make up more than 90 percent of combined open market, delegated departmental, and term contract purchases for vehicles or computers. However, term contract purchases make up less than 10 percent of combined open

market, delegated departmental, and term contract purchases for transit equipment, building materials, or tools.

Transit Equipment

- City departments purchased approximately \$5 million in transit equipment through their delegated departmental authority. In several instances City departments placed total orders exceeding \$100,000 annually with specific vendors.
- Three vendors received more than \$1 million each in City purchases through a combination of one-time bids, delegated departmental purchases, and open market purchases.

Building Materials

- City departments purchased approximately \$2 million in building materials through their delegated departmental authority.
- City departments purchased more than \$700,000 for building materials through open market purchases.

Tools

- City departments purchased approximately \$3.2 million for tools through their delegated departmental authority.
- City departments purchased more than \$1.1 million for tools in open market purchases.
- In many instances, City departments purchased \$100,000 or more from specific vendors through open market purchases or delegated department authority.

Elevator and Electrical Equipment

- City departments purchased approximately \$3.3 million for elevator and electrical equipment through their delegated departmental authority.
- City departments purchased more than \$590,000 for elevator and electrical equipment in open market purchases
- City departments paid more than \$200,000 to one specific vendor in open market purchases.

Automotive Supplies (Commodity Code 9060)

- City departments purchased approximately \$2.3 million for automotive equipment through their delegated departmental authority.
- City departments purchased more than \$3.6 million for automotive equipment in open market purchases.
- City departments paid more than \$100,000 per vendor in open market purchases to eight vendors for automotive equipment, with one vendor receiving more than \$500,000 in open market purchases.

Hardware (Commodity Code 9670)

- City departments purchased approximately \$3.1 million for hardware through their delegated departmental authority.
- City departments purchased more than \$775,000 for hardware in open market purchases.
- City departments paid more than \$100,000 per vendor in open market purchases to two vendors for hardware.

OCA Has Not Implemented Term Contracts For Some High Volume Vendors

In some instances, the City purchases a high volume of specific commodity classes from a single vendor without establishing a term contract. In FY 2008-09, City departments purchased more than \$1 million in commodities per vendor from 64 vendors, with total purchases of \$235.6 million (or 61.4 percent of total purchases of \$383.6 million). For five of these vendors, 15 to 80 percent of City department purchases were through open market purchases or delegated departmental purchasing authority.

Table 3.2
Open Market and Delegated Departmental Purchases from Five Vendors with No Term Contract
FY 2008-09

Vendor Name	Admin Code, State Statute or Other	Bid	Sole Source	Open Market (OMP)	Dep't Delegated Purchases	Contract	Total	% of Total Purchase through OMP or Dep't Delegated Purchase
T & S Trading and Enterprise Company	\$120,186	\$217,244	\$0	\$67,289	\$1,306,045	\$0	\$1,710,764	80.3%
Neopart LLC	121,795	448,880	0	19,290	842,688	0	1,432,653	60.2%
Cummins Inc	219,175	621,841	5,100	36,752	406,068	0	1,288,935	34.4%
Kone Inc.	420,747	192,777	0	174,000	140,102	0	1,150,009	27.3%
Affinity Resources Inc.	29,567	1,205,759	0	32,513	197,656	0	1,465,495	15.7%

Source: ADPICS

Because neither OCA nor City departments have procedures to evaluate high volume delegated departmental purchases from specific vendors or specific criteria for establishing term contracts, City departments can purchase a large amount of commodities from a single vendor without establishing a term contract and obtaining

price discounts. For example, City departments have spent more than \$1 million annually through their delegated departmental purchasing authority to purchase commodities from T&S Trading Enterprise Company, as shown in Table 3.3.

Table 3.3

**T&S Trading Enterprise Company Total Initiated Citywide
Delegated Departmental Purchasing Expenditures
FY 2006-07 through FY 2008-09**

	FY 2006-07	FY 2007-08	FY 2008-09	Total
Total Purchases through Delegated Departmental Authority	\$1,094,928	\$1,362,051	\$1,306,045	\$3,763,024

Source: ADPICS

OCA management states that little activity has been directed towards analyzing commodity purchases made under delegated departmental purchases due to the complexity of identifying common items by commodity code. However, OCA could develop routine ADPICS reports, allowing OCA staff to evaluate purchases Citywide by commodity code, vendor, and total number and amount of purchasing transactions by type of transactions for the purpose of establishing term contracts.

City Departments' Access to Term Contracts

Department staff can view lists of commodities and general services in ADPICS, including (1) a description of the commodity, and (2) availability on a Citywide blanket purchase order (the purchase order link to a Citywide term contract). OCA also develops a monthly spreadsheet of active term contracts which is provided to City departments. In interviews, City department staff indicated sufficient access to information on term contracts.

City department staff sometimes purchase commodities from vendors with existing City contracts but do not purchase the commodity from the contract. In a review of 27 purchase orders from 9 City departments, City department staff stated that they purchased commodities off contract because the commodity was not available through the contract.

Table 3.4**Reasons for Purchasing Commodities Off-Contract From Vendors with City Contracts**

Reasons for Not Purchasing Commodity through Existing Term Contract	Expired Contract	Item Not Available Through Existing Contract	Other	Total
Number of Purchase Orders	7	16	4	27
Percent	26%	59%	15%	100%

Source: City department interviews

For the seven purchase orders from vendors in which the contracts had expired:

- Five purchase orders were for lubricants, such as vehicle motor oil, for which the City has no existing term contract. According to one interview, the most recent contract for lubricants expired in 2006. In FY 2008-09 City departments spent \$1.1 million for lubricants.
- Two purchase orders were for commodities on a contract that had recently expired and was renewed after the date of the purchase.

Four purchase orders were for other reasons: (1) one commodity code was listed on the purchase order as an error; (2) one was for maintenance of a printer funded with a State grant, and (3) two were for commodities - aqueous ammonia and liquid oxygen - for which contracts were subsequently implemented.

Of the 16 purchase orders for which term contracts existed for the commodity code:

- 10 purchases were for items provided by the vendor but not included in the contract. City department staff considered these items sufficiently specialized to not warrant contract coverage. However, City departments did not consistently negotiate price discounts for these purchases nor did the purchase orders contain discount information. Spot checks of prices show that some of these items were discounted below the market price while other items were not.
- Two purchases were available through term contracts at lower prices than included in the purchase orders. The City department was not able to determine if the purchase had special qualities - such as meeting “green” standards - to warrant an off-contract purchase.

- Four purchases should have been purchased through an existing term contract:
 - (1) Two purchases were for tools from a City contractor - Grainger - in which City department staff bought the tools directly from the store rather than accessing the City contract. Although department staff said that the store price was lower than the contract price, the contract offers a percentage discount to items purchased through the contract which was not reflected on the department's purchase documents.
 - (2) Two purchases were one-time bids for commodities - one copier and one paper dispenser - available through existing City contracts. Neither City department staff nor documents give reasons for why these items were not purchased through the contract.

Conclusion

OCA has not placed sufficient emphasis on establishing term contracts for commodities. Although OCA has recently rebid several high volume commodity contracts, including information technology and fuel contracts, and renewed recently expired contracts, at least one high volume commodity contract - lubricants - has not been bid since 2006. OCA also has opportunity to establish new contracts for high volume commodities or high volume vendors, increasing the total percentage of term contract purchases.

OCA also needs to work on an ongoing basis with City departments to ensure that department staff purchase available commodities from term contracts, or negotiate discounted prices for commodities not on contract but available through a contract vendor. OCA sent a memorandum to City departments on November 12, 2009 after receipt of the Budget Analyst's draft audit report, requiring purchase of commodities through term contracts. The previous memorandum to City departments was dated August 7, 2003.

Recommendations

In order to increase the number of Citywide term contracts, the Purchaser should:

- 3.1 Develop quantitative criteria for establishing term contracts, including (a) annual volume of purchasers for specific commodities, and (b) annual volume of purchases from specific vendors.
- 3.2 Ensure implementation of the Purchaser's FY 2009-10 performance objective to require each purchaser to complete three new term contracts each year and include an additional objective to add discounted commodities to existing term contracts.
- 3.3 Increase the annual performance goal for the percentage of commodity purchases through term contracts based on OCA priorities rather than historical experience.

- 3.4 Require City department staff to purchase all commodities available through contracts from the contract by (a) conducting periodic spot checks of City departments with high volume commodity purchases from vendors with term contracts, (b) reminding City department directors and senior managers on an ongoing basis on the importance of department staff compliance with term contract purchasing, and (c) incorporating information on term contract purchasing and compliance into existing training provided by OCA to department staff.

Costs and Benefits

OCA should be able to establish new Citywide term contracts through reallocation of resources as discussed in Section 1. If OCA were to establish term contracts in FY 2009-10 for three high dollar amount commodities - tools, automotive supplies, and detergents, solvents, and chemicals, a ten percent savings from current open market and delegated departmental purchases would save City departments \$1,500,000 annually.

4. Delegated Departmental Purchasing

- The Purchaser has delegated City departments authority to purchase up to \$10,000 in commodities. Total delegated departmental purchasing in FY 2008-09 was \$50.4 million, or 13.1 percent of total Citywide commodity purchases of \$383.6 million.
- While OCA's Rules and Regulations require all City department employees designated to purchase commodities under the departments' delegated purchasing authority to disclose conflicts of interest by filing a Statement of Economic Interests, OCA has neither ensured City departments' understanding of nor enforced compliance with this requirement. Currently, City departments do not require that all designated employees file a Statement of Economic Interests because these designated employees are not decision makers, not in job classifications required by the Ethics Commission to file a Statement of Economic Interest, or other reasons. OCA needs to work with the Ethics Commission to determine which designated employees must file a Statements of Economic Interest and ensure that City departments comply with this determination.
- Although the Controller audits certain departmental purchasing transactions, OCA does not formally follow-up with City departments to correct audit findings. In the Controller's 2008 post-audit of City departments' financial transactions, \$7.4 million of departmental delegated purchases were split orders and \$1.8 million of departmental delegated purchases were professional services purchased through commodity purchasing procedures, in violation of City rules. OCA does not formally follow up with City departments on the Controller's audit findings and recommendations.
- Also, although delegated departmental purchasing was intended to reduce OCA workload, allowing OCA staff to negotiate contracts for large volume purchases, OCA continues to process low dollar value transactions. Most of these low-value transactions (1,605 or 70 percent of 2,293 low dollar value transactions processed in FY 2008-09) are for technology purchases through the Technology Store. While the Department of Technology reviews all computer, laptop, and printer requisitions to standardize or bulk purchase these commodities, neither OCA nor the Chief Information Officer have developed a procedure for standardizing these purchases or batching requisitions from multiple departments for volume purchasing.

Proposition Q

Under the Administrative Code, the Purchaser can delegate purchasing authority to City departments for commodity purchases up to \$50,000. Currently, the Purchaser has delegated purchasing authority to departments for commodity purchases up to \$10,000.

City voters originally approved delegated departmental purchasing when they approved Proposition Q on November 2, 1993, which authorized City departments, upon approval from the City's Purchaser, to directly purchase equipment and supplies totaling less than \$5,000. According to the Voter Information Pamphlet produced by the San Francisco Department of Elections for the November 2, 1993 General Election, the delegation of purchasing authority to City departments for the purposes of making low-dollar value procurements was intended to streamline City government and save money. Specifically, the arguments in favor Proposition Q stated that:

Proposition Q will streamline City government by reducing paperwork and reducing a layer of government bureaucracy. Proposition Q will save money by increasing the City Purchaser's ability to consolidate purchases of goods and services, and forcing departments to purchase goods and services efficiently and within budget. With [City] departments placing these low-dollar orders, the Purchasing Department will be given more time to develop more annual contracts for large purchases.

Proposition Q was expressly intended to reduce OCA staff time and workload associated with processing low-dollar value procurements to allow for greater focus on establishing and consolidating Citywide term contracts.

In March 2004, the Mayor instructed the Office of Contract Administration (OCA) to delegate all appropriate processes to City departments and to avoid duplicate work and approvals. According to OCA management, in response to this directive, the Director of Administrative Services made a policy decision to increase the amount of purchasing authority delegated to City departments from \$5,000 to \$10,000 (including tax and shipping) – thereby further decreasing the number of purchase orders required to be processed by OCA. As shown in Table 4.1 below, delegated departmental purchasing makes more than 13 percent of total commodities purchasing Citywide.

Table 4.1
Total Purchase Orders by Purchasing Authority
FY 2008-09

Transaction Type	Total Purchase Order Expenditures	Percent of Total Expenditures	Total Purchase Order Count	Percent of Total Count
Delegated Departmental Purchase Order	\$50,843,941	13.3%	25,645	66.2%
Departmental Blanket	90,779,107	23.7%	4,637	12.0%
Purchase Orders through OCA	80,485,877	21.0%	3,923	10.1%
Citywide Blanket/ Term Contract	70,107,242	18.3%	3,896	10.1%
Purchase Order Not through OCA	58,492,599	15.3%	580	1.5%
Department of Public Health Group Purchasing Organization	32,841,757	8.6%	49	0.1%
Total	\$383,550,523	100.0%	38,730	100.0%

Source: FAMIS Purchasing System

OCA Rules on Disclosure of Conflicts of Interest

OCA Rules and Regulations require all designated employees (i.e. employees authorized by a department head to purchase commodities using delegated purchasing authority) to annually file a “Statement of Economic Interests”. The purpose of the Statement of Economic Interests is to prevent potential conflicts of interest (or the appearance of such) by publicly disclosing personal assets and income which may be materially affected by an employee’s official actions.

According to OCA’s Rules and Regulations:

“All employees who exercise delegated Purchasing *signature* (emphasis added) authority must adhere to the Principals and Standards of Ethical Purchasing Conduct promulgated by the OCA and must sign a statement attesting thereto.”

And

“All designated employees shall file Form 700 Statement of Economic Interests annually as required by Article III, Chapter 1 of the San Francisco Campaign and Governmental Conduct Code.”

OCA requires all City department employees with signature authority for delegated departmental purchasing to sign OCA’s “Delegation of Authority and Acknowledgment of Responsibility” form. This form states that the respective City department staff have been trained in and are familiar with various OCA and City purchasing and ethics standards.

OCA requires *all* City department employees designated to purchase commodities under their delegated departmental authority to file a Statement of Economic Interests. However, City departments only require specific designated employees to file a Statement of Economic Interests. For example, the General Services Agency does not require that seven designated employees file a Statement of Economic Interests because these seven employees are not considered “decision makers”. The Department of Public Health does not require that three designated employees file a Statement of Economic Interests because the San Francisco Campaign and Governmental Conduct Code does not require employees in their specific job classification to do so.

The Purchaser needs to work with the Ethics Commission to determine which City department employees designated to purchase commodities under their delegated departmental authority should file a Statement of Economic Interests, and ensure that City departments comply with this determination.

OCA’s Response to the Controller’s Financial Post Audit Findings

Under OCA’s Rules and Regulations, City departments cannot use their delegated purchasing authority to:

- Split purchase orders to reduce the purchase amount to less than \$10,000;
- Purchase from vendors who have not complied with the City’s domestic partners health benefits and other contract requirements; or
- Purchase professional services.

Additionally, City departments cannot use their delegated purchasing authority unless specifically allowed by the Purchaser for certain commodities:

- | | |
|--|--|
| - Unbudgeted equipment | - Computer equipment and supplies |
| - Commodities on Citywide term contracts | - Video display terminals and related products |
| - Commodities on master/multi-year contracts | - Telecommunications equipment and wiring |
| - Equipment for lease purchase | - Cars, trucks, and vehicles |
| - Tropical hardwoods and products | |

Currently, the only review of delegated departmental purchasing transactions processed by City departments occurs during the Controller’s annual post audit of City departments’ financial transactions. The Controller audits City departments’ delegated departmental purchasing transactions as part of a larger review of a sample of various financial, accounting, and purchasing transactions.

The Controller only audits delegated departmental purchasing transactions for two prohibited practices: (1) order splitting and (2) the purchase of professional services. In 2008, as shown in Table 4.2. These violations totaled \$9.2 million, or approximately 15 percent of total calendar year 2008 delegated departmental purchases of \$61 million.

Table 4.2

**Delegated Departmental Purchasing Authority Violations
Summary of Findings from the Controller's Office
CY 2008 Financial Post Audits**

Violation	Total Number of Violations	Total Number of Transactions¹	Violations as a Percent of Total Transactions	Total Dollar Value of Violations
Order Splitting	764	28,406	2.7%	\$7,396,210
Professional Services	631	28,406	2.2%	\$1,856,113

Source: Controller

¹The Controller reviewed transactions from January 2008 through December 2008.

Although the Purchaser receives a copy of the Controller's financial post audit report, the Purchaser does not actively respond to the audit findings. While OCA managers reportedly review and discuss audit findings with City departments as-needed, OCA does not formally follow up on the Controller's audit findings and recommendations.

OCA Continues to Process Low-Value Transactions

City departments can send their low-dollar value requisitions to OCA for processing in lieu of using delegated departmental purchasing authority. In FY 2008-09, 65.3 percent of purchase orders (or 2,293 of 3,510 one-time purchase orders), were for purchases below \$10,000.

Most of these low-value transactions (1,605 or 70 percent of 2,293) are for technology purchases through the Technology Store. As discussed in Section 9, under current City practice City departments solicit price quotes from Technology Store vendors and then submit the requisition to the City's Chief Information Officer for approval. According to the Mayor's January 2009 memorandum to City department directors, all computer, laptop, and printer purchases are to be reviewed to identify cost savings or efficiencies through standardization or volume purchasing. However, at the time of the management audit, neither OCA nor the Chief Information Officer had developed a procedure for standardizing these purchases or batching requisitions from multiple departments for volume purchasing.

The practice of processing low-dollar value purchase orders that could otherwise be processed by City departments using delegated departmental purchasing authority directly undermines the express intent of Proposition Q to streamline City processes and allocates OCA staff resources inefficiently. The Purchaser should immediately discontinue processing transactions with a dollar value of less than \$10,000 for non-Technology Store purchases.

Further, the Purchaser and the Chief Information Officer need to discuss ways to standardize computer, laptop, and printer equipment, and batch requisitions for this equipment to purchase in volume. While current City organization and budget structure present barriers to combining multiple department purchases, the Purchaser and Chief Information Officer need to actively explore, identify, and propose procedures to meet this goal.

Conclusions

While delegated departmental purchasing authority is intended to streamline purchasing processes, current practices reduce the effectiveness of this delegated authority. The original Charter Amendment intended to shift workload from OCA to the departments, allowing OCA purchasers to develop more Citywide contracts for large purchases. However, OCA continues to purchase a large number of low-value transactions. Also, OCA needs to better define City departments' responsibilities under their delegated purchasing authority (such as requiring designated employees to file a Statement of Economic Interest) and ensure the City departments' fully comply with OCA's purchasing requirements.

Recommendations

In order to increase oversight over delegated departmental purchasing, the Purchaser should:

- 4.1 Work with the Ethics Commission to determine which City department employees designated to purchase commodities under their delegated departmental authority should file a Statement of Economic Interests, and ensure that City departments comply with this determination.
- 4.2 Immediately direct all City departments to process all non-Technology Store commodity transactions with values less than \$10,000 in conformance with City departments' delegated departmental purchasing authority.

In order to develop an effective procedure to purchase low-dollar value technology equipment, the Purchaser should:

- 4.3 In conjunction with the Chief Information Officer, (a) identify the data and analytical needs to plan for standardizing computer, laptop, and printer equipment and implementing volume purchasing; (b) develop a work plan for identifying and

addressing barriers to batching requisitions and purchasing equipment for multiple City departments; and (c) report to the City Administrator prior to June 30, 2010 on the expected timelines and requirements for equipment standardization and volume purchasing.

Costs and Benefits

Currently, one OCA purchaser processes the low-dollar value transactions for the Technology Store, but the City achieves no benefit from OCA rather than City departments processing these transactions if OCA and the Chief Information Officer are not actively implementing standardization and volume purchasing for computers, laptops, and printers. Based on FY 2008-09 Citywide laptop, desktop, and printer purchases, the City would save \$420,000 annually if standardization and volume purchasing reduced purchase costs by 10 percent.

5. Departmental Blanket Agreements

- **Departments have increased their use of departmental blanket agreements for commodity purchases by 48 percent, from 1,282 in FY 2006-07 to 1,893 in FY 2008-09, an increase of 611 agreements. City departments purchased more than \$90 million through departmental blanket agreements in FY 2008-09, or approximately one-fourth of all City commodity purchases.**
- **Most departmental blanket agreements are open market purchases and therefore, not competitively bid. Although OCA instructs City departments to obtain price discounts for departmental blanket agreements of \$50,000 or less (which are not subject to the City’s competitive bid requirements), City departments do not consistently record price discounts in ADPICS. Also, OCA does not ensure that departmental blanket agreements subject to the City’s competitive bid requirements are competitively bid. For example, OCA approved a departmental blanket agreement between the General Services Agency Central Shops and First Automotive Distributors for a not-to-exceed amount of \$95,000 without a competitive bid or notation in ADPICS of price discounts**
- **OCA does not consistently identify if requested commodities or vendors could be incorporated into term contracts, thus saving money through discounted pricing. For example, in FY 2008-09, the City has 38 separate departmental blanket agreements with Center Hardware Company, totaling \$514,080, but OCA did not combine these separate agreements into a term contract.**

Departmental Blanket Agreements

According to the Office of Contract Administration’s (OCA) procedures manual, departmental blanket agreements are usually developed for the future anticipated—though unpredictable—purchase of certain commodities from a specific vendor for a specific dollar limit for up to a one-year period.

When City departments enter into departmental blanket agreements with a specific vendor, OCA sets up departmental blanket purchase orders in ADPICS, the City’s purchasing system, that establishes a “not-to-exceed” amount for total purchases under the departmental blanket agreements. These agreements can consist of:

- Agreements with vendors for frequently-purchased items (such as tools, paints, and other supplies for ongoing maintenance work). These are considered **open market**

purchases, which are not competitively bid. City departments are limited to \$1,000 per day in purchases.

- Purchases of **sole source** items available from only one vendor. City departments must submit justification for sole source purchases and receive approval from OCA.
- **Proprietary** purchases of specialized items, such as medicines, instructional materials, artwork, globes and maps, or maintenance service of specialized equipment. City departments must justify proprietary purchases in ADPICS notepad.
- Special purchases authorized by the **Administrative Code**, such as purchases from non-profit organizations or other public agencies.

City departments are increasingly using departmental blanket agreements to purchase commodities. In FY 2008-09, departments increased their use of departmental blanket agreements by 48 percent compared to FY 2006-07, as shown in Table 5.1.

Table 5.1

**Total Number and Not-to-Exceed Amount of Departmental Blanket Agreements
FY 2006-07 through FY 2008-09**

Departmental Blanket Agreements	FY 2006-07	FY 2007-08	FY 2008-09	Increase FY 2006-07 to FY 2008-09	Percent Increase
Not-to-Exceed Amount	\$67,661,928	\$157,990,910	\$158,738,364	\$91,076,436	135%
Total Number	1,282	1,466	1,893	611	48%

Source: ADPICS

As explained in OCA’s procedures manual, “departmental blanket agreements do not encumber funds, [rather] funds are encumbered when [a] department issues a purchase order release against the departmental blanket agreement.” As shown in Table 5.2, purchase order releases from departmental blanket agreements made up nearly one-fourth of all commodity purchases in FY 2008-09.

Table 5.2
Total Purchase Order Expenditures and Number of Purchase Orders
by Purchasing Mechanism
FY 2008-09

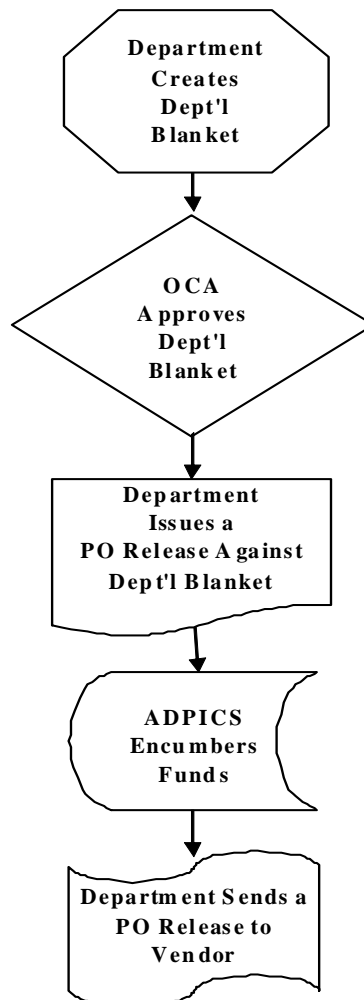
Transaction Type	Total Purchase Order Expenditures	Percent of Total Expenditures	Total Purchase Order Count	Percent of Total Count
Departmental Blanket	\$90,779,107	23.7%	4,637	12.0%
Purchase Orders through OCA	80,485,877	21.0%	3,923	10.1%
Citywide Blanket/ Term Contract	70,107,242	18.3%	3,896	10.1%
Purchase Order Not through OCA	58,492,599	15.3%	580	1.5%
Delegated Departmental Purchase Order	50,843,941	13.3%	25,645	66.2%
Department of Public Health Group Purchasing Organization	32,841,757	8.5%	49	0.1%
Total	\$383,550,523	100.0%	38,730	100.0%

Source: ADPICS

OCA Review of Departmental Blanket Agreements

The procurement flowchart developed by OCA for the purposes of this audit (a) visually depicts key steps in the City's commodity procurement process and (b) reflects OCA's current perception and best understanding of the execution of their express roles and responsibilities. Figure 5.1 shows the process associated with establishing a departmental blanket agreement as represented by OCA.

Figure 5.1
Flowchart for Establishing Departmental Blanket Agreements



Source: Flowchart of Procurement Transactions provided by OCA.

As shown in Figure 5.1, end-user departments, not OCA, are responsible for initiating departmental blanket agreements which, according to OCA staff, entails selecting a vendor, obtaining the vendor's pricing structure, providing a description of the commodities to be purchased, and estimating the dollar amount to be spent during the fiscal year.

OCA's procedures manual outlines a 15-point review process prior to approving a departmental blanket agreement. These steps are largely administrative in nature such as ensuring that the appropriate commodity codes are used and verifying vendor compliance with City requirements.

City Departments Do Not Consistently Solicit Price Discounts

Many departmental blanket agreements do not go through a competitive process. While the Administrative Code requires competitive bids for commodity purchases greater than \$50,000, and the Purchaser's Rules and Regulations encourage City departments to solicit multiple price quotes for purchases of \$10,000 or less, the Purchaser lacks a written policy for informal bids for commodity purchases between \$10,000 and \$50,000. The Purchaser does include a statement in the annual memorandum to departments to "try to obtain discounts off retail pricing" when establishing departmental blanket agreements.

Of the 1,893 departmental blanket agreements established by OCA in FY 2008-09, 1,472 or approximately 77.8 percent, were classified as open market purchases, as shown in Table 5.3.

Table 5.3

Departmental blanket agreements Designated as Open Market Purchases FY 2008-09

Dollar Threshold	Total		%
\$0 to \$10K	731		49.7%
Over \$10K to \$50K	693	741	50.3%
Over \$50K	48		
Total	1,472		100.0%

Source: ADPICS

In September 2009, the auditors reviewed 25 departmental blanket agreements¹ including a detailed review of the procurement processing notes entered into ADPICS notepad screen. Table 5.4, shows the distribution of the 25 sampled departmental blanket agreements, by dollar threshold and by type.

¹ The auditors selected the 25 departmental blanket agreements from all departmental blanket agreements established by OCA in FY 2008-09 greater than \$10,000, excluding all departmental blanket agreements established pursuant to the following authority codes: NOS (No Other Source), 21.15 (Emergency Procurement), 21.16 (Reciprocal and Other Agreements with Public Agencies), 21.30 (Software License and Maintenance Sole Source), Profserv-NOS (Professional Services Contracts No Other Source), and TCXXX (Term Contracts).

Table 5.4
Distribution of Sample Departmental Blanket Agreements,
By Dollar Threshold and Type
FY 2008-09

	Open Market Purchase	Bid	TOTAL
\$10K to \$50K	20	1	21
Greater than \$50K	3	1	4
TOTAL	23	2	25

Source: Budget Analyst's sample review

OCA instructs City departments to record any price discounts under the departmental purchase agreement in the ADPICS notepad. However, price discounts are not routinely recorded, as shown by the sample:

- 10 of the 23 open market purchases did not include an explanation of the agreement's pricing terms as required by OCA's written policies and procedures.
- 12 of the 23 open market purchases had pricing terms guaranteeing the City a 10 percent to 50 percent discount off the commodities' list or manufacturer's price.
- One of the 23 open market purchases had notes indicating that the department received a sole source waiver from the Human Rights Commission for their respective vendor.

Three of the four departmental blanket agreements greater than \$50,000 were not competitively bid although two of the three recorded price discounts. For the third departmental blanket agreement: OCA approved a departmental blanket agreement between the General Services Agency Central Shops and First Automotive Distributors for a not-to-exceed amount of \$95,000 without a competitive bid or notation in ADPICS of price discounts.

OCA Does Not Consistently Identify Contract Opportunities for Vendors with Multiple Agreements

The OCA procedures manual directs purchasers to (1) determine if the requested commodities are available through a term contract; and (2) develop a bid or term contract for a specific commodity if the same product is to be purchased over the term of the departmental blanket agreement. According to OCA, purchasers currently rely on "detecting purchasing patterns based on experience" to determine the feasibility of establishing a term contract in lieu of a departmental blanket agreement.

Some City departments have had multiple departmental blanket agreements with the same vendor for three consecutive fiscal years. These agreements could potentially be consolidated into one multi-year term contract in order to obtain additional cost savings. For example, as shown in Table 5.5, over the past three fiscal years, the Airport has had a total of 44 departmental blanket agreements with Center Hardware Company—with total maximum expenditures exceeding half a million dollars.

Table 5.5

**Airport’s Departmental Blanket Agreements with Center Hardware
Company
FY 2006-07 through 2008-09**

Departmental Blanket Agreements	FY 2006-07	FY 2007-08	FY 2008-09	Total
Total Count	14	9	21	44
Total Not-to-Exceed Amount	\$171,913	\$139,498	\$242,880	\$554,291

Source: ADPICS.

Moreover, in FY 2008-09 alone, Center Hardware Company had a total of 38 departmental blanket agreements Citywide with total maximum expenditures of \$514,080, indicating Citywide demand (i.e., beyond the Airport) for commodities available from Center Hardware Company. OCA could leverage these separate departmental blanket agreements into one contract to obtain competitive term contract prices.

Additionally, of the 877 unique vendors that had departmental blanket agreements with City departments in FY 2008-09, 97 vendors, or approximately 11.1 percent, also had term contracts with the City. While the items purchased via departmental blanket agreements may be different from those available on the City’s term contracts, OCA does not review such purchases for the purposes of adding these items to the vendor’s existing term contract.

OCA Does Not Consistently Document Sole Source Approval

OCA’s procedures manual provides that departmental blanket agreements can be sole source if “products or general services (are) only provided by one vendor or manufacturer.” OCA must approve City departments’ requests for sole source waivers. Based on our review of a sample of 20 sole source departmental blanket agreements in FY 2008-09, we found that:

- 18 of the 20 sole source departmental blanket agreements, or 90 percent, had sole source approval in the ADPICS notepad screen.
- One of the 20 sole source departmental blanket agreements (for the amount of \$70,000) did not have any approval information entered in the ADPICS notepad screen.

- One of the 20 sole source departmental blanket agreements (for the amount of \$60,000) was questionable since the departmental blanket agreement was established with Safeway Inc. for the purchase of food, a commodity that does not seem to involve only one vendor or manufacturer. In response to the draft audit report, OCA replied: “DPH needed a supermarket offering the best combination of business hours and number of outlets in San Francisco. Safeway’s business hours are 24 hours a day, and Safeway has be far more stores in San Francisco than any other grocery chain. So Safeway met the sole-source test for this blanket”. However, none of this information was documented in the ADPICS notepad screen.

OCA management staff should ensure that sufficient and complete information are entered into ADPICS regarding (a) the status of the sole source waiver request, and (b) the department’s justification for approving the sole source waiver.

Conclusions

City departments have significant discretion in establishing departmental blanket agreements, which can lead to noncompetitive pricing in these agreements. While OCA must approve all agreements greater than \$10,000, City departments establish agreements counter to OCA procedures. City departments do not consistently record price discounts in ADPICS with the probability that price discounts did not exist for these agreements. Furthermore, based on the Budget Analyst’s review of 25 departmental blanket agreements, OCA approved one agreement subject to competitive bid under the Administrative Code without requiring a competitive bid.

Recommendations

In order to obtain the best available price for commodities, the Purchaser should:

- 5.1 Require solicitation of at least three price quotes for all departmental blanket agreements between \$10,000 and \$50,000 and competitive bids for all departmental blanket agreements greater than \$50,000.
- 5.2 Ensure than only one vendor is available for commodities requested under sole source agreements.
- 5.3 Ensure that sufficient and complete information is entered into the ADPICS notepad screen regarding (a) the status of the sole source waiver request, and (b) the department’s justification for approving the sole source waiver.

Costs and Benefits

By requiring solicitation of multiple vendors for departmental blanket agreements from \$10,000 to \$50,000 and competitive bid for departmental blanket agreements greater than \$50,000, the City could achieve estimated cost savings of \$400,000 annually from competitively priced agreements.

6. Commodity Specifications and the Bid Process

- **The Administrative Code requires competitive bidding for commodity purchases greater than \$50,000 to ensure that the City is receiving the lowest available price. OCA oversees formal competitive bids. In the Budget Analyst's review of 20 one-time purchase orders and contracts greater than \$50,000, OCA received from 3 to 7 bids on average for each purchase order or contract.**
- **When competitively bidding commodity purchases greater than \$50,000, commodity specifications that are too general or too narrow can adversely impact the bid process. City departments are responsible for developing commodity specifications, subject to review by OCA purchasers. Although some City departments evaluate commodities for meeting safety standards or other criteria, few departments evaluate commodities for cost-effectiveness. City departments can reject low bids if the commodity does not meet their specifications, and in a sample of 20 bids, City departments rejected 3 bids resulting in awards to vendors with prices from \$5,000 to \$30,000 more than the low bid.**
- **Although the Administrative Code requires OCA to discount bids from San Francisco vendors to incorporate sales tax and payroll tax receipts, OCA's one percent bid discount does not reflect current sales tax. By not accurately discounting bids for San Francisco vendors, the City department often purchases from vendors outside of San Francisco, resulting in lost local sales tax revenue from these purchases, in essence overpaying for the commodity purchases.**

The Administrative Code provides for the competitive selection of commodity vendors for purchases of more than \$50,000. Under the Purchaser's Rules and Regulations applying Administrative Code provisions to OCA's procedures:

- City departments can select vendors and purchase commodities up to \$10,000 in value under the departments' delegated purchasing authority. The Purchaser encourages but does not require City departments to solicit written price quotations for these low-value purchases and select the lowest responsive and responsible bidder.
- OCA oversees purchases of commodities of more than \$10,000. The Administrative Code requires formal bidding procedures for commodity purchases of more than \$50,000.

- For the purchase of general services, such as janitorial or security guard services, City departments can select vendors for services up to \$10,000.
- For general services from \$10,000 to \$29,000, OCA conducts informal bid procedures in accordance with Purchasing and Human Rights Commission (HRC) requirements. For general services of more than \$29,000, the Administrative Code requires formal bidding procedures.

Informal Bid Process

The Purchaser has delegated purchasing authority for purchases of \$10,000 or less to City departments, in accordance with the Administrative Code, but encourages City departments to solicit more than one vendor for these purchases.

OCA has no written procedure for informal bids for commodity purchases between \$10,000 and \$50,000, although according to roundtable interviews with staff purchasers, OCA requires that at least three vendors receive bid solicitations for informal bids, either through fax or email. Purchases of these amounts are often made through one-time purchase orders or departmental blanket agreements.

Formal Bid Process

The Administrative Code requires all commodity purchases of \$50,000 or more to be competitively bid. According to roundtable interviews with staff purchasers, OCA requires that at least three vendors receive bid solicitations but does not require a minimum number of actual bids.

Purchasers can identify potential vendors for specific commodity or general services purchases by :

- Searching ADPICS by commodity code to identify vendors who have previously supplied commodities or general services under the specific code;
- Receiving recommendations from City departments of potential vendors who may not be in the ADPICS database; or
- Searching the internet for vendors supplying certain types of commodities or services.

Also, vendors can find requests for bids on the City's website or by signing up to receive email notification of bid opportunities.

In a review of 10 one-time purchase orders and 10 term contracts which were bid in FY 2008-09:

- OCA advertised the bid opportunities in the San Francisco Chronicle or San Francisco Examiner for one-time purchase orders and term contracts.

- Vendors often downloaded bid documents from the OCA website.
- OCA conducted pre-bid conferences for vendors interested in bidding on term contracts.

Multiple Bids for Contracts and Purchase Orders

As shown in Table 6.1, most of the 20 bid opportunities received three or more bids.

Table 6.1
Number of Vendor Bids for Ten One-Purchase Orders
and Ten Term Contracts
FY 2008-09

	Bids for One-Time Purchase Orders	Bids for Term Contracts
Minimum	1	2
Maximum	12	18
Median	3	7

Source: OCA bid documents

The number of vendors bidding on one-time purchase orders or term contracts varied by the type of commodity or general service. Generally, bids for term contracts received bids from a larger number of vendors than bids for one-time purchase orders. For five of the 20 bid documents reviewed fewer than three vendors bid on the requested commodity or general service. However, according to bid documents, the City generally received discounts or savings although only one or two vendors bid on the purchase order or contract.

Price Discounts

In two instances, only one vendor bid on the one-time purchase order although according to the bid documents the City received discounts for the commodities covered by the purchase order.

- Only one vendor bid on the purchase order for replacement carpeting in the Main Library. The bid documents specified that only one type of carpeting from a specific manufacturer was acceptable, restricting the number of qualified vendors who could

bid on the purchase order.¹ According to bid documents, the vendor offered significant savings in the transaction.

- OCA solicited bids from three vendors for portable radios, but ultimately purchased the radios from an existing master agreement with a specific vendor. According to bid documents, the master agreement offered a 27 percent discount on the purchase.

In three instances, only two vendors bid on the commodity or general service.

- Two vendors bid on a purchase order for ammunition but one was disqualified as non-responsive. While the non-responsive bid was significantly less than the bid from the vendor who was awarded the purchase order, bid documents suggest that the non-responsive bid underestimated the ammunition price.
- Two vendors bid on a purchase order for lawn mowers, with the low bid offering the lawn mowers for 27 percent less than the higher bid.
- Two vendors bid on a term contract for unslaked lime, used for water purification, in which the low bid was 62 percent less than the higher bid.

Commodity Specifications

How OCA specifies the type of commodity or general service required by City departments or a Citywide term contract can determine the number of vendors responding to a bid opportunity and the price that the City pays for the commodity or general service. Commodity specifications that are too general or too narrow can adversely impact the bid process.

OCA generally accepts department specifications and departmental justification for specialized commodities and sole source goods. OCA requires that departments write out their justification and attach it to the requisition. While OCA's written procedures describe how staff purchasers should review departments' requisitions for commodities or general services, including sole source requests, OCA does not have specific policies for evaluating departments' commodity specifications.

According to interviews, staff purchasers review commodity specifications in the City departments' requisitions, and will follow up with the department on commodity details. Staff purchasers may request departments to make commodity specifications more general, writing the commodity specification based on performance rather than specific vendor attributes.

¹ According to the Library staff, the specified manufacturer, who had provided the original carpeting, was the only manufacturer able to match the dye and construction of the existing carpet the Main Library.

According to a roundtable interview with staff purchasers, the most common cause of negative interactions between OCA and City departments results from disagreements between OCA and departments on the bid award. End users in City departments can develop relationships with certain vendors, favoring these vendors in developing commodity specifications.

Once OCA evaluates the bid responses and selects the vendor with the lowest bid, OCA sends the bid documents to the requesting department for review. If the departments decide that the low bid is not acceptable, they must provide an explanation of why the selected commodity does not meet the departments' needs. Rejecting the low bid results in City departments paying a higher price for commodities provided by the vendor with the second lowest bid.

In Budget Analyst's review of bid documents for 20 one-time purchase orders and term contracts, departments did not accept the low bid in 3 bids.

- In the award of fitness and fitness testing equipment, the Fire Department initially determined that the low bid was acceptable but subsequently determined that the "second low bid contains equipment that is a better equivalent to our specifications". According to Fire Department staff, the requested equipment was funded through a federal grant with specific requirements. The second low bid was \$30,000 higher than the low bid.
- In the award of 24-hour chairs, the Department of Emergency Management rejected the low bid, stating that the department had conducted "extensive research" and determined the specific model of chair required by the department. The selected bid was \$20,000 higher than the low bid.
- In the award of miscellaneous equipment, the Police Department did not accept the lowest bid for helmets because it did not meet safety requirements². The selected bid was \$5,000 higher than the low bid.

OCA relies on the departments' evaluation or testing of commodities specific to the departments' operations.

City Departments Lack Standard Procedures for Determining Commodity Specifications

Generally, City departments lack formal procedures for evaluating commodities and writing specifications. The Department of Public Health has an ongoing Product Evaluation Committee, responsible for evaluating new products, writing product

² The Snell Memorial Foundation is a non-profit organization that independently tests manufacturer's helmets and sets safety standards.

specifications, assessing product safety, and containing costs through review of existing inventory and new supply requests.

No other City department surveyed by the Budget Analyst has a formal product evaluation committee, although the Department of Public Works establishes a committee to review specific products on an as-need basis.³ In some City departments, the department's health and safety unit or a designated individual evaluates specific products for meeting safety standards. Several City departments have subject matter experts review requests for specialized products, including information technology products. Whether City departments evaluate products' cost-effectiveness, no department has formal policies with cost-effectiveness as a criteria.

Bid Discounts for Businesses Located in San Francisco

OCA discounts bids for commodities from businesses located in San Francisco by one percent. The purpose of this discount is to reflect the true cost of bids, based on the amount of sales tax that would be returned to the City.

Under Administrative Code Section 21.C.2, OCA should discount bids from San Francisco vendors according to the tax returned to the City, based on:

- The direct sales tax revenue generated by vendor sales to the City that would be allocated to the City and County of San Francisco, the San Francisco Unified School District, the San Francisco Community College District, or the San Francisco Transportation Authority; and
- The incremental payroll expense tax revenue that would be generated by the vendor sales to the City if the City has jurisdiction to levy the City's payroll expense tax on the vendor.

OCA collaborated with the Controller and Tax Collector in determining the one percent discount in the late 1990s. OCA has not revisited the amount since it was implemented. Because the one percent discount does not necessarily conform to Section 21.C.2, it may undervalue the sales tax benefits of contracting with a San Francisco-located business. As shown in Table 6.2, the current 9.5 percent sales tax is allocated to both local and state purposes.

³ These departments are: (1) Airport, (2) Children, Youth and their Families, (3) Public Works, (4) Emergency Management, (5) Police, (6) Recreation and Park, (7) Juvenile Probation, (8) City Administrator, (9) Human Services Agency, and (10) Municipal Transportation Agency.

Table 6.2
San Francisco Sales Tax Allocation

State for Local Revenue Fund	0.500%
State for Public Safety Fund	0.500%
City General Fund	0.750%
City for Local Transportation Tax	0.250%
Special District: SF Transportation Authority	0.500%
Special District: BART ⁴	0.125%
Special District: SF Public Financing Authority	0.250%
State General Fund	6.250%
Special District: BART	0.375%
Total	9.500%

Although the Administrative Code requires that the Purchaser also consider the indirect tax benefits of the City's payroll expense tax, OCA has not done so.

By not annually reviewing and increasing as appropriate the sales tax allocation for local purposes or evaluating the indirect tax benefits of the City payroll expense tax:

1. The City may be paying too much on some purchases, once returning sales tax is considered; and
2. An undetermined number of bids and term contracts may have been inappropriately awarded to vendors located outside the City when they should have been awarded to vendors located in San Francisco.⁵

According to OCA, in response to the Budget Analyst's finding, the City Attorney advised OCA that the sale tax discount should be increased from 1.0 percent to 1.25 percent.

Conclusion

City departments can reject the low bid for formal commodity bids if the vendor's product does not meet the department's specifications. Neither OCA nor City departments have commodity specification guidelines that ensure that commodities best meeting departments' needs are purchased at the best available price. Although some

⁴ BART Special District Tax is 0.500% with 0.125% allocated to local purposes and 0.375% allocated to non-local purposes.

⁵ Vehicle purchases are an exception to the sales tax error. Because local sales tax revenue, save one percent, is returned to the jurisdiction where the vehicle is registered, regardless of where in California it is purchased, the one percent discount is the appropriate discount.

City departments evaluate commodities for meeting safety standards or other criteria, few departments evaluate commodities for cost-effectiveness.

Also, although the Administrative Code requires OCA to discount bids from San Francisco vendors to incorporate sales tax and payroll tax receipts, OCA's one percent bid discount does not reflect current sales tax or payroll taxes. By not accurately discounting bids for San Francisco vendors, the City departments often purchase from vendors outside of San Francisco, resulting in lost local sales tax revenue from these purchases, in essence overpaying for the commodity purchases.

Recommendations

In order to standardize City departments' development of commodity specifications, the City Administrator should:

- 6.1 Develop commodity specification guidelines for City departments for specialized or technical purchases, in conjunction with the Purchaser.

In order to comply with Administrative Code Section 21.C.2., the Purchaser should:

- 6.2 Annually review and adjust as necessary the sales tax discount in consultation with the City Attorney.
- 6.3 Determine a rate or rates for appropriately discounting City payroll tax expenses in consultation with the City Attorney and Controller.

Costs and Benefits

Implementing these recommendations, which should be achieved through existing resources, would result in an estimated \$185,000 in estimated sales tax revenues by increasing the sales tax discount, thus increasing the number of San Francisco based vendors and associated local sales.

7. Direct Vouchers

- **Direct vouchers are payment requests for commodity purchases that do not encumber the funds to pay for the purchase in the City's financial system, FAMIS. Although the Charter requires funds to be encumbered before goods or services are purchased, City departments may pay vendors through direct vouchers for purchases less than \$200, correct clerical or accounting transactions, or due to exceptions to OCA's purchasing guidelines. In FY 2008-09, City departments generated 8,956 direct vouchers for commodity purchases, totaling \$3,722,077.**
- **City departments sometimes use direct vouchers to compensate for errors in department processes. In a sample of 60 direct vouchers greater than \$200, City departments used direct vouchers in 16 instances because they failed to comply with OCA guidelines. City department staff purchased commodities without issuing purchase orders; did not tell the appropriate managers that invoices or deliveries had been received; or made errors in requisitions, purchase orders, or commodity specifications.**
- **Delays in OCA or Human Rights Commission approval processes for sole source vendors can result in the need for direct vouchers. For example, one department issued a direct voucher for \$122,542 to pay a sole source vendor for routine software maintenance two years after the original invoice in part because the Human Rights Commission's review of the vendor's compliance "extended over a year's term". Another department issued a direct voucher for \$59,589 for the maintenance of software during a time period when the vendor's contract was still awaiting liability insurance, sole source, and Equal Benefits Ordinance waivers. The vendor was the sole service provider for Jail Health Services medical charting software.**
- **OCA should review and address commonly occurring errors in establishing blanket agreements or processing transactions to reduce the need for direct vouchers and ensure that funds are encumbered before commodities are purchased.**

Direct vouchers are payment requests for commodity purchases that do not encumber the funds to pay for the purchase in the City's financial system, FAMIS. According to the Office of Contract Administration's (OCA) procedures manual, all direct vouchers less than \$200 go directly from the department to the Controller's Office, so that the requesting department is responsible for reviewing and approving the transaction, and the direct voucher transaction bypasses OCA. If the direct voucher is for the amount of \$200

or greater, the payment request must be justified by the department in the ADPICS notepad (the City's purchasing system) and an OCA purchaser must review and approve/reject the transaction. If the OCA purchaser approves the direct voucher request, it then goes to the Controller's Office for final review and approval.

According to OCA's procedures manual, the need for direct vouchers can arise under three different situations:

- (a) Generally Approved Uses Under \$200. Such uses include (i) single purchases less than \$200 but not Technology Store or Term Contract purchases; (ii) conference and registration fees; (iii) postage from the Post Office; and (iv) freight bills that are typically below \$200.
- (b) Clerical or Accounting Transactions that Need to be Corrected. Typically, a correction is needed when a purchase order has been closed and invoices pertaining to the purchase order remain to be paid. An error could have also occurred when encumbering funds or making payments. If no error occurred, the purchase order may have been subject to year-end closure.
- (c) Exceptions to Normal OCA Guidelines.

OCA's procedures manual provides that all direct vouchers are initiated in the City's purchasing system, and that the requesting department must fill out all the fields. In addition, all purchases made through the direct voucher mechanism, even those less than \$200, must be made from a vendor that complies with all of the City's administrative and vendor requirements. Further, the procedures manual requires that if the direct voucher is \$200 or more, the request must be justified by the department in the ADPICS notepad and should answer the following questions:

- a) If an error occurred when encumbering funds or making payments, what happened?
- b) If no error occurred, why were services or items obtained without first having a certified contract or purchase order in place, and who authorized this?
- c) Why is the price reasonable, or is it close to a price provided in a competitive process?
- d) What procedures are being implemented by the department to avoid a recurrence?

According to the procedures manual, payment requests made without processing an encumbrance are "to be avoided because the Charter requires that funds be encumbered before goods or services are provided." Charter Section 3.105 states that "no officer or employee shall bind the City and County to expend money unless there is a written contract or other instrument and unless the Controller shall certify that sufficient unencumbered balances are available in the proper fund to meet the payments under such contract or other obligation as these become due." Despite this provision, however, the

direct voucher purchasing mechanism allows City departments to purchase commodities without a purchase order or without first encumbering funds before goods are provided.

In FY 2008-09 City departments issued 8,956 direct voucher requests for commodity purchases, totaling \$3,722,077, of which, 7,470, or 83 percent, were less than \$200, as shown in Tables 7.1 and 7.2 below. The Department of Public Works – Building Repair Bureau generated over 50 percent (or 4,494 out of the total 8,956) of all direct vouchers generated by City departments in FY 2008-09. The commodities that were most frequently purchased through the direct voucher purchasing mechanism were hardware, plumbing, electrical and painting materials.

Table 7.1

Total Number of Direct Vouchers for Commodities Generated by City Departments, By Dollar Threshold, By Fiscal Year

	FY 2006-07	FY 2007-08	FY 2008-09
Number of Direct Vouchers Less than \$200	8,532	8,011	7,470
Number of Direct Vouchers \$200 or More	2,358	1,385	1,486
TOTAL NUMBER OF DIRECT VOUCHERS	10,890	9,396	8,956

Source: ADPICS

Table 7.2

Total Dollar Amounts of Direct Vouchers for Commodities Generated by City Departments, By Dollar Threshold, By Fiscal Year

	FY 2006-07	FY 2007-08	FY 2008-09
Dollar Total for Direct Vouchers Less than \$200	\$808,912	\$786,863	\$739,905
Dollar Total for Direct Vouchers \$200 or More	\$3,293,077	\$2,078,629	\$2,982,173
TOTAL AMOUNT OF DIRECT VOUCHERS	\$4,101,990	\$2,865,493	\$3,722,077

Source: ADPICS

Table 7.3 shows the average, median and maximum amount of direct vouchers for the last three fiscal years, and the number of vendors paid with direct vouchers.

Table 7.3**Average, Median, and Maximum Amounts, and Number of Vendors for Direct Vouchers, By Fiscal Year**

	FY 2006-07	FY 2007-08	FY 2008-09
Direct Voucher Amount Average	\$377	\$305	\$416
Direct Voucher Amount Median	\$119	\$109	\$114
Direct Voucher Amount Maximum	\$100,000	\$330,981	\$409,394
Total Number of Unique Vendors	902	782	719

Source: ADPICS

The direct voucher for \$409,394 in FY 2008-09 was issued by the Department of Parking and Traffic to pay for invoices related to a purchase order that had been closed in the City's purchasing system, which is a valid use of the direct voucher mechanism, per OCA's procedures manual.¹

Justification for Direct Vouchers

City departments use direct vouchers to compensate for errors in department processes. In a sample of 60 direct vouchers greater than \$200 in which the Budget Analyst reviewed the ADPICS notepad screens, 16 direct vouchers or 26.7 percent did not meet OCA guidelines. Although 44 direct vouchers had adequate justification entered into the ADPICS notepad screens (e.g., a blanket purchase order was closed before invoices were paid; mistakes in entering payment information in the system; a vendor changed its name or was given a new vendor number), 16 direct voucher payment requests were exceptions to normal OCA guidelines, resulting from preventable conditions, as described below.

- a) ***Direct vouchers were issued due to a lack of sufficient understanding of the City's procurement process.*** Six direct vouchers in our sample justified the use of direct vouchers due to a lack of sufficient understanding of the City's procurement process. For example, a direct voucher for \$8,626 was issued by a department after receiving materials for an annual event without a purchase order due to the staff's lack of understanding of the procurement process. Another

¹ According to information entered into the notepad screen of ADPICS for this direct voucher, delays in invoice payment occurred because the primary vendor's subsidiary issued the invoice instead of the primary vendor, causing the system to not recognize the vendor's name, and consequently, delays in processing the invoice. Such delays resulted in the purchase order being closed before invoices were paid.

direct voucher for \$4,048 was issued because the staff did not know that he/she needed to set up a purchase order for food for an annual event. Two direct vouchers (one for \$511 and another for \$3,061) were issued by “newly-hired staff” who did not understand the City’s procurement process. One program manager who issued a direct voucher for \$937 was “not aware of procurement procedures prior to placing order.” Another program manager did not check to see if a departmental blanket purchase order had sufficient balance to pay for materials that had been previously ordered, resulting in the need to issue a direct voucher for \$1,107.

- b) ***Direct vouchers were issued due to the lack of adequate communication and coordination within City departments.*** Four direct vouchers in our sample resulted from a lack of adequate communication and coordination within the City department. A direct voucher for \$1,440 was issued because an employee who no longer worked at the department held the invoices and did not inform anyone of the vendor’s pending invoices. Another direct voucher was issued for \$1,322 because a staff member did not inform anyone that he/she had received and signed for a delivery, resulting in the department not knowing about the pending invoice. A direct voucher for \$546 was issued because a temporary supervisor ordered and received labels but never told anyone at the department, and another direct voucher was issued for \$453 because the invoice was “misplaced” at someone’s desk due to “personnel changes.”
- c) ***Direct vouchers were used due to timing and staffing issues.*** Four direct vouchers in our sample were issued due to timing and staffing issues. A department issued a direct voucher for \$59,589 for the maintenance of software as a result of delays in the approval of a departmental blanket contract (e.g., “delays related to the granting of waivers for liability insurance, equal benefits compliance and waivers from the Office of Contract Administration”). A direct voucher for \$10,138 was issued because a division manager issued a requisition that lacked sufficient details, resulting in delays in the requisition processing and delivery of the commodities before the requisition was finalized. One direct voucher for \$1,439 was issued due to delays in setting up and finalizing the departmental blanket. Another department justified a direct voucher for \$4,824 by stating that “as a result of losing its accountant and other organizational changes that occurred, the purchase order was not issued.”
- d) ***Direct vouchers were issued due to mistakes in departmental contract terms:*** Two direct vouchers in our sample were issued due to mistakes in the departmental blanket contracts’ terms or specifications. A department had to issue a direct voucher for \$20,496 because they set up the wrong timeframe for a contract due to “oversight.” Another department set up the wrong specification for a commodity in a departmental blanket purchase order so a direct voucher for \$4,803 had to be issued to purchase the commodity with correct specifications.

Delays in Approving Sole Source Waivers

According to OCA's procedures manual, direct voucher payments cannot be issued to non-compliant vendors, debarred vendors, vendors that do not have a vendor number, or vendors whose business tax is not current. The procedures manual also requires that the requesting department must verify in the City purchasing system (ADPICS) that the vendor is compliant with the City's Business Tax and Equal Benefits Ordinance (or 12B) requirements.

In two direct vouchers, delays in OCA or Human Rights Commission approval processes for sole source vendors resulted in a delayed payment or payment prior to award of a contract.

- One department issued a direct voucher for \$122,542 to pay a sole source vendor for routine software maintenance two years after the original invoice. Although the vendor had begun the process to become compliant with the Equal Benefits Ordinance in 2007, according to the ADPICS notepad the vendor experienced internal delays in becoming compliant and the Human Rights Commission's review of the vendor's compliance "extended over a year's term". Although the original invoice date was January 2007, the Human Rights Commission did not certify the vendor as compliant until December 2008 and the direct voucher was not submitted for payment until January 2009.
- Another department issued a direct voucher for \$59,589 for the maintenance of software during a time period when the vendor's contract was still awaiting liability insurance, sole source, and Equal Benefits Ordinance waivers. The vendor was the sole service provider for Jail Health Services medical charting software.

Direct Voucher Policies and Procedures

As noted above, departments issue direct vouchers because the purchase orders or blanket purchase order releases did not comply with OCA Rules and Regulations, procedure manual, or other OCA guidelines. OCA's procedures manual does not explain "Exceptions to Normal OCA Guidelines" nor provide examples of situations when direct vouchers are or are not appropriate. In the Budget Analyst's sample of 60 direct vouchers, departments used direct vouchers in four commonly occurring instances:

1. City department staff lacked sufficient understanding of the City's procurement process;
2. City departments lacked adequate internal communication and coordination;
3. OCA, the Human Rights Commission, or City department managers contributed to delays in requisition processing, setting up departmental blanket agreements, or approving sole source waivers; and

4. Department managers made errors in establishing department blanket agreement terms or commodity specifications.

OCA should work with the Controller to address commonly occurring errors in establishing blanket agreements or processing transactions to reduce the need for direct vouchers.

Use of Direct Vouchers for Emergency Purchases

OCA needs to revise the procedures manual to define the use of direct vouchers for emergency purchases. The Budget Analyst identified three direct vouchers (out of the 60 direct vouchers in the sample) that resulted from purchases that were considered by the departments as emergency purchases, as described below:

- One direct voucher for \$3,240 was issued to pay for emergency repair expenses for a gate at a City property.
- Another department issued a direct voucher for \$2,005 to pay for an “emergency” upgrade of a software that was needed to recover existing operational records.
- A direct voucher for \$303 was issued by a department because their printer went down and spare parts needed to be purchased immediately.

Determining the \$200 Threshold

The \$200 threshold for direct vouchers was set prior to implementation of ADPICS and was applied to ADPICS when the system was implemented in 1996. According to the Purchaser, OCA believes that the threshold should be increased because many direct vouchers between \$200 and \$1,000 are for shipping charges, taxes, or purchases that should have done through departments’ delegated purchasing authority. OCA and the Controller have previously discussed increasing the direct voucher threshold.

OCA management staff in collaboration with the Controller should determine the most effective threshold for direct vouchers that both (1) streamlines the purchasing approval process and (2) ensures that public monies are being used appropriately.

Conclusions

The direct voucher purchasing mechanism allows City departments to procure commodities and services without first making an encumbrance. Although the Charter requires that funds be encumbered before goods or services are provided, the direct voucher mechanism, as allowed by the Purchaser and the Office of Contract Administration, enables City departments to process payments for commodities and services that have already been ordered and received, without any prior checks of whether funds are available. Although some direct voucher policies and procedures exist, the City currently lacks a more robust set of rules, definitions, and management oversight

that would fully ensure that direct vouchers are used by City departments appropriately at all times.

Recommendations

In order to identify and reduce the misuse of direct voucher payments, the Purchaser should:

- 7.1 Review ADPICS notepad screens for a sample of direct vouchers greater than \$200 (or the established threshold).
- 7.2 Identify commonly occurring errors in establishing blanket agreements or processing transactions that result in direct vouchers, and departments that have frequent use of direct vouchers greater than \$200 (or the established threshold); and incorporate training on purchasing transactions that result in frequent errors or the use of direct vouchers into existing training for City department staff.
- 7.3 Work with the Controller to determine the most effective threshold for direct vouchers that both streamlines the purchasing approval process and ensures that public monies are being used appropriately.
- 7.4 Revise OCA's procedures manual to (a) define "Exceptions to Normal OCA Guidelines", and (b) provide examples for when direct voucher are or are not appropriate.

Costs and Benefits

Implementation of all recommendations should be accomplished using existing resources. The benefits include correcting commonly occurring problems that result in use of direct vouchers, reducing the number of direct vouchers greater than \$200 (or the established threshold) and ensuring that funds are encumbered prior to purchasing commodities.

8. Information Technology Purchasing

- **Citywide planning and purchasing for information technology (IT) supplies has historically been uneven due to the decentralized and short term nature of IT funding. Numerous efforts have been made over the last three years to enhance IT planning collaboration across the City with some progress toward coordinated resource planning.**
- **The Committee on Information Technology (COIT) has initiated departmental IT plans with a review of proposed IT projects. Although the plans provide a framework for citywide IT planning, they are not fully and consistently completed by departments and often do not include performance measures.**
- **The City continues to lack centralized IT equipment inventory management tools despite the 2007 Budget Analyst management audit of City IT practices finding that departments had an inconsistent level of inventory accountability and recommendation that COIT develop citywide policies on maintaining computer inventories and a quality control process to ensure adequate compliance with such policies.**
- **The City also lacks citywide enterprise agreements with large manufacturers of goods and services, such as Oracle, although City leaders have agreed on the need for these agreements. The Controller reported that the City has 40 individual contracts with Oracle and purchased \$17 million in licenses from Oracle over a 10-year period, and recommended that the Director of the Department of Technology convene a four to five person negotiation team to be led by the Department of Technology with a representative from OCA to assist with contract compliance. While four positions were included in the FY 2009-10 budget, the position requisitions have not yet been approved.**
- **The Chief Information Officer (CIO) at the direction of the Mayor initiated a review process of all IT-related purchases to address FY 2008-09 mid-year budget reductions and the Mayor's IT environmental goals. According to the CIO, the review is now "to gather very specific data and information on technology procurements and to identify opportunities for consolidation and standardization." If the CIO continues to review all IT-related purchases, the CIO needs to develop written criteria, establish timelines, provide guidance to requesting departments, and solicit input from COIT and OCA. Additionally, the CIO needs to measure the impact of the CIO-review on the purchasing process, which had not been done at the time of the audit.**

Information Technology Purchasing Background

Information technology commodities are essential for the ongoing operations of City departments and agencies, but also present a large opportunity for cost savings. This is evidenced by the ubiquitous use of information technology in day-to-day tasks as well as by the massive volume of IT supplies purchased throughout the City. The commodity grouping that includes nearly all IT supplies represents the largest percentage of overall commodities purchased in the City by dollar volume (15 percent) and by number of purchase order lines (10 percent).

In FY 2008-09 \$58.5 million worth of IT supplies were purchased throughout the City through approximately 3,400 purchase orders (approximately 9,500 separate purchase order lines). This represents a decrease of 10.5 percent from FY 2007-08 when \$65.4 million was spent on information technology supplies.

IT purchasing is highly concentrated amongst a small group of departments. As shown in Table 8.1 below, 10 departments account for 87 percent of all information technology commodities purchased.

Table 8.1

Amount Spent on Information Technology by Department ¹

Department	FY 2008-09	Percent of Citywide IT Total
Public Health	\$11,188,602	19%
Public Utilities Commission	10,948,503	19%
Human Resources	6,353,335	11%
Technology	6,284,728	11%
Airport	6,283,065	11%
MTA	2,623,358	4%
Public Library	2,252,898	4%
Human Services	1,909,936	3%
Police	1,715,288	3%
Public Works	1,373,441	2%
Top 10 Subtotal	\$50,933,154	87%
All Other Departments	\$7,594,685	13%
Citywide Total IT Purchasing	\$58,527,839	100%

Source: ADPICS Purchase Order Data (Commodity Group 9205 Only)

¹ A large portion of (a) Department of Human Resources funding is related to the department's E-Merge project, and (b) Department of Technology funding is for Citywide information technology projects.

The top five commodities purchased in FY 2008-09 by dollar volume include technical support for personal computer based software and hardware, customized computer software, prepackaged software licenses, personal computer based networking hardware, and maintenance agreements for personal computer based hardware and software. Table 8.2 displays the top 15 IT commodities purchased in FY 2008-09 by dollar volume. Note that these codes are identified by the initiating authorized purchaser, which could be a delegated departmental purchaser or an Office of Contract Administration (OCA) staff purchaser.

Table 8.2**Top Information Technology Commodities Purchased**

Rank	Commodity Titles	FY 2008-09	Percent
1	Personal Computer Support for Hardware and/or Software (Installation and/or Maintenance)	\$9,448,090	16%
2	Mainframe, Mini and/or PC Based Custom Computer Software	7,352,184	13%
3	License Renewal (Prepackaged Personal Computer Software)	6,045,123	10%
4	Personal Computer Based Networking Hardware	5,033,906	9%
5	Personal Computer Hardware/Software Maintenance Agreement	4,614,443	8%
6	Desktop Computer System (PC Based, Packaged)	3,035,882	5%
7	Personal Computer Software (Standard Prepackaged)	2,698,934	5%
8	No Specific ADPICS Commodity Code Identified within IT Commodity Group Code	1,670,495	3%
9	File Server Computer System (PC Based, Packaged)	1,636,179	3%
10	Mainframe Computer Software	1,557,096	3%
11	PC Based Laptop Computer System	1,506,137	3%
12	Mainframe Computer Software License Renewal	1,085,464	2%
13	Personal Computer Hardware Technical Support	894,495	2%
14	PC Based Data Storage Drives	834,251	1%
15	Mini Computer Software	805,258	1%
	Top 15 IT-Related Commodity Codes Subtotal	\$48,217,937	82%
	All Other IT-Related Commodities Purchased	\$10,309,902	18%
	Citywide Information Technology Total	\$58,527,839	100%

Source: ADPICS Purchase Order Data (Commodity Group 9205 Only)

In FY 2008-09 City departments purchased IT goods from 328 individual vendors. Five of the top 10 vendors either have a current term contract through the Technology Store, which commenced on January 1, 2009 or had a term contract through the Computer Store which ended on December 31, 2008. Table 8.3 displays the breakdown of the top 10 vendors of IT equipment to the City including their status as a Technology Store or Computer Store vendor.

Table 8.3
Top Information Technology Vendors

Vendor Name	FY 2008-09	Percent of Total IT Purchases	Technology Store Vendor Status
Xtech	\$11,458,893	20%	Current Vendor
En Point Technologies Sales Inc.	9,370,722	16%	Current Vendor
Oracle USA Inc.	5,443,057	9%	
Ciber Inc.	5,151,089	9%	Former Vendor
Computerland Silicon Valley	3,355,302	6%	Current Vendor
Netsmart New York Inc. ²	2,580,000	4%	
Cornerstone Technology Partners JV	1,602,556	3%	Current Vendor
Moredirect Inc. ³	1,504,434	3%	
Dell Marketing LP	1,209,006	2%	
San Francisco Terminal Equipment Co. LLC ⁴	1,192,796	2%	
Top 10 IT Vendor Subtotal	\$42,867,856	73%	
All Other Vendors	\$15,659,983	27%	
Citywide IT Purchasing Total	\$58,527,839	100%	

Source: ADPICS Purchase Order Data (Commodity Group 9205 Only)

Information Technology Purchasing Structure- Process and Roles

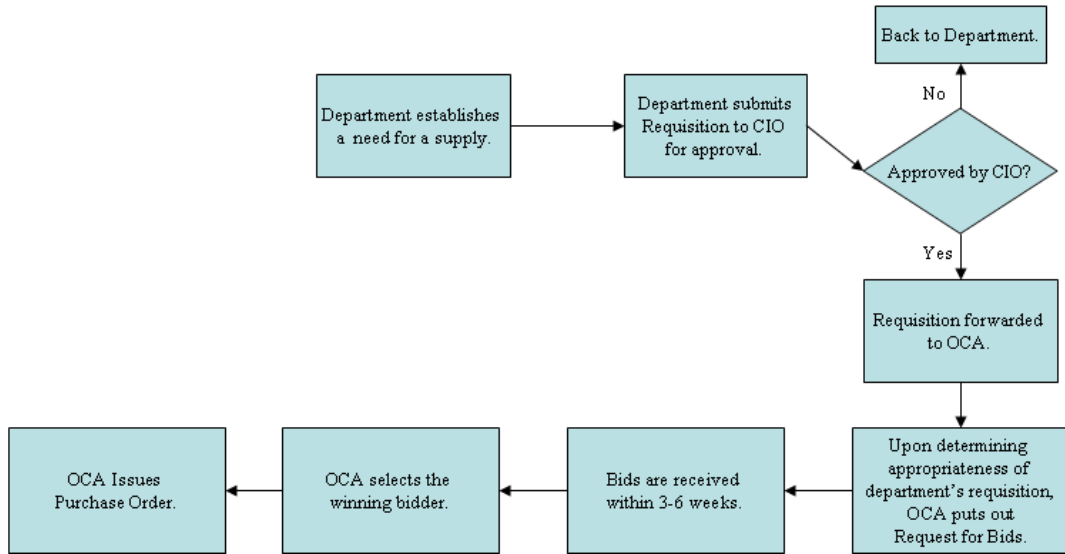
The flowcharts on the following page display the general steps in the IT commodities purchasing process. The first flowchart shows the standard IT purchasing process. The second flowchart depicts the Technology Store purchasing process.

² This vendor has a contract with the Department of Public Health for billing services.

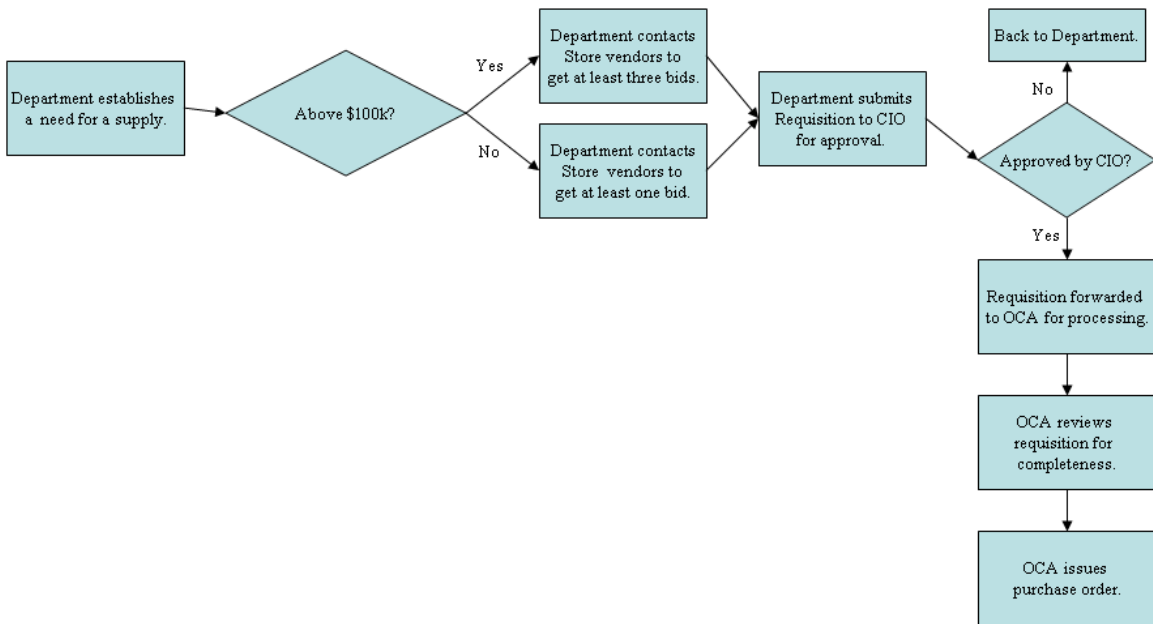
³ This vendor provides services to the Department of Public Health for the Novation purchasing program.

⁴ This vendor has a contract with the airport to provide common use terminal equipment.

Standard Processing for IT Product Requests



Technology Store Processing for Product Requests



The Role of OCA

OCA's role in IT purchasing as seen in the flowcharts above is dependent on whether the purchase request is processed through the Technology Store. OCA plays a smaller role in Technology Store purchases than through the standard purchasing process as Technology Store supplies are procured through pre-approved vendor contracts.

For Technology Store purchases, OCA is initially responsible for setting up the contracts through a formal Request for Proposals process. Once the contracts are set up, OCA's role is to issue purchase orders after reviewing requisitions for completeness. OCA processing generally takes one to five business days once it has received a requisition approved by the Chief Information Officer (CIO). OCA plays a more integral role in purchases outside of the Technology Store by putting out a Request for Bids and selecting the winning bidder. The standard process generally takes four weeks for informal bidding (\$10,000 to \$50,000) and four to six weeks for formal bidding (greater than \$50,000).

The Role of the City's CIO and the Department of Technology

Prior to January 2009, the Department of Technology formally had a role in reviewing all Computer Store purchases over \$10,000. The Department of Technology would generally respond to OCA within two business days.

In January 2009, the CIO, at the direction of the Mayor, assumed greater responsibility for the review and expanded it to all requests regardless of the transaction amount, and began to more actively approve or delay requests. From January through August 2009 OCA would assume that requests had been rejected, and return the requisition to the department, unless they were affirmatively approved within 10 business days. An analysis of requests reviewed by the CIO through July 2009 found that approximately 80 percent of requests had been affirmatively approved.

In July 2009 an approval path was created in ADPICS for the Department of Technology for IT purchases. Under this new process department-approved requests go through ADPICS to the CIO before being reviewed by OCA. Departments are still responsible for sending hard copies of supporting information for each request to the CIO.

The Role of the Committee on Information Technology

COIT initially operated the Technology Store (then known as the Computer Store) from its inception in the 1990s. In 2006 OCA assumed responsibility for managing the Technology Store while COIT's role shifted to focus more on the IT planning and governance rather than the day-to-day management of IT purchases. In the last two years COIT has instituted annual departmental IT Strategic Plans, developed a process to review and approve IT project requests for funding, worked on establishing enterprise agreements to maximize the City's leverage as a bulk purchaser, and assisted with a multi-departmental PC Lease.

CIO Review Process Initiated

In January 2009, at the direction of the Mayor, the CIO initiated a process to review all IT purchases (including professional services). According to the Mayor's directive, the purpose of the review process was to:

“meet a citywide FY 2009 mid-year target reduction and to meet the initiatives detailed in Executive Directive 08-01”.

The initiatives detailed in Executive Directive 08-01 are intended to (1) address the environmental impact of information and communication technology purchases; (2) implement a paper reduction pilot; and (3) reduce energy consumption by the City's information and communications technology.

The new review process lacks written criteria, established timelines, guidance to requesting departments, and input from COIT or OCA. Additionally, there has been no review or measurement of its impact on the purchasing process. Several City managers have stated that the new review has lengthened the purchasing process and in some cases resulted in a quote expiring before a purchase order could be issued, thus requiring departments to initiate new requisitions.

This review process was initiated without input from COIT, which, according to Executive Directive 07-09, is “the official technology governance body for the City and has the authority to develop policy and set the strategic technology vision for the City.” Further, the directive states that COIT should “develop policies and a strategic plan for the City that is supportive of the goals to consolidate, simplify, and optimize technology systems and operations” while the CIO and Chair of COIT “has the authority and responsibility to oversee the implementation of COIT policy for all City departments.”

The new review process was initiated with no stated criteria for how the CIO would determine whether to approve, delay, or reject procurement requests. Further, no explanation has been provided to OCA or requesting departments as to why certain requisitions have been delayed or disapproved. Several departmental managers have stated that this has led to additional confusion as to the purpose of the review.

According to the CIO, the purpose of the review is “to begin to gather very specific data and information on technology procurements and to identify opportunities for consolidation and standardization.” A review of the data collected by the CIO showed that of the 15 data fields with collected information, 12 fields contained data for non-administrative purposes, and 3 fields contained data that might not be readily obtained with the same level of detail from ADPICS. These three fields of new data include:

- Whether the request is grant funded;
- Whether the request is stimulus funded;
- A description of the products being requested.

In addition, the City's Technology Store contracts include a provision that requires Technology Store vendors to report on products and services sold on a monthly basis. Greater collaboration between the CIO and the Purchaser could have resulted in a less intrusive review process if the primary purpose of the review is to collect data on IT purchases. See Section 9 for more information on this requirement.

The data collected since January 2009 by the CIO has not yet been formally analyzed or presented to COIT, nor the Resources Subcommittee.

Information Technology Equipment Planning and Purchasing

Historically, IT planning and purchasing in San Francisco has been uneven due to the decentralized and short-term nature of IT funding as well as the vaguely defined roles of the City's stakeholders. This has resulted primarily in departments developing individual IT functions and systems over time to meet specific departmental needs. As noted in the Budget Analyst's 2007 audit of Information Technology Practices, the consequences of individualized systems development have been (a) inconsistent planning processes, (b) inconsistent project funding, which restricts departments' abilities to develop multi-year plans, and (c) cross-City redundancy in those IT systems and processes which are not department-specific. Over the last three years, there have been numerous efforts to enhance coordination of IT purchasing and planning as described below

Reconstitution of the Committee on Information Technology (COIT)

COIT, the City's official technology governance body, was reconstituted at the end of 2006 after a four year absence. COIT began meeting in late 2006 with four subcommittees forming shortly thereafter to focus on (1) architecture, (2) performance, (3) planning and budgeting, and (4) resource management.

COIT has provided a forum for communication and collaboration across City departments with some progress being made toward greater centralization of IT resource planning. Specifically, COIT has (1) adopted several Citywide policies to standardize hardware and software purchases; (2) drafted a Citywide IT strategic plan which has not yet been approved; (3) inventoried the One Market Plaza data center and plans to inventory other City data centers in order to consolidate the City's data centers; and (4) begun an annualized review of IT related projects across departments.

COIT Review of Departments' IT Plans

Beginning in FY 2006-07 the COIT Planning and Budget Subcommittee began requiring the submission of IT Plans from every department requesting IT project funding. This process was repeated in 2008-09 with the Planning and Budget Subcommittee reviewing 35 department plans. The plans consist of a template with 11 sections that departments fill out, including information on department mission and performance measures, financial and budgeting information, IT projects (future, proposed and approved), and security and business continuity plans, among others.

Although the plans provide a framework for citywide IT planning, they are not fully and consistently completed by departments and often do not include performance measures. A review of 20 FY 2008-09 IT plans found that 9 plans (45 percent) had one or more sections that were left blank while 14 plans (70 percent) had one or more sections with incomplete responses. Additionally, 12 of the 20 plans (60 percent) had no IT performance measures. To provide for effective multi-year planning, IT plans should include specific, quantifiable goals that can be measured against actual outcomes as recommended in the 2007 Budget Analyst management audit of San Francisco's IT practices.

Citywide Enterprise Agreements

For several years establishing enterprise agreements- a single citywide agreement with a vendor- has been identified by City leaders as a key step in reducing costs by aggregating information technology needs from across City departments. In 2008 an interdepartmental workgroup, led by the Purchaser, was convened to move the City forward on creating citywide enterprise agreements with large manufacturers of IT goods and services, primarily focusing on Oracle. The workgroup consisted of representatives from the Department of Technology, the Controller's Office, the Public Utilities Commission, the OCA, and the City Attorney. This workgroup had gathered project goals and requests from departmental chief information officers when the Controller's Office released an analysis of the City's agreements with Oracle.

In its report, the Controller's Office found that the City has 40 individual contracts with Oracle and purchased \$17 million in licenses from Oracle over a 10-year period. The City's expected renewal fees for Oracle licenses in FY 2009-10 are \$3.8 million. To achieve cost-savings, the Controller recommended (1) assess ongoing and future needs for Oracle products among City departments; (2) negotiate a citywide agreement with Oracle; (3) create negotiation guidelines for future Oracle contracts; and (4) consolidate management and administration of current Oracle contracts.

The Controller recommended that the Director of the Department of Technology convene a four to five person negotiation team to be led by the Department of Technology with a representative from OCA to assist with contract compliance. While four positions have been included the FY 2009-10 budget, the Mayor's Office has not approved position requisitions and no additional City staff members have yet been hired to participate in this negotiation team.

IT Equipment Inventory Management

Although COIT has conducted a study of citywide technology equipment and has inventoried the One Market Plaza data center, the City continues to lack policies, procedures, or standards for safeguarding and accounting for computer equipment, or for replacing computer equipment. The 2007 Budget Analyst management audit of City IT practices found that departments had an inconsistent level of inventory accountability and recommended that COIT develop citywide policies on maintaining computer inventories and a quality control process to ensure adequate compliance with such policies. To date, COIT has not established citywide guidelines on inventory management.

Citywide IT Plan

The City's IT leaders such as the CIO, the Committee on Information Technology, and departmental chief information officers are not following a consistent citywide IT plan despite direction from Executive Directive 07-09 for COIT to develop a citywide strategic plan. A proposed citywide IT Plan, drafted with input from departmental chief information officers was presented to COIT in April 2009, but has not been formally approved and implemented. The draft includes several purchasing related implementation plans, including standardizing hardware and software citywide, establishing enterprise agreements, and reforming the City's IT procurement processes.

Conclusions

IT equipment and supplies account for the largest group of commodities purchased by the City and therefore present one of the greatest opportunities for savings. The City's planning and purchasing for IT equipment and supplies has historically been uneven due to the short-term and decentralized nature of funding departments. There have been numerous efforts over the last three years to address this issue with some progress. These efforts have included the reconstitution of COIT, the initiation of department IT plans with a review of proposed IT projects, the initiation of an enterprise agreement workgroup, a study of the City's technology equipment, a draft IT strategic plan, and a CIO review of all IT purchases. However, the City continues to lack an adopted IT plan, IT enterprise agreements with large manufacturers that take advantage of the City's bulk buying power, or an IT inventory management program.

The purpose of the CIO review of IT purchases has morphed from addressing FY 2008-09 mid-year budget reductions and the Mayor's IT environmental goals to gathering data on technology procurements in order to consolidate and standardize these purchases. Continued CIO review of IT requisitions is justified if OCA and the CIO develop procedures for standardizing IT equipment and batching requisitions from multiple departments for volume purchasing, as discussed in Section 4. However, the CIO needs to develop written criteria for reviewing requisitions, establish review timelines, and measure the impact of the CIO-review on the purchasing process.

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Recommendations

In order to provide greater citywide collaboration of IT planning and purchasing, the Director of the Committee on Information Technology should:

- 8.1 Provide more guidance to departments, including clear written guidance, as to how to complete an IT plan and assist departments in developing quantifiable goals within a timeline that the department can check against actual outcomes.
- 8.2. Develop IT inventory policies and standards and present to COIT for approval.
- 8.3. Finalize the citywide IT Plan and present to COIT for approval.

In order to minimize confusion and unnecessary delay to the IT purchasing process, the Chief Information Officer should:

- 8.4. Work with COIT and the Purchaser to develop criteria and timelines for approving, delaying or rejecting IT commodity requests.

Costs and Benefits

Implementation of these recommendations would result in more administrative time spent on improving processes and issuing guidance. However, these recommendations, if implemented, could potentially save millions of dollars in long term costs if they lead to the establishment of multiple enterprise agreements that leverage the City's volume purchasing power.

9. Technology Store Purchasing

- The Technology Store consists of 14 separate as-needed contracts, awarded through a competitive Request for Proposals process, for the procurement of information technology (IT) goods and services. The Technology Store is intended to provide an expedited IT purchasing process for City departments with discounted rates from Technology Store vendors. In FY 2008-09, City departments purchased \$28.1 million in IT commodities through Technology Store vendors, or 48 percent of Citywide commodity purchases of \$58.5 million.
- While the Technology Store is structured to encourage competitive pricing, the controls in place are inadequate to ensure that vendors provide goods at prices consistent with contracted discount rates. OCA does not have a structured review process to verify Technology Store pricing is consistent with contracted rates.
- According to OCA policies, City departments should solicit a minimum of three price quotes for Technology Store commodity purchases greater than \$100,000, but City managers sometimes have trouble receiving three quotes. OCA policy encourages City departments to solicit more than one price quote for Technology Store commodity purchases under \$100,000, but a review of 10 Technology Store purchase orders under \$100,000 found that 8 had only one vendor quote.
- OCA has implemented a pilot program to increase participation of small local businesses in the purchase of information technology supplies, although purchases from these small businesses (Micro Local Business Enterprises, or Micro-LBEs) have been significantly less than the contract not-to-exceed amount. As of June 2009, \$11,913 in commodities had been purchased directly from Micro-LBEs under a pilot program initiated in January 2009. This amount is only 17.9 percent of expected purchases of \$66,667 under commodity contracts with four separate Micro Local Business Enterprises for the six-month period.
- The Administrative Code allows the Technology Store to assess an administrative fee for all purchases. COIT and OCA have not adjusted this fee and the current fee of 1.9 percent of purchase price exceeds OCA's costs for administering the Technology Store by an estimated \$330,000 annually. Further, City departments are charged for OCA purchasing costs, including Technology Store costs, through the City's Cost Allocation Plan, resulting in double-charging for the Technology Store.

Technology Store Purchasing

History and Structure of the Technology Store

In the 1990s the City created what was then known as the “Computer Store” to facilitate the purchasing of IT products. The Committee on Information Technology (COIT) and the Department of Technology operated the Computer Store until August of 2006 when management responsibilities were transferred to the Office of Contract Administration (OCA). In January 2009 OCA changed the name to the “Technology Store” to reflect the need for a wider array of technologies and expertise for the City and expanded opportunities for local businesses.

The Technology Store consists of 14 separate as-needed contracts, awarded through a competitive Request for Proposals process, for the procurement of IT goods and services. The current Technology Store contracts¹ began on January 1, 2009 and are set to run until December 31, 2011. The City has sole discretion to extend the contracts for up to two additional years.

One of the primary benefits of the Technology Store is that it provides an expedited purchasing process for City departments to obtain technology that is essential for day to day operations. Since the contracts have already been approved by OCA, departments can avoid the longer, more complex Request for Bids process. According to the Purchaser, procuring commodities outside of the Technology Store generally takes from four to eight weeks while Technology Store procurements are generally processed by OCA in three to five business days.

Just over 48 percent² of all City money spent on information technology commodities in FY 2008-09 were through the Computer Store or the Technology Store, or \$28.1 million of \$58.5 million. The combined total of goods purchased through the Technology Store (January 1, 2009 through June 30, 2009) and the Computer Store (July 1, 2008 through December 31, 2008) in FY 2008-09 is \$28,154,004. Purchases outside the store tend to be less numerous by transactions, but higher in dollar value. Table 9.1 displays the breakdown of commodities purchased through the Computer Store and the Technology Store in FY 2008-09.

¹ Five of the seven category three vendor (Micro LBE Set-Aside vendor) contracts began on February 1, 2009 while two of the seven began later than February.

² This is a percent of all commodities purchased in the 9205 commodity group.

Table 9.1**Computer Store vs. Technology Store Breakdown in FY 2008-09**

	Commodities Total	Percent of Total
Computer Store Subtotal (Jul.-Dec. 2008)	\$10,688,159	38%
Technology Store Subtotal (Jan.-Jun. 2009)	17,465,845	62%
Total	\$28,154,004	100%

Source: ADPICS Purchase Order Data (All Commodity Groups)

Technology Store Vendors

The contracts for the current Technology Store are divided into three categories: (1) Services and Products; (2) Products Only; and (3) Micro-Local Business Enterprise (LBE) set-aside vendors.³ Table 9.2 displays the breakdown of Technology Store purchases by all three vendor categories. Since these categories were introduced with the new Technology Store contract, the purchases only occurred in the second half of FY 2008-09 (January 2009 to June 2009). Micro-LBE contracts are each limited to \$100,000 thereby limiting the amount that can be purchased from Micro-LBE vendors.

Table 9.2**Technology Store Commodity Purchases By Vendor Category**

Vendor Category	January 2009 to June 2009	Percent of Technology Store Purchases
Category 1 Vendors: Products and Services	\$3,774,801	21.61%
Category 2 Vendors: Products Only	\$13,679,131	78.32%
Category 3 Vendors: Micro-LBE Set-Aside	\$11,913	0.07%
Technology Store Subtotal	\$17,465,845	100%

Source: ADPICS

³ Micro LBEs are a subset of LBEs as defined by the Human Rights Commission (HRC). The criteria HRC uses to define Micro LBEs includes a maximum three year gross annual receipts average of \$3,500,000 for goods/materials/equipment and general services.

Micro LBE Set Aside

The division of contracts into three categories was initiated with the Technology Store contracts in January 2009 to provide more opportunities for local and small vendors to directly compete for business with the City and to more effectively target LBE subcontracting goals. While the second category (Products Only) does not contain subcontracting goals because little is to be gained from subcontracting commodities, the first category (Services and Products) includes LBE subcontracting goals. For the nine-month period from January 2009 through September 2009, City departments had purchased approximately \$1.7 million from LBEs, primarily for IT services.

The third category (Micro-LBE set-aside vendors) is a pilot program aimed at providing micro businesses with an opportunity to directly contract with the City for goods and services. The seven Micro-LBE contracts are each limited to \$100,000 over a period of three years, totaling \$700,000 over three years. Four of these contracts are for products while the remaining three contracts are for maintenance services. According to the Purchaser, OCA will extend these contracts in \$100,000 increments if and when these vendors reach the maximum contracted dollar threshold. .

Currently, Technology Store purchases from Micro-LBE commodity vendors are significantly less than the not-to-exceed amount allowed in the Technology Store contracts. City departments can purchase up to \$400,000 in commodities from four Micro-LBE vendors over a three-year period, equivalent to \$66,667 for the six-month period from January 2009 to June 2009. However, City departments purchased only \$11,913, or 17.9 percent of \$66,667.

According to the Purchaser, OCA has met with the Human Rights Commission and Micro-LBEs to identify ways to increase Micro-LBE participation in Technology Store purchases. In August 2009, OCA began meeting monthly with department IT personnel and Micro-LBEs to introduce them to each other and to discuss City department purchasing from the Micro-LBE contracts.

Technology Store Commodities

As seen in Table 9.3, the most commodities purchased through the Technology Store are computer hardware and software based. Less than two percent of Technology Store commodity purchases consist of other types of commodities.

Table 9.3**Technology Store Purchases By Commodity Group**

Commodity Group Code	Commodity Group Title	Total	Percent
9205	Computer Hardware, Software, Supplies & Support Services	\$27,640,522	98.2%
9125	Publications & Subscriptions; Audio/Visual, Computerized & Printed Media	\$135,811	0.5%
9345	Health & Safety Equipment, Parts, Access, Materials & Supplies	\$123,365	0.4%
9725	Telecommunications Systems, Equipment, Parts, Access, Materials	\$79,529	0.3%
9840	Audio/Visual Systems, Equipment, Parts & Supplies	\$72,882	0.3%
9990	Security Systems, Equipment, Parts, Materials & Surveillance	\$36,838	0.1%
9680	Law Enforcement Equipment, Parts & Supplies; Police, Sheriff	\$24,905	0.1%
9700	Reprographics Equipment, Parts & Supplies (Also Chemicals, Office & Printing)	\$14,815	0.1%
	All Other Commodity Groups	\$25,338	0.1%
Grand Total		\$28,154,004	100%

Source: ADPICS Purchase Order Data (All Commodity Groups)

Technology Store Controls on Vendor Pricing

Although the Technology Store is structured to encourage competitive pricing, the controls in place are not sufficient to ensure that vendors provide goods at prices consistent with contracted discount and mark-up rates. The Technology Store is set up to encourage vendors who are compliant with the City's Equal Benefits and other requirements to compete with one another to provide the lowest price from a variety of manufacturers and purchasing agreements. The mechanisms in place to encourage competitive pricing include the competitive bidding process for Technology Store contracts, a policy requiring a minimum of three bids for purchases over \$100,000, and a preference for more than one bid for purchases under \$100,000. In practice, City managers sometimes have trouble receiving three quotes from Technology Store vendors and there is no structured review process to ensure vendors comply with contracted rates.

While purchasers have performed random spot checks on vendor prices, OCA does not have a structured review program to ensure vendors provide contracted discount and

mark-up rates. Although Technology Store contracts include a clause requiring vendors to provide evidence of the manufacturer's list price or the actual cost of products sold if requested, there have been no audits of purchases to verify pricing. Further, while multiple quotes are encouraged for purchases under \$100,000, there is no tracking to measure the extent to which departments are able to acquire more than one quote. A review of 10 Technology Store purchase orders under \$100,000 found that 8 only had one vendor quote.

Technology Store Administrative Costs Are Not Properly Assessed

The fee structure used to pay for the costs of the Technology Store is inaccurate and redundant. For more than 10 years departments have been charged an administrative fee of 1.9 percent of the total purchase price of commodities and services procured through the Computer and Technology Stores in order to pay for the costs of managing the multiple contracts. This fee amount is higher than what is necessary to cover such costs and is redundant as departments are already charged for these administrative costs through the City's Cost Allocation Plan.

The current administrative fee is too high and has not been managed in accordance with City Code. Section 21.8 of the City's Administrative Code states that the Computer Store administrative fee shall be used solely to pay for actual costs of administering the Computer Store contract for the benefit of City departments. Further, the Code states that

Beginning in Fiscal Year 1999-2000, COIT shall annually review the administrative costs from the previous fiscal year and may reduce the administrative fee to conform to projections of actual administrative costs for the succeeding fiscal year. Any excess funds collected during one fiscal year shall be applied by COIT to reduce the administrative fee in the following fiscal year.

COIT has not adjusted the fee to conform to projections of actual administrative costs. Further, responsibility for the Technology Store was transferred from COIT to OCA in 2006.

A review of the actual administrative costs found that departments are charged approximately \$330,000 more than what is incurred to manage the Technology Store contracts based on personnel costs. OCA has three positions assigned to focus entirely on IT purchases. Table 9.4 shows the approximate maximum amount incurred by OCA to operate the Technology Store.

Table 9.4**FY 2008-09 Technology Store Costs**

FY 2008-09 Salaries	Step 5 Salary With Benefits
1952 Purchaser	\$101,688
1956 Senior Purchaser	123,607
1958 Supervising Purchaser	150,242
Total	\$375,537

Source: FY 2008-09 Annual Appropriation Ordinance

As illustrated in Table 9.4 the purchaser positions assigned to the Technology Store cost a maximum of approximately \$376,000 annually. This is significantly less than the \$601,000 to \$707,000 raised in recoveries from the administrative fee in the last three fiscal years.

Technology Store Costs Accounted for in City Cost Allocation Plan

Technology Store administrative costs are assessed to departments in a redundant manner. According to the Controller's Office, the Technology Store administrative fee revenues were not offset in the City's Cost Allocation Plan⁴. Therefore, City departments are being charged for Technology Store costs through general citywide cost allocations as well as through the 1.9 percent administrative fee. The administrative costs of the Technology Store should be recovered in an accurate and non-redundant manner.

Conclusions

The Technology Store provides an expedited process for City departments to purchase information technology commodities from vendors who are fully compliant with City vendor requirements. While the Technology Store is structured to encourage competition, OCA does not have sufficient controls in place to ensure that Store vendors comply with contracted discount and mark-up rates. Specifically, there is no structured audit program of Computer or Technology Store vendors to verify that prices are provided at contracted rates.

⁴ According to the Controller's Office, the Technology Store administrative fee is included as an "offset" or reduction to the respective departments' expenditure allocation charges for the Countywide Cost Allocation Plan (COWCAP) A-87 in accordance with the federal Office of Management and Budget (OMB) Circular A-87. For the City's Full Cost Plan, which allocates overhead costs to City departments and programs and is based on budgeted rather than actual expenditures, the Technology Store administrative fee is not offset.

The fee structure in place to recover the administrative costs associated with operating the Technology Store contracts is inaccurate and redundant. The Administrative Code stipulates that the administrative fee charged on all Technology Store purchases should only cover actual administrative costs and that the Committee on Information Technology should review the fee on an annual basis. In practice, the Committee on Information Technology has not adjusted the administrative fee and does not at present manage the Store. It may no longer be appropriate for COIT to be responsible as management of the Technology Store has shifted to OCA. As a result of the lack of reviews, the fee is set at a rate that brings in more revenue than is necessary to cover actual administrative costs. Further, the fee is a redundant method for recovering costs of Technology Store purchases as departments pay for the costs through the City's Cost Allocation Plan.

OCA has implemented a pilot program to increase participation of small local businesses in the purchase of information technology supplies, although purchases from these small businesses (or Micro Local Business Enterprises, or Micro-LBEs) have been significantly less than the contract not-to-exceed amount. As of June 2009, \$11,913 in commodities had been purchased directly from Micro-LBEs under a pilot program initiated in January 2009. This amount is only 17.9 percent of expected purchases of \$66,667 under contracts with four separate Micro Local Business Enterprises for products for the six-month period.

Recommendations

In order to create a structured control to ensure that Technology Store vendors are providing the appropriate discount and mark-up rates, the Purchaser should:

- 9.1 Institute a program of periodic audits of Technology Store vendors, as proscribed in Appendix A of the Technology Store contracts.

In order to ensure that the Technology Store administrative fee only covers actual Technology Store administrative costs, the Director of the Committee on Information Technology, the Purchaser, and the City Administrator should:

- 9.2. Recommend to the Board of Supervisors that (1) Administrative Code Section 21.02 be amended to transfer responsibility for the Technology Store from COIT to OCA, and (2) Administrative Code Section 21.8 be amended to transfer responsibility for review of the Technology Store administrative fee to the City Administrator.

AND the City Administrator should:

- 9.3. Set up an annual review process, consistent with the Administrative Code, to set the administrative fee at a rate that covers actual administrative costs of managing the Technology Store contracts.

AND the Controller should:

- 9.4. Review the City's Cost Allocation Plan to ensure that it does not include costs already covered by the funds collected through the administrative fee charged on all Technology Store purchases.

Costs and Benefits

Implementation of these recommendations would result in a modest increase in administrative time spent on improving processes and implementing stronger controls. However, Recommendation 9.1, if implemented, would ensure that City departments receive the discounted pricing rates that vendors are obligated to provide.

Implementation of Recommendations 9.2, 9.3, and 9.4 would reduce the nominal costs to City departments of approximately \$330,000 per year for purchasing from the Technology Store by (a) reducing the administrative fee to OCA's actual administrative costs, and (b) eliminating allocation of the same charges through the City's Cost Allocation Plan. However, the City would not achieve overall savings because actual costs and recoveries would be reassigned rather than eliminated.

10. Vehicle Management and Procurement

- **Fleet management affects the demand and procurement of vehicles in the City. The City maintains a total of 1,645 vehicles across five independent vehicle fleets. The City's Director of Fleet Management oversees approximately half of this fleet, with the remaining vehicles under the independent fleet management of the SFMTA, Port, Airport, and the PUC. While the five fleet managers do meet regularly with one another, vehicle fleet management is inconsistent across the City. In 2009, a vehicle fleet consultant found various shortcomings in the City's fleet management and procurement practices.**
- **Vehicle replacement policies and practices are either absent or insufficient. Four of the five fleets have fleet replacement thresholds, though only two fleets have developed actual written replacement policies. Although deferred replacement exacerbates vehicle maintenance costs, only one of the City's fleets is factoring maintenance costs into its vehicle replacement decision making.**
- **The Director of Fleet Management charges General Fund departments a flat annual fee for each general purpose vehicle assigned to that department. This annual lease fee includes the cost of regular maintenance and repair, which are provided by Fleet Management, as well as a contribution to a vehicle replacement reserve. Cumulatively, however, the vehicle replacement reserve contribution is only sufficient to fund replacement of a vehicle when it is approximately 20 years old. This replacement rate lacks both economic and ecologic justifications.**
- **The City's fleet management practices are not in full compliance of the City's Administrative and Environmental Codes. Divisions are not adhering to transit promotion as noted by the City's Transit-First Policy. At least four departments are in violation of the City's Administrative Code take-home vehicle requirements, and the Department of the Environment has not produced annual cost-benefit reports required by the City's Environment Code. As a result of these shortcomings, the City underutilizes its transit infrastructure; increases the likelihood of abuse of the City's take-home vehicle policy; and requires aggressive and expensive clean air requirements without a full understanding of the costs and benefits.**

Introduction

The City of San Francisco currently owns approximately 6,344 vehicles, including 4,859 specialized vehicles (public safety and heavy duty vehicles) and 1,645 general purpose vehicles (including cars, vans, sport-utility vehicles, and light-trucks¹). Specialized vehicles are managed by each department, whereas general purpose vehicles are managed under five independent fleets: one fleet for each of four enterprise departments – Port, Public Utilities Commission (PUC), Airport, and Municipal Transportation Agency (SFMTA) – plus a pooled fleet for all other departments.

All general purpose vehicles operated by General Fund departments are under the control of the General Services Agency’s Director of Fleet Management pursuant to Section 4.10-1 of the San Francisco Administrative Code:

All general purpose vehicles owned, leased or rented by the City and previously assigned to, or placed under the jurisdiction of, any officer or department of the City are hereby transferred to the jurisdiction of the Director of Administrative Services. (added April 18, 2003)

Of the 1,645 general purpose vehicles, 764, or 46 percent, are under the jurisdiction of the Director of Fleet Management. These vehicles are leased to General Fund departments annually at a lease cost of between \$1,940 and \$2,777 per year, depending on the type of vehicle. This annual lease fee includes the cost of regular maintenance and repair, which are provided by the Fleet Management, as well as a contribution to a vehicle replacement reserve. This reserve is calculated to enable replacement of approximately 5 percent of the vehicles in the program, per year. The Port, PUC, Airport, and SFMTA each has their own independent fleet managers, who have jurisdiction over the remaining 881 general purpose vehicles, or 54 percent of the City’s fleet.

This section of the report discusses the City’s vehicle fleet management practices for general purpose vehicles as they relate to the use of existing vehicles and that portion of the procurement process which relates to deciding when to replace such vehicles. Section 11, *OCA’s Role in Vehicle Purchasing*, discusses the remaining portion of the procurement process.

The Procurement Process

All departments requesting to purchase a new vehicle, either to replace an existing vehicle or to expand the fleet, purchase that vehicle through OCA. A simplified summary of the entire vehicle procurement process is provided below.

¹ The term “light-trucks” refers to trucks with a Gross Vehicle Weight Rating (the maximum weight of the vehicle, including cargo and passengers, at which the vehicle can safely operate) of 10,000 pounds or less. This definition would include, for example, the Ford F-150 and F-250 trucks, but exclude the F-350.

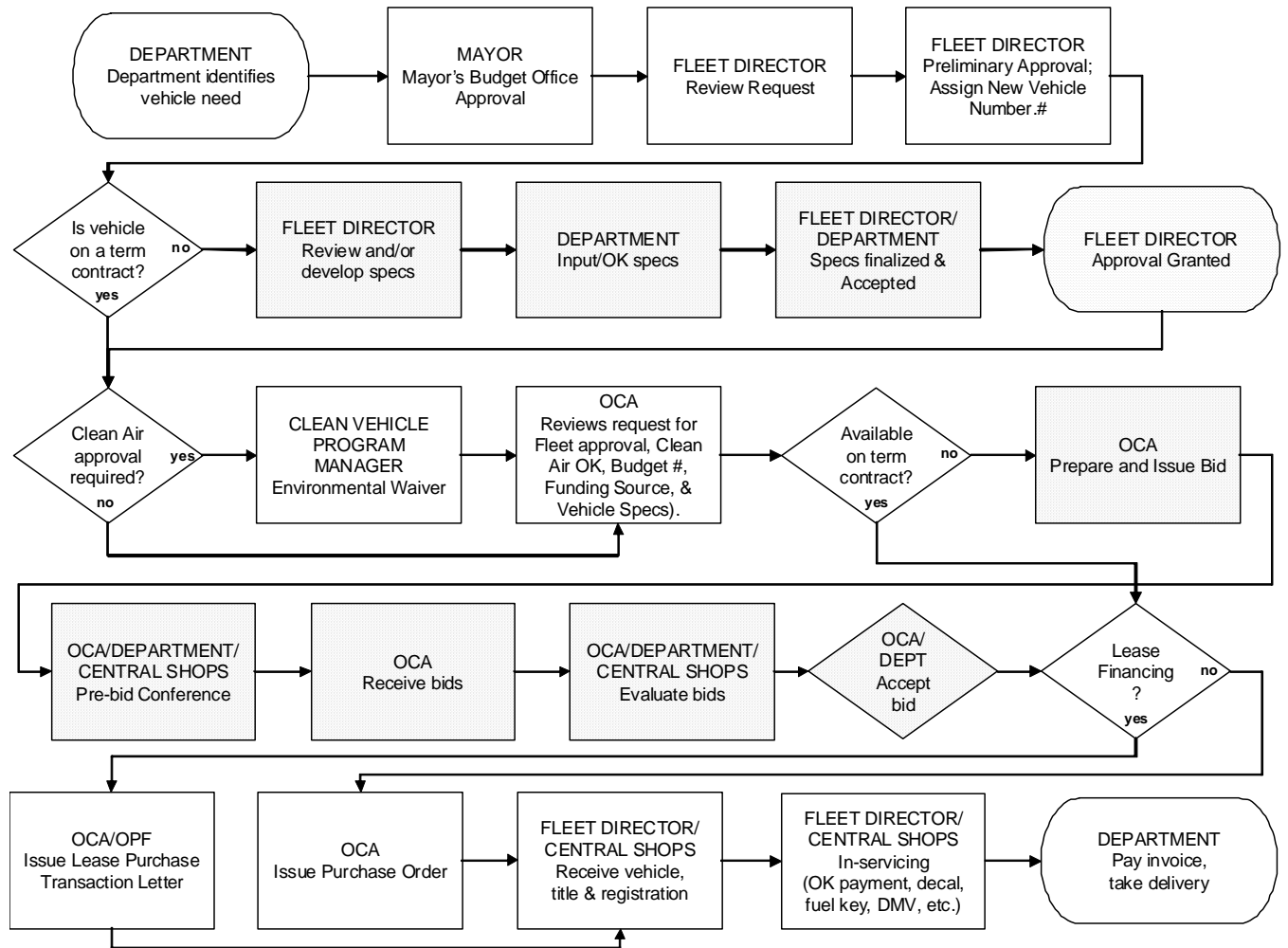
1. The requesting department requests funding for a new vehicle in their annual budget request submitted to the Mayor. The Mayor's proposed budget is then subject to revision and approval from the Board of Supervisors.
2. The requesting department seeks approval from the Director of Fleet Management for the purchase, who evaluates the request based on (a) the viability of the vehicle proposed to be replaced (if a replacement), (b) the type of vehicle required to do the needed work (in the case of an additional fleet vehicle), and (c) the technical appropriateness of the requested options or trim levels.
3. If a vehicle does not meet the environmental standards² required by the Department of Environment, the department must request a clean vehicle waiver from the Clean Vehicles Program Manager. The Clean Vehicles Program Manager will consider such a waiver if no commercially available alternative fuel vehicle would meet the duty requirements as described by the requesting department, or if the cost of procuring a clean air vehicle is greater than 150 percent of the cost of the standard vehicle equivalent and the requesting department meets additional requirements.
4. Assuming approval is granted in the previous steps, the requesting department enters the requisition into the City's purchasing system, ADPICS, and submits copies of vehicle specifications (make, model, trim, and options) and previously granted approvals to OCA.
5. The Senior Purchaser in charge of vehicle procurement reviews the requisition, clarifies specifications as needed in cooperation with the department, and evaluates the request for appropriateness, requiring justification for any unusual options or trim upgrades.
6. The appropriate vendor is selected from an existing term contract. In the absence of a term contract, OCA facilitates the competitive bid process (see the Vehicle Purchasing Authority section below).
7. For vehicles purchased with cash, the Senior Purchaser issues a purchase order to the vendor which was awarded the contract. For vehicles purchased through debt financing, OCA and the Office of Public Financing issues a lease purchase transaction letter to the vendor (see Vehicle Financing section below).
8. The vehicle is then delivered to the City, approved, and payment is issued.

² The Department of the Environment considers a vehicle with a smog score of at least 9 and a global warming score of at least 8, as scored by the California Air Resources Board, to meet environmental standards.

A detailed flow chart of the procurement process is provided in Figure 10.1 below.

Figure 10.1

Flow Chart of Vehicle Procurement Process



Source: Director of Fleet Management, OCA, and Department of Environment.

Note: Gray steps are not required when utilizing a term contract.

Procured Vehicles

The City is currently without a comprehensive fleet management system. ADPICS does not provide an accurate description of the procured vehicle and does not include vehicles purchased through debt financing. For internal operational management purposes, the vehicle procurement team at OCA maintains logs of all vehicle purchases, which we believe to be the most comprehensive and accurate list of vehicles the City has purchased. Table 10.1, below, summarizes the City's light-duty³ vehicle purchases for the past three fiscal years.

Table 10.1
Number of Light-Duty Vehicles Purchased by Department
and Vehicle Type
FY 2006-07 to FY 2008-09

Vehicle Description	FY 2006-07	FY 2007-08	FY 2008-09	Total
By Department				
General Services Agency Fleet				
District Attorney	2	2	0	4
Dept. of Building Inspection	7	0	0	7
Dept. of Public Health	1	4	0	5
Dept. of Public Works	13	28	2	43
Dept. of Technology	0	8	0	8
Dept. of Emergency Management	0	1	0	1
Fire Dept.	31	15	0	46
General Services Agency	26	0	0	26
Library	1	0	0	1
Police Dept.	51	33	49	133
Recreation and Parks Dept.	6	27	6	39
Sheriff	8	13	7	28
Subtotal	146	131	64	341
Independent Fleets				
Airport	22	28	56	106
Municipal Transportation Agency	22	55	75	152
Port	2	7	1	10
Public Utilities Commission	46	26	28	100
Subtotal	92	116	160	368
Total	238	247	224	709

³ Light duty vehicles include sedans, sport utility vehicles, motorcycles, three-wheel vehicles, vans, and light-trucks used for both civilian and public safety duties assignments.

Table 10.1 (cont.)

Vehicle Description	FY 2006-07	FY 2007-08	FY 2008-09	Total
By Vehicle Type				
3-Wheel Parking Enforcement Vehicle	20	20	26	66
Light Truck	64	86	65	215
Motorcycle	15	0	19	34
Sedan	104	71	88	263
SUV	7	28	15	50
Van	28	42	11	81
Total	238	247	224	709

Source: Supervising Purchaser's Vehicle Logs

Vehicle Purchasing Authority

Section 21.1 of the Administrative Code requires all commodities be procured through a competitive solicitation process. Vehicles are purchased pursuant to four types of competitive processes, as described below and shown on Table 10.2 on the next page.

1. **Term Contracts:** In March of 2008, subsequent to a competitive bidding process, OCA awarded two two-year term contracts to various vendors for 195 of the most common vehicles.⁴ As described above, should a department require a vehicle which is available under a term contract, OCA may issue a purchase order for that vehicle without conducting a new competitive process.
2. **Bid:** If a vehicle is not available under a term contract, OCA issues a request for bids. OCA issues the bid award only after consulting with the department.
3. **Previous Bid within 12 months:** Administrative Code Section 21.3(g) allows for the purchase of additional quantities of commodities which were purchased subject to the bidding process described above, so long as those additional quantities are purchased within 12 months of the original award.
4. **Other Public Agency Bid:** Administrative Code Section 21.16(b) allows OCA to utilize the competitive procurement process of another public agency.

⁴ The total of 195 vehicles includes different configurations of the same model vehicle as different vehicles, and is consistent with OCA's process of having a unique competitive bidding process for each of the 195 unique vehicle configurations under a term contract.

Table 10.2**Number of Light Vehicles Purchased by Authority and Fiscal Year**

Authority Type	FY 2006-07	FY 2007-08	FY 2008-09	Total
Term Contract	0	168	112	280
Bid	139	74	70	283
Previous Purchase	99	0	38	137
Other Agency Bid	0	5	0	5
Authority Not Described ⁵	0	0	4	4
Total	238	247	224	709

Source: Supervising Purchaser's Vehicle Logs

Vehicle Financing

The City finances vehicles through either debt or cash. Enterprise departments pay cash for vehicles while General Fund departments pay either cash or debt. Debt financing is facilitated through the Office of Public Finance's Lease Revenue Bond Equipment Finance Program.

During the preparation of the Mayor's proposed budget, the Director of Public Finance and the Mayor's Budget Office determine the maximum amount of Lease Revenue Bond Equipment Finance Program debt the City should issue in the upcoming fiscal year, considering the impact of such debt on the long-term financial wellbeing of the City.

Vehicles cannot be financed through the Lease Revenue Bond Equipment Finance Program if either (a) inclusion of such a vehicle would increase the debt amount above the recommended maximum amount or (b) the vehicle is less than \$20,000 in value or excessively customized. The City must pay for vehicles meeting these criteria in cash.

Of the 706 vehicles purchased in FY 2006-2007 through FY 2008-2009, 120, or 17 percent, were financed through the Lease Revenue Bond Equipment Finance Program.

Mercury Associates' 2009 Fleet Management Assessment

The Director of Fleet Management commissioned the fleet management consulting firm Mercury Associates, Inc. to study the City's fleet management practices. Mercury Associates published their findings in two reports: "Fleet Management Best Practices Assessment," issued on February 27, 2009; and "Final Report on Truck and Equipment Utilization," issued on August 5, 2009. Although focused on the broader topic of fleet

⁵ The Supervising Purchaser's Vehicle Logs did not provide data regarding the authority under which some vehicles were purchased. Further analysis in ADPICS showed that this was due to data entry errors, not lack of proper authority.

management, several of Mercury Associates' findings and recommendations address the City's vehicle procurement practices. In its "Overarching Strategic Observations," Mercury Associates included the following:

- "Ineffective replacement practices and an old fleet;"
- "Stovepipe operations and poor coordination between organizations in some areas;"
- "Poor information systems and lack of usable management information;"
- "Weak central policies leading to a lack of uniformity in fleet operations;" and

One of Mercury Associates' "Key Findings" was that the City does not have a standard selector list, which has led to fleet model creep.

The Fleet Management Best Practices Assessment noted that "the methods used to acquire and dispose of vehicles and equipment directly impact fleet performance and cost." Further, "Organizations should design their acquisition processes to balance fleet users' transportation and mobility needs with economies derived from a) volume purchasing and b) standardization of vehicle types."

Take Home Vehicle Policies

The City's Administrative Code Section 4.11(b) prohibits use of City vehicles for transportation to or from an individual's place of residence, unless it meets one of four guidelines. In practice, departments reporting take-home vehicles note two main reasons (*italics added by the Budget Analyst*):

Sec. 4.11(b)(1). The employee resides in or both resides and works outside of the City and County and is on call for work after his or her normal workday is completed and the nature of the work has required the use of a City and County vehicle after hours on at least five occasions in the preceding 12-month period; or

Sec. 4.11(b)(4). The employee is a member of the San Francisco Police Department or San Francisco Sheriff's Department, or an employee of the San Francisco Water Department (*i.e., the Public Utilities Commission*), San Francisco Department of Public Works, San Francisco Department of Emergency Services, San Francisco Office of Citizen Complaints or San Francisco District Attorney's Office, and has the prior written permission of the department head to use a vehicle equipped with emergency equipment for such purpose, subject to such restrictions and regulations as the Chief of Police, Sheriff, Director of Emergency Services, Director of the Office of Citizen Complaints or District Attorney may provide for the respective departments. The departments shall keep detailed records of all vehicles used pursuant to this paragraph; said records shall be open to inspection by the Office of the Mayor and the Board of Supervisors; and provided further that the number of vehicles so exempted shall not exceed (*the amounts noted in Table 10.3 below*).

Table 10.3**Department Emergency Take-Home Vehicle Allowances**

San Francisco Public Utilities Commission	42
San Francisco Police Department	33
San Francisco Sheriff's Department	5
San Francisco Department of Emergency Services	2
San Francisco Department of Public Works	17
San Francisco Office of Citizen Complaints	4
San Francisco District Attorney's Office	8
Total	111

Source: San Francisco Administrative Code Section 4.11.b

Additionally, the Administrative Code permits City vehicles to be taken home by on-call forensic pathologists with the Office of the Medical Examiner or by City employees who are garaging vehicles at their homes.

The City last amended Administrative Code Section 4.11(b) on March 19, 2004, adding the District Attorney's Office to the list of allowable departments, with an allocation of eight vehicles. Administrative Code Section 4.11(c) prescribes a financial penalty for employees who violate the take home policy.

Vehicle Fleet Management Practices

The City's fleet management practices impact the demand for replacement vehicles. This section includes findings based on data provided by various departments during investigation of the procurement process, as well as selected findings from the Mercury Associates report.

Vehicle Replacement Policies Are Inconsistent and Unguided

The City does not have a standard citywide replacement policy, nor are fleet managers required to establish such a policy. The Director of Fleet Management has not established a replacement policy for the GSA fleet. The PUC and Airport are the only fleets with written replacement policies. While the SFMTA and Port report having generally understood replacement thresholds, the SFMTA's replacement of non-fare-revenue vehicles is determined primarily by available funding. A summary of the fleets' replacement practices can be found in Table 10.4, below.

Table 10.4**Summary of San Francisco City Fleet Replacement Policies**

Department	Vehicle Type	Threshold for Replacement	Written Policy?	Notes
GSA	General Service	None	N/A	The Director of Fleet Management has not developed a replacement policy for GSA vehicles.
Port	All vehicles	10 years	No	Prior to recent budget cuts, the replacement threshold was reportedly 7 years.
Public Utilities Commission	Sedans and pickups	100,000 miles	Yes	Replace sooner if maintenance costs are “considerably higher” than similar vehicles. New policy as of 2009.
	Daily-use Trucks	100,000 miles or 10,000 operating hours		Replace sooner if maintenance costs are “considerably higher” than similar vehicles; retain if sufficient benefits are identified. New policy as of 2009.
	Heavy Off-road Equipment	5,000 to 7,000 operating hours		Replace sooner if maintenance costs are “considerably higher” than similar vehicles; retain if sufficient benefits are identified. New policy as of 2009.
Airport	Sub-compact Car	6 years or 75,000 miles	Yes	Policy enacted in 2001.
	Compact car and ¼ Ton Light Truck	7 years or 75,000 miles		
	½ to ¾ Ton Truck	9 years or 100,000 miles		
	Patrol Cars	3 years or 100,000 miles		
SFMTA	Non-fare revenue vehicles	10 years	No	Due to budget constraints, department reports that available funding has dictated vehicle replacement.

Source: Various interviews.

None of these vehicle replacement policies are based on a cost-benefit analysis of purchasing new fuel-efficient vehicles versus the repair, maintenance, depreciation, and fueling needs of older vehicles. Mercury Associates asserts that the City is replacing vehicles too infrequently, noting that the City’s fleet, with an average vehicle replacement age of 20.6 years, is 167.5 percent older than their recommended average replacement age of 7.7 years. Furthermore, Mercury Associates found that the City’s understanding of its fleets’ needs is limited: “(the City) literally does not know when specific types of vehicles and equipment should be replaced in order to minimize their total cost of ownership. Such knowledge should be the foundation for making asset replacement decisions.” In its summary of industry best practices, Mercury Associates noted:

Replacement guidelines by type of asset should be used to project and plan for future fleet replacement requirements and to trigger assessments of the need to replace individual assets whose age and/or life-to-date usage is approaching established guidelines. Replacement guidelines should be developed based on an analysis of the relationship between asset age and/or cumulative usage and total capital and operating costs. Ideally, guidelines for all asset types that comprise a significant portion of the units in the fleet should be developed based on empirical analysis of cost data unique to each fleet owner.

Various City laws clearly note the preference for a thorough consideration of costs and benefits in vehicle purchases. Section 21.03(e)(2) of the Administrative Code authorizes OCA to consider the lifetime vehicle cost in its purchasing decisions:

In evaluating vehicle purchase requests, the Purchaser is authorized to consider the price, durability, fuel efficiency, resale value, expected repair and maintenance cost, and all other factors, including options and accessories that may among other considerations enhance the safety and resale value of the vehicle and that bear directly on the total cost to the City of the vehicle in relationship to the service it will render.

Beginning in 2003, Section 406(j) of the Environment Code requires an analysis similar to the cost benefit analysis recommended above, applied to alternative fuel vehicles:

Not later than September 1 of each fiscal year, the Director shall submit to the Mayor and the Board of Supervisors a report which includes a summary of motor vehicles and motorized equipment purchased or leased by City departments. Such report shall include a comparison of (i) the annualized projected maintenance and fueling costs for each type or class of motor vehicle and motorized equipment purchased or leased pursuant to this section, (ii) the estimated annualized maintenance and fueling costs for vehicles and motorized equipment that would otherwise be purchased or leased.

The Department of the Environment has never produced the annual report required under Environment Code Section 406(j). According to the Department, budget reductions led to a staffing cut that has left the Department unable to produce the annual report. The Department reports it is working to remove this reporting requirement from the Environmental Code. Absent this reporting requirement, City codes do not require systematic review of vehicle lifetime vehicle costs or alternative fuel vehicle costs.

The Director of Fleet Manager, in conjunction with the independent fleet managers and the Department of the Environment, should perform cost-benefit analyses in order to determine the economically optimal point to replace each type of vehicle, taking into consideration the costs of replacement, maintenance, repair, depreciation, and fuel, and develop a City-wide replacement policy. This policy, and the estimated costs and benefits of implementing such a policy, should be presented to the Board of Supervisors for review and approval.

Fleet Management Practices Do Not Follow Transit-First Policies

Neither the City nor the individual fleets maintain policies or guidelines restricting vehicle use when alternatives to automobiles are present. Only the SFMTA claimed to restrict staff use of light-duty vehicles for attending meetings within the City.⁶

These programs excluded, the shortage of policies or guidelines that either encourage transit use or restrict vehicle use is contrary to the City's Transit-First Policy. City Charter Section 8A.115 requires all departments to implement 10 principles "in conducting the City and County's affairs." Three of these principles relate directly or indirectly to City employees' personal and professional demand for City vehicles. The relevant principles listed in Section 8A.115(a) include (emphasis added):

2. *Public transit, including taxis and vanpools, is an economically and environmentally sound alternative to transportation by individual automobiles.* Within San Francisco, travel by public transit, by bicycle and on foot must be an attractive alternative to travel by private automobile.
9. The ability of the City and County to reduce traffic congestion depends on the adequacy of regional public transportation. *The City and County shall promote the use of regional mass transit* and the continued development of an integrated, reliable, regional public transportation system.
10. The City and County *shall encourage innovative solutions to meet public transportation needs wherever possible* and where the provision of such service will not adversely affect the service provided by the Municipal Railway.

Promoting alternative transportation, through incentives or restrictions, would reduce the wear and tear on existing vehicles, therefore reducing the cost of vehicle maintenance, the frequency of replacement, and/or the need for a certain number of vehicles. Although the Department of Environment, OCA, and the Director of Fleet Management have been successful in requiring alternative fuel replacement vehicles, they have not developed requirements or recommendations for fleets regarding transit use.

In order to encourage transit and other alternative transportation use while reducing the economic and environmental costs of City vehicle use, as noted in Administrative Code Section 8A.115(a), the Department of the Environment should work with the City's fleet managers to develop guidelines for appropriate vehicle use while promoting the use of regional mass transit and other innovative solutions as an alternative to City vehicle use.

⁶ Although it does not have a restrictive policy, the PUC does encourage alternative vehicle use during the workday. It maintains a total of six bicycles divided by two sites for its staff to use during the workday. PUC also provides elective vehicles for staff use within the Oceanside Water Pollution Control Plant.

Non-Standardized Vehicle Models Increase City Costs

The City's five independent fleets host a wide array of vehicle make and models, even in the same vehicle class. Among its key findings, Mercury Associates observed, "there is no standard selector list, which has led to fleet model creep." For example, over the past three complete fiscal years, departments have received procurement approval for five types of hybrid sedans: Honda Civic, Chevy Malibu, Toyota Camry, Ford Fusion, and Toyota Prius.⁷

In its summary of best vehicle acquisition practices, Mercury Associates noted that vehicle procurement processes should "balance fleet users' transportation and mobility needs with the economies derived from a) volume purchasing and b) standardization of vehicle types."

The procurement of various models in the same vehicle class has at least four cost implications. The first and obvious cost impact is the price differential between these models: the term contract price for a Toyota Camry is \$24,665 compared to the Toyota Prius term contract price of \$20,950. Second, increased model diversity requires both increased expertise on the part of the City's maintenance crews and increased inventory costs from maintaining replacement parts for multiple vehicle types. At least one of the fleet managers expresses frustration with not being able to maintain a more unified parts shop, and that the status quo adds costs, complexity, and time to vehicle maintenance. The third additional cost is the time required by OCA to secure a term contract for multiple vehicles (four of the five hybrid sedans noted above are under the same term contract; the fifth hybrid sedan required a separate bidding process). Lastly, diverse fleet options make pooling purchase orders or securing bulk purchase discounts more difficult if not outright impossible.

There are situations where rigid fleet standardization requirements are inappropriate, such as the use of undercover police cars or when the preferred model is unavailable. Furthermore, it is the opinion of the City Attorney's Office that the City's competitive purchasing requirements preclude OCA or from bidding only on specific models; rather, the City must issue proposals based on vehicle specifications, and any model that can meet those specifications must then be considered on a cost-of-purchase basis. Excluding those situations, model standardization would decrease City costs.

While the Mayor has requested that departments standardize where possible, the City has not established policies or guidelines for implementing this request. The City does not have a list of preferred models for a given vehicle type. However, as noted above, according to Section 21.03(e)(2) of the Administrative Code, "the Purchaser is authorized to consider the price, durability, fuel efficiency, resale value, *expected repair and*

⁷ Specifically, each requisition had, at a minimum, been approved in the annual budget and received the requisite approval from the Director of Fleet Management. Ultimately, only three hybrid sedan models have been purchased, but this narrowing of model type was not due to any apparent standardization efforts.

maintenance cost, and all other factors ... that bear directly on the total cost to the City of the vehicle in relationship to the service it will render” (emphasis added).

The City has taken some steps toward standardizing vehicle specifications, such as standardizing the color of new general purpose vehicles to white in order to encourage vehicle sharing between departments and reduce costs associated with unnecessary custom painting work.

The independent fleet managers, in coordination with the City Attorney’s Office, should cooperatively decide on a model standardization plan that provides sufficient flexibility for departments to meet their vehicle needs while considering the long term benefits of standardization.

Low Lease Rates Encourage General Fund Departments to Keep Unneeded or Underutilized Vehicles

As discussed above, the Director of Fleet Management leases vehicles to general fund departments on an annual basis for a fee of \$1,940 to \$2,777 per year (\$167 to \$231 per month). This lease fee is intended to cover the annual maintenance and repair costs of the vehicle, as well as fund a replacement reserve. The current lease rates allow for the replacement of only 5 percent of the leased vehicle fleet in any given year, such that the entire fleet would have an expected age of 20 years and an average fleet age of 10 years old, well beyond the recommended average age of 7.7 years as discussed above. The City does not have economic or ecologic analysis supporting this 5 percent replacement rate.

These low lease fees provide departments with an incentive to retain unused or underused vehicles. In its “Final Report on Truck and Equipment Utilization for the General Services Agency,” Mercury Associates recommended that the City dispose of 73 underutilized general purpose vehicles used by General Fund departments. This recommendation suggests that General Fund departments are indeed holding on to underutilized leased vehicles.

The low fees also have led to the current situation where the Director of Fleet Management does not have sufficient revenue to replace worn-out vehicles. Under the current arrangement, the GSA only replaces a general purpose leased vehicle when the Department purchases the vehicle from its budget, assigns that vehicle to the Director of Fleet Management, then pays the annual lease fees for use of the vehicle they just purchased. From the Department’s perspective, there is a clear economic incentive to not purchase a new vehicle, and let the burden of maintaining a car which is past its optimal replacement point fall to the maintenance budget of the General Services Agency.

In order to discourage departments from retaining unused or underused vehicles, the Director of Fleet Management should increase the annual vehicle leasing fees to reflect the true cost of ownership such that the replacement reserve is sufficiently funded, and

replacement vehicles for general fund departments are purchased solely through such funds.

More City Employees Are Taking Home Vehicles Than Are Permitted

As noted in “Vehicle Take Home Practices,” above, Administrative Code Section 4.11(b)(4) permits “vehicle(s) equipped with emergency equipment” to be taken home. This provision pertains only to certain departments and specifies the maximum number of allowable vehicles.⁸

As shown in Table 10.5, the Police and Sheriff’s Departments, the PUC, and the District Attorneys Office have more employees taking home vehicles than are permitted under Administrative Code Section 4.11(b)(4). Additionally, the SFMTA reported 24 take-home vehicles for emergency response purposes, although the Administrative Code does not allocate any take-home vehicles to that department. In total, City departments have permitted at least 222 emergency take-home emergency vehicles, which is 100.0 percent more than the 111 take-home vehicles that are permitted under Administrative Code Section 4.11(b)(4).

Table 10.5

Allowable Take Home Vehicles versus Actual Take Home Vehicles

Department	# of Permitted Take-home Emergency Vehicles	Actual # of Take-home Emergency Vehicles	# Take-home Emergency Vehicles Above Allowed Amount
Public Utilities Commission	42	63	21
Police Department	33	85	52
Sheriff's Department	5	19	14
Department of Emergency Services	2	1	0
Department of Public Works	17	12	0
Office of Citizen Complaints	4	1	0
District Attorney's Office	8	17	9
Municipal Transportation Agency	0	24	24
Total	111	222	120

Source: Administrative Code; Director of Fleet Management; PUC Fleet Manager.

While departments have reportedly made progress in culling the amount of City vehicles taken home, the City’s managers should continue to scrutinize the City employees’ vehicle take home practices. Where abuse of the take-home policy is determined,

⁸ As is also noted above, the City last amended Administrative Code Section 4.11(b) on March 19, 2004 to allow the District Attorney’s Office eight vehicles. It was the first such amendment since 1997.

department fleet managers should require employees to provide financial reimbursement to the City, as prescribed in Administrative Code Section 4.11(c). Furthermore, in order to provide necessary vehicles and employee flexibility while managing City assets, the fleet managers should work to lower take home vehicle use to numbers allowed by the Administrative Code. Alternately, if the fleet managers have determined that such reductions are untenable, they should work with the City Attorney's Office to adjust Administrative Code Section 4.11(b) to bring the City back into compliance.

Conclusions

San Francisco's vehicle fleet is old, on average, and that age is costing the City in excessive repair, fuel, and depreciation costs. These problems are compounded because the City's vehicle fleet is decentralized across five independent fleets and the City does not have basic fleet management tools. Low lease rates encourage General Fund departments to keep unneeded or underutilized vehicles. Further, over use of take home vehicles and the absence of policies requiring employees to use public transportation rather than vehicles may be accelerating the need for replacement vehicles.

The Budget Analyst finds that although the City has made recent efforts to improve demand management and vehicle procurement practices, the City's fleet managers and Purchaser should take additional steps to create City-wide fleet management policies.

Recommendations

In order to create a younger and more efficient City-wide vehicle fleet, the Director of Fleet Management should:

- 10.1. Work with the other fleet managers to develop a comprehensive City-wide, vehicle replacement policy that incorporates Mercury Associates' "Fleet Management Best Practices Assessment" recommendations for (a) vehicle use data collection; and (b) a business plan for reducing the average age of the vehicle fleet.
- 10.2. Present a Citywide vehicle replacement policy prior to April 30, 2010.

In order to achieve compliance with the City's Transit-First Policy, the Director of the Department of the Environment should:

- 10.3. Work with the other fleet managers and the DOE to develop (a) a City-wide policy that promotes alternative transportation, and (b) creative alternatives to single vehicle use.

In order to reduce maintenance costs and achieve purchasing efficiencies, the fleet managers should:

- 10.4. Work with OCA and the City Attorney's Office to cooperatively decide on an actionable vehicle model standardization plan that balances necessary flexibility with improved efficiency.

In order to discourage hoarding or underuse of vehicles in General Services Departments while providing for sufficient vehicle replacement funding, the Director of Fleet Management should:

- 10.5. Develop a GSA general pool vehicle leasing fee that passes on the true cost of vehicle purchase and maintenance on to departments.

In order to bring take-home vehicle practices in line with the Administrative Code, the Director of Fleet Management should:

- 10.6. Enforce penalties accorded 4.11(c) against employees who are taking vehicles home in violation of City policies.

- 10.7. Work to lower take-home vehicle use to numbers allowed by the Administrative Code;

or

Work with the City Attorney's Office to amend Administrative Code Section 4.11(b) to adjust the allowable number of take-home vehicles to a number that satisfies both departmental and Fleet Management needs.

Costs and Benefits

Because vehicle replacement has been forestalled throughout the City, creating a younger fleet will require investments that will be partially offset by reduced vehicle rental, maintenance, and gasoline costs. However, the exact costs and benefits are both beyond the scope of this report and are indeterminable given City's fragmented fleet management software and the limited data. Enacting a comprehensive and sustainable vehicle replacement policy can help prevent future vehicle need backlogs and prevent spikes in vehicle and maintenance needs.

Required vehicle purchases can be offset by the retirement and non-replacement of some vehicles if the City can effectively curb vehicle demand by (a) increasing City employee use of public transit, and (b) passing the true cost of vehicles and vehicle replacement onto City departments. Further, enhanced understanding of the costs and benefits of the City's investment in clean air vehicles may help identify more cost-efficient vehicles that would allow the City to achieve its air pollution reduction goals. Standardizing vehicles would not likely impact costs but could help achieve cost and staff time savings.

11. OCA's Role in Vehicle Purchasing

- **The vehicle procurement process is slow. Once OCA receives a vehicle requisition, OCA takes an average of 87 days to issue a vehicle purchase order. Because the City purchases vehicles that are not available in vendor inventories, the vendor must order the vehicles from the manufacturer, with an expected delivery wait time of 90 days. With an average purchase order issuance wait of 87 days under term contracts, plus delivery wait time of at least 90 days, the total time between OCA's receipt of a requisition and the City's receipt of the vehicle under a term contract is approximately 177 days or approximately 6 months. Long processing times increase costs to the City because they increase the requesting departments' use of rental vehicles and older vehicles with higher fuel, repair, and depreciation costs.**
- **Slow processing of vehicle requisitions is due, in part, to inadequate OCA staffing, as vehicle requisitions are processed by only one purchaser who has a number of other duties. In order to reduce processing times, the Purchaser should increase the number of staff assigned to vehicle purchasing during periods of the year with the greatest number of vehicle requests (March through May and/or November through January). The Purchaser should also establish performance standards in order to measure processing times and identify possible obstacles to expedite issuing purchase orders.**
- **Also, OCA is not taking full advantage of their term contracts. Under the Administrative Code, if a vendor fails to deliver a vehicle under a term contract at the contract price, and the City must procure another vehicle outside of the existing term contract at a higher price, the City may charge the difference between the term contract price and the actual purchase price to the term contract vendor.**
- **A targeted sampling of 8 requisitions revealed at least two instances of a vendor not honoring the term contract price. In the first instance, OCA, in conjunction with the requesting department, issued a new bid, and eventually purchased six alternate vehicles at a total cost of \$6,690 more than they would have paid under the term contract. In the second instance, OCA, in consultation with the requesting department, cancelled the purchase order because the vendor was unable to deliver the vehicle. In neither case did OCA pursue penalties pursuant to Section 21.33 of the Administrative Code.**

The focus of this section is the Office of Contract Administration's (OCA's) role in the vehicle procurement process. OCA is the lead department guiding the process once the requesting department has input the requisition into the City's purchasing system, ADPICS. This portion of the process is explained in Steps 5 through 8 of the simplified summary of the vehicle procurement process, described in Section 10, *Vehicle Management and Procurement*, and provided below:

5. The Senior Purchaser in charge of vehicle procurement at OCA reviews the requisition, clarifies specifications as needed in cooperation with the department, and evaluates the request for appropriateness, requiring justification for any unusual options or trim upgrades.
6. The appropriate vendor is selected from an existing term contract. In the absence of a term contract, the Senior Purchaser facilitates the competitive bid process.
7. For vehicles purchased with cash, the Senior Purchaser issues a purchase order to the vendor which was awarded the contract (or in the case of a debt financed vehicle, a lease purchase transaction letter is issued instead of a purchase order).
8. The vehicle is then delivered to the City, verified by the City that the delivered vehicle is exactly what was ordered, and payment is issued.

Purchase Order Processing Times

Once a requesting department has input its vehicle requisition into ADPICS, it is OCA's responsibility to work with the department and outside vendors to issue a purchase order. Between FY 2006-2007 and FY 2008-2009, OCA took an average of 87 days to issue purchase orders, though this time lapse varied from a low of 0 days to a maximum length of 253 days. Table 11.1, below, shows the average processing times, for each of the various competitive award processes, across 255 unique purchase orders for light-duty vehicles.

Table 11.1

**Average Days¹ Between Receiving a Requisition and Issuing a Purchase Order for Light-Duty Vehicles by Purchasing Authority Type
FY 2006-07 through FY 2008-09**

Purchasing Authority Type	Number of Requisitions	Average Days to Issue Purchase Order²
Term Contract	131	88
Bid	89	98
Previous Purchase	31	51
Other Agency Bid	1	53
Authority Not Described ³	3	100
Total	255	87⁴

Source: Supervising Purchaser's Vehicle Logs

OCA's time in issuing a purchase order compounds the length of time departments must usually wait for an approved vehicle. Because the City purchases vehicles that are not available in vendor inventories, the vendor must order the vehicles from the manufacturer, with an expected delivery wait time of 90 days.⁵ With an average purchase order issuance wait of 87 days under term contracts, plus delivery wait time of at least 90 days, the total time between OCA's receipt of a requisition and the City's receipt of the vehicle under a term contract is approximately 180 days or 6 months.

OCA Takes Too Long To Process Requisitions

OCA has the most control over the time it takes to issue purchase orders for vehicles available under term contracts, because these purchases do not require a new bidding process. These requisitions are processed in an average of 88 days, as shown above.

¹ Throughout this section, processing times are measured in calendar days, not week days.

² In order to better measure OCA's responsibility for processing times, the Supervising Purchaser introduced new data fields into the FY 2008-09 vehicle log to track when (and if) OCA rejects a requisition for lack of detail and/or approvals and when the department resubmitted that same requisition with the needed detail and/or approvals. Reducing the overall processing time by this period of rejection reduced the average processing time in FY 2008-09 from 85 days to 80 days, a reduction of 5.8 percent. The figures in Table 11.1 do not include any adjustment for this period, as data was only available in FY 2008-09 and an adjustment of 5.8 percent would not alter any of the findings in this report.

³ The Supervising Purchaser's Vehicle Logs did not provide data regarding the authority under which some vehicles were purchased. Further analysis in ADPICS showed that this was due to data entry errors in the Logs, not lack of proper authority.

⁴ 87 days represents the weighted average of processing times for purchase orders of all authority types.

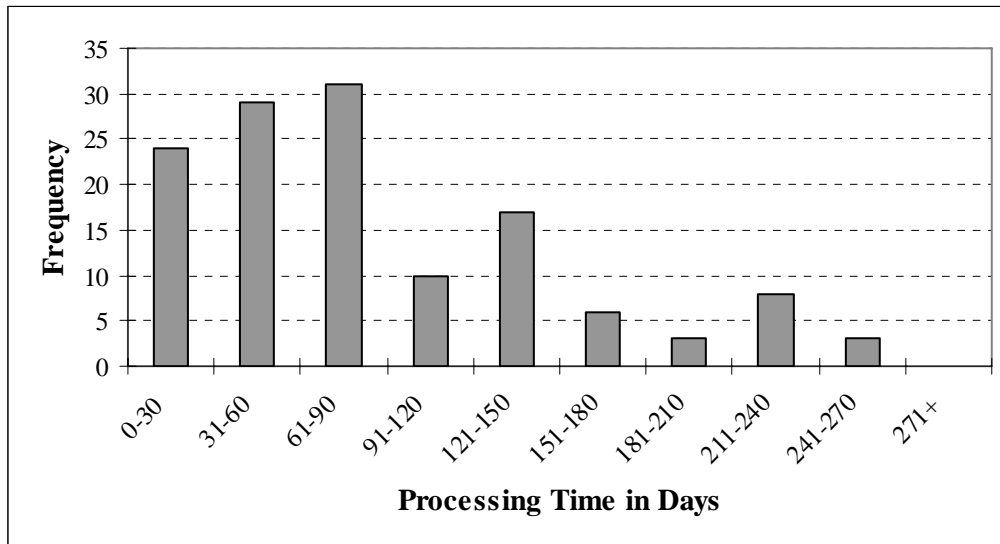
⁵ The delivery times vary by vendor, with most having delivery deadlines between 60 and 120 days from the receipt of a purchase order.

By March of 2008, subsequent to a competitive bidding process, OCA awarded two two-year term contracts⁶ to multiple vendors for the City's most common types of vehicle purchases in order to reduce procurement times while still providing competitive pricing. The City has purchased 280 vehicles through these term contracts.

While the pricing provided by the term contracts would seem to be competitive,⁷ the 88 day requisition processing time was only 10.2 percent less than the average 98 day processing time for requisitions which must go out to bid. While a 10.2 percent improvement is substantial, the processing times are highly unpredictable, ranging from zero to 253 days. This volatility reduces some of a department's incentive to purchase vehicles under a term contract instead of going out to bid.

Figure 11.1 below shows the frequency distribution of processing times for term contract requisitions, categorizing such requisitions into 30 day processing time intervals.

Figure 11.1
Frequency Chart of Processing Times for 131 Term Contract Requisitions



Source: Supervising Purchaser's Vehicle Logs

⁶ Term Contract 72303 for clean air vehicles was awarded to the lowest bidding vendor for 53 vehicle models (notably 34 of those vehicles were bid on by only one vendor). Term Contract 72501 for conventional fuel trucks and vans was awarded to the lowest bidding vendor for 142 vehicles (with 81 awarded to the single bidder).

⁷ Comparing the City's term contract prices to the State of California's term contract prices for a small sample of common vehicles suggested that the City's term contract prices were consistently lower. However, the State of California contract includes both discounts for multiple vehicles and shipping to Los Angeles and Sacramento where the City contract does not include multiple vehicle discounts and assumes shipping to San Francisco; therefore an exact comparison is not possible.

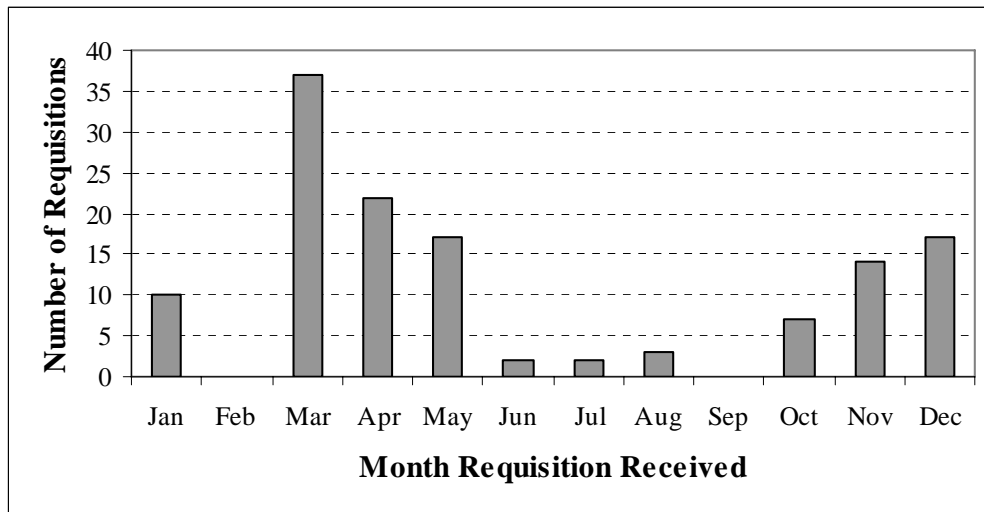
In addition to volatility in processing times, Figure 11.1 illustrates that there is nothing inherent to requisition processing that requires 88 days, because OCA is able to process 18.3 percent of its requisitions within 30 days. In fact, of the 24 requisitions processed within 30 days, 6 requisitions, or 25.0 percent were processed within 7 days.

The Supervising Purchaser in charge of vehicles agrees that processing times are too long. The Purchaser attributes long processing times to the staffing limitations, as does Mercury Associates who recommended the hiring of an additional purchaser. Currently only one purchaser is assigned part-time to processing the vehicle requisitions analyzed above. In addition to procuring light-duty vehicles, that purchaser procures heavy-duty vehicles which were not analyzed in this audit, establishes term contracts for vehicle parts and servicing, and spends one day per week doing non-vehicle related requisitions for the GSA's central maintenance shop.

The seasonality of requisitions may also play a part in unpredictable processing times. Figure 11.2 below shows that the majority of the 131 term contract requisitions are received in the spring. This may be due to OCA sending a reminder to departments in March that only requisitions received in March will be processed by the end of the fiscal year.

Figure 11.2

Frequency Chart of 131 Term Contract Requisitions, by Month



Source: Supervising Purchaser's Vehicle Logs

Long processing times increase costs to the City because they increase the requesting departments' use of rental vehicles and older vehicles with higher fuel, repair, and depreciation costs.

In order to reduce processing times, the Purchaser should increase the number of staff assigned to vehicle purchasing during periods of the year with the greatest number of vehicle requests (March through May and/or November through January). The Purchaser should also establish performance standards in order to measure processing times and identify possible obstacles to quicker purchase order issuance.

OCA Review of Vehicles Options Is Redundant

As described above in Step 5, the OCA Senior Purchaser reviews vehicle purchase requests for excessive options or upgraded trim levels. Although unnecessary options or trim levels would be a wasteful use of City resources, several departments conduct a similar review prior to OCA's receipt of a vehicle request.

Administrative Code Section 21.03(e)(2) authorizes, but does not require, OCA to review vehicle options. From a practical standpoint, options must be noted in any bid or purchase order preparation, but OCA is not mandated to scrutinize options for appropriateness. OCA currently only reviews some cost factors as authorized in Section 21.03(e)(2), including options, accessories, and price. However, OCA does not review other cost factors authorized under Section 21.03(e)(2), including durability, fuel efficiency, resale value, and expected repair and maintenance costs which are also authorized.

Before OCA receives a vehicle request, several departments review vehicle requests, including vehicle options and trim levels: the requesting department's fleet and finance staff, the Mayor's Budget Office, and the Office of the Budget Analyst, and the Director of Fleet Management. Given that the department fleet staff and the Director of Fleet management provide qualified reviews of technical appropriateness of requested vehicle options and trim levels, and that the Director of Fleet Management is one of three independent controls on excessive requests, vehicle options are well-scrutinized prior to OCA's review.

Because the Director of Fleet Management provides an independent and qualified review which is redundant to OCA's subsequent review, the City Administrator should determine which entity is accountable for the review of the overall appropriateness of requested vehicle options and trim levels and memorialize such a determination in writing.

Other OCA Issues

Payment Discounts Are Undervalued

Bids submitted to the City contain terms regarding payment, with vendors having the option of including discounts for prompt City payment on deliverables. When evaluating the bid price, OCA reduces the proposed price by the offered percentage discount, provided that the discount applies to payments made at 30 days or longer. However, OCA limits this price adjustment during bid evaluation to 2.0 percent in order to avoid

situations in which bidders offer large discounts in hopes that the City is unable to remit payment within 30 days and must then pay full price.

By limiting the consideration of purchasing discounts to 2.0 percent during bid evaluation, the City is undervaluing the opportunity to save money on its vehicle purchases. Furthermore, limiting the discount to 2.0 percent is addressing the risk of slow payment processing by removing the incentive to vendors to offer quick payment discounts rather than actually working to improve payment times.

The Budget Analyst recommends that the Purchaser, in cooperation with the requesting departments and the Controller, determine the payment period which can be reasonably expected and revise the current discount for payment term discounts to be unlimited so long as the discount is offered within such a reasonably expected payment period.

Vendors Are Not Honoring Term Contract Prices

According to Section 17 of the City's existing term contracts and Section 21.33 of the Administrative Code, if a vendor fails to deliver a vehicle under a term contract at the contract price, and the City must procure another vehicle outside of the existing term contract at a higher price, the City may charge the difference between the term contract price and the actual purchase price to the term contract vendor.

A targeted sampling of requisitions revealed at least two instances of a vendor not honoring the term contract price. In the first instance, OCA, in conjunction with the requesting department, issued a new bid, and eventually purchased six alternate vehicles at a total cost of \$6,690 more than they would have paid under the term contract. In the second instance, OCA, in consultation with the requesting department, cancelled the purchase order. In neither case did OCA pursue any penalties pursuant to Section 21.33 of the Administrative Code.

Notably the actual cost of vendors failing to deliver on their term contracts extends beyond the premium paid above the term contract price. If a vehicle under term contract is no longer available, the department and OCA must then go out to bid, a process that involves additional staff time and delay of vehicle delivery.

Without an exhaustive requisition by requisition review of OCA, it is not possible to determine the extent which term contract awardees are not honoring the terms of their contracts because OCA does not compile this information as part of a formal vendor evaluation process. To date, OCA has not collected any penalties under Section 17 of the City's term contracts. While it may be within OCA's discretion not to do so, no guidelines exist to evaluate whether or not to waive the City's right to collect reimbursement.

To avoid the additional costs and delays associated with nonperforming term contract vendors, the City Purchaser should establish a review process to determine whether or not to pursue any remedies as they relate to vendor non-performance.

Conclusions

The vehicle procurement process is slow. This is due to limited staff coverage, redundant review processes, and delivery wait-time. These delays increase City costs in both vehicle pricing and staff costs. Aside from processing times, OCA is undervaluing available discounts and not collecting penalties from vendors who fail to honor their contracts, further increasing vehicle costs and delays.

The Budget Analyst finds that although the City has made recent efforts to improve vehicle procurement practices, the City's fleet managers and Purchaser should take additional steps to make the City's vehicle procurement processes more effective and efficient.

Recommendations

In order to hasten the vehicle purchasing process, the Purchaser should:

- 11.1. Establish performance standards in order to track issuance times and identify possible obstacles to quicker purchase order issuance.
- 11.2. Assign additional staff resources to vehicle procurement during peak vehicle ordering periods (historically spring).

In order to reduce redundancy in requisition review and thereby hasten the vehicle purchasing process, the City Administrator should:

- 11.3. Determine whether the Director of Fleet Management or OCA should review the technical appropriateness of requested vehicle options and trim levels, and memorialize the accountability in writing.

In order to take advantage of available discounts, the Purchaser should:

- 11.4. Work cooperatively with requesting departments and the Controller in order to determine a reasonable expectation for payment processing times.
- 11.5. After determining such reasonable processing times, OCA should remove the 2 percent limit on discount adjustments during the bid evaluation so long as the offered discount would occur within the reasonably expected payment period.

Costs and Benefits

Accelerating OCA's requisition processing times would benefit the City by encouraging departments to purchase vehicles under term contracts which have competitive prices, reducing usage of rental vehicles by departments during vehicle delivery wait times, and replacing aging vehicles closer to the economically optimal time (thereby reducing fuel,

repair, and maintenance costs). Only the recommendation to increase OCA vehicle procurement staffing levels during the peak requisition season would have a direct cost to the City, with an estimated annual cost of up to \$54,719.⁸ All other recommendations regarding the acceleration of requisition processing times, all of which should be achievable with existing resources.

Full recognition of available discounts from bidding vendors could decrease vehicle expenditures at no cost to the City.

Developing criteria regarding the collection of penalties from vendors who fail to deliver on the term of their contracts would modestly increase revenue to the City by the amount of the penalties collected, as well as provide an incentive for vendors to comply with the terms of their contracts. Developing such criteria would have no cost to the City.

⁸ A Purchaser job class 1952 has a top salary of \$79,222 in FY 2009-2010. Assuming a fringe benefit rate of 38.14 percent, the total annual cost for a Purchaser is \$109,437, or \$54,719 for a 0.5 full-time equivalency position. The use of temporary workers or a reallocation of existing resources would cost less.

12. Department of Public Health Inventory Controls

- San Francisco General Hospital (SFGH) and Laguna Honda Hospital (LHH) receive “just-in-time” deliveries of medical supplies and pharmaceuticals, in which the authorized distributor delivers orders within 12 hours. This reduces the need to maintain large storeroom inventory and the resulting over stocking of supplies.
- Nonetheless, the potential for overstocking and wastage of medical supplies on SFGH’s clinical units exists. Although the Hospital’s Department of Nursing has policies to limit stockpiling of supplies on the clinical units, the Materials Manager does not currently review many clinical unit purchases and never inventories informal stockpiles of medical supplies. Clinical unit staff can directly order from vendors up to \$300 per day and clinical unit managers can directly order up from vendors to \$3,000 per day without Materials Manager approval.
- SFGH and LHH pharmacy inventory controls are largely informal. Par levels for drugs stored in the pharmacies are not specifically defined, and according to pharmacy staff, neither hospital has sufficient staff or computer capacity to maintain close count of pharmaceutical par levels. Pharmacy staff at both SFGH and LHH check pharmacy inventory daily by “experience and eyeballing.”
- Although pharmacy staff check unused medications to ensure that the medication is not expired or damaged, and credit the unused medication against the respective patient’s account, neither Hospital inventories returned medications.
- SFGH’s inpatient and outpatient pharmacies send daily requisitions for stock medication to the storeroom. Although department policy requires that these requisitions contain specific entries, such as the current stock level, vendor’s reorder number (or vendor sticker), the date of the request, and initials of the staff person making the request, at least one of these required entries was missing in seven of a sample of nine requisitions. Further, the requisition form does not require either a readable name or telephone number of the person responsible for completing the requisition or an approval or authorization signature.

The Materials Managers are responsible for managing medical supply inventory at SFGH (SFGH) and LHH (LHH). The Directors of Pharmaceutical Services are responsible for managing pharmaceutical inventory at their respective hospitals.

Managing Medical Supplies Inventory

The SFGH and LHH Materials Management units serve as the center for ordering, receiving, and storage for most hospital inventory.

Inventory and Stocking

Both SFGH and LHH storerooms stock back-up inventory for the clinical units. Storerooms receive their stock daily according to the just-in-time system, in which the distributor delivers supplies on a daily basis within 12 hours of order placement. According to the SFGH and LHH procedures, Materials Management staff are to stock inventory at established par levels, or target quantities based on historical usage, to ensure sufficient available supplies without overstocking.

Neither Hospital has a documented protocol for evaluating and revising par levels.

- SFGH maintains inventory par levels in automated handheld inventory devices that link to the Hospital's automated materials management system. SFGH first entered par levels into the handheld inventory devices in 1997, and when the Hospital converted from the prior automated materials management system, MATKON, to the current Pathways Materials Management (PMM) system in 2008, the par levels were automatically transferred from MATKON to PMM. According to the SFGH Materials Manager, although Materials Management staff will look at par levels when they identify a problem, the Hospital does not have a regular schedule or written procedure for evaluating par levels.
- According to the LHH Materials Manager, the LHH nursing units maintain inventory par levels on the units. Neither LHH Materials Management nor the nursing units have a formal process to evaluate inventory par levels.

Storerooms

The SFGH storeroom (Central Distribution) is managed by the Materials Management Unit, and stores backup medical and surgical supplies. Items in Central Distribution are inventoried daily by Materials Management technicians. The Storeroom at LHH (Central Supply) is managed by the Nurse Manager, and stores backup medical and surgical supplies. Items in Central Supply are inventoried twice a week by Materials Management technicians.

Technicians at both storerooms inventory for items with par levels with handheld tracking devices which automatically generate purchase orders submitted through the Pathways Materials Management (PMM) system to the authorized distributors.

Clinical Units

Both SFGH and LHH stock the clinical units, including (a) exchange carts which stock small items such as bandages and are restocked on a daily or weekly basis by Materials Management staff, (b) par level storage, which stock large items such as wheelchairs and are managed by floor staff, or (c) Omni-Cell units which stock high-cost products and are managed by Materials Management staff.¹

SFGH clinical units store medical supplies outside of the Omni-Cell units and exchange carts managed by Materials Management. Materials Management staff report over-ordering by units and on-site hoarding and overstock on clinical units in makeshift storage such as cabinets.

According to the Nursing Director of Critical Care at SFGH, based on her weekly informal inspections of clinical unit storage spaces, since the implementation of the just-in-time ordering system in October of 2008 levels of non-authorized informal stock on the clinical units have been significantly reduced.

While Materials Management staff maintain inventory in the Omni-Cell units and exchange carts, neither clinical unit staff nor Materials Management staff check inventory for these unofficial, unapproved makeshift storage areas. Materials Management staff should perform clinical unit inventories to standardize the process and ensure accurate reporting.

Ordering

Purchase requisitions are submitted by clinical unit and other hospital staff to Materials Management on an ongoing basis. Requisitions are to include requisition number, requestor, delivery site, cost, and cost center. Materials Management staff check all requests for purchases for over-ordering against “experience.” Staff reports that there is no documentation or professional training for these evaluations.

At SFGH, purchases are subject to the following three levels of approval:

Level 1: Authorized clinical unit staff can purchase directly from the vendor for up to \$300 per day per authorized staff.

Level 2: Clinical unit managers can purchase directly from the vendor for up to \$3,000 per day per manager.

¹ Omni-Cell machines also stock pharmaceuticals in a different locked cabinet which is inaccessible to Materials Management staff and is stocked by Pharmacy staff.

Level 3: Requisitions for purchases greater than \$3,000 per day by Materials Management purchasing staff.

Materials Management staff at SFGH reported that clinical unit staff frequently over-order items, and the Materials Manager expressed interest in decreasing the ordering thresholds for Department staff. While this would decrease the ability of clinical unit staff to over-order supplies and thereby decrease the time that Materials Management spends revising orders, it would increase the amount of orders that would need to be processed by Materials Management.

At LHH, clinical staff may requisition stocked items² directly from Materials Management without further clinical manager approval. All requisitions for non-stock items require clinical manager approval.

Purchasing through DPH's Ordering System, Pathways Materials Management (PMM)

All purchase orders submitted through PMM are Electronic Data Interface (EDI) orders. EDI orders are reviewed daily by Materials Management staff, who report reducing the requested quantity (i.e., staff may reduce the quantity of an order from 4 to 2 based on "experience.") After orders are reviewed, Materials Management staff electronically submit the completed orders to the appropriate vendor.

Restricting access to staff who can add items to the PMM list reduces the potential for duplicative entries and unauthorized items. Nine Materials Management staff at SFGH have the authority to add new entries into PMM, but all new entries are subject to authorization by the Materials Manager. At LHH, the Materials Manager and the Assistant Materials Coordinator are the only two staff who may add entries to PMM. No buyers at either Hospital can add entries to PMM.

To test for accuracy in the PMM system, we sampled the first 1,000 of approximately 40,000 "unique" entries in PMM to test for duplicate entries. Of the 1,000 entries tested, 9 were duplicates. Similarly, we sampled the first 500 of approximately 1,000 "unique" entries in LHH's PMM system to test for duplicate entries. Of the 500 entries tested, 2 were duplicates. Such duplicative entries may result in the following problems: (a) pricing updating of only one of several duplicate entries, which could in turn lead to higher-priced ordering; (b) the option for buyers to order an item through a non-Novation vendor, even if the item is on Novation but is listed separately; and (c) inaccurate tracking of the number of entries in the system and the number of items ordered.

² Stocked items are items that are maintained in stock because they are regularly used by clinical and other hospital staff.

Purchasing through the City's Purchasing System, ADPICS

When purchase orders are not submitted through PMM, they are submitted by Materials Management staff in ADPICS. ADPICS is generally used for orders under \$10,000. According to Materials Management staff at SFGH, ADPICS is used for medical purchases not already in PMM when staff does not intend to enter such purchases into PMM.

Receiving

At both SFGH and LHH, the majority of items are received by Materials Management from the distributor, and after receipt items are transferred to Central Supply staff, who deliver and stock the items. Receiving staff at both SFGH and LHH rely on "electronic receipts," submitted by vendors, to verify shipment of an item. However, these "receipts" only indicate that the vendor has shipped the item and there is room for error in the vendor's report. Both SFGH and LHH perform ongoing audits of receiving on approximately 10 percent of received items, matching the packing slips to the contents in a shipment.

Payment

Payment of all invoices is performed by the Accounting Department. Vendors and distributors deliver items to the Storeroom and at the same time deliver the corresponding invoices to Accounting.

For items ordered through both PMM and ADPICS, Accounting runs a daily 3-way match to check for invoicing errors. The 3-way match identifies discrepancies between the purchase order (generated by PMM or the City's purchasing system), the receiving document (generated by the vendor), and the invoice (generated by the vendor). Discrepancies are most often due to items lost in shipment, miscounted items, or duplicate shipments. If a discrepancy is identified, the invoice is returned to Materials Management, who must identify and fix the discrepancy and then resend the invoice to Accounting for review and payment. Accounting will not pay any discrepant invoices.

Managing Pharmaceutical Supplies Inventory

Pharmacy Ordering and Inventory Operations are not Standardized

The Department of Pharmaceutical Services purchases, receives, and dispenses pharmaceuticals for SFGH's Inpatient and Outpatient Pharmacies, nursing units, and outpatient clinics; purchases and receives medication for LHH's inpatient pharmacy and nursing units; and maintains stock in all storerooms, pharmacies, and clinical unit Omni-Cell machines. The pharmacy staff at SFGH order and receive all medication for the

inpatient pharmacy, outpatient pharmacy, and outpatient clinics, and the pharmacy staff at LHH order and receive all medication for the inpatient pharmacy.

Inpatient and Outpatient Pharmacy

In order to ensure that appropriate medical staff are submitting orders to the pharmacies, SFGH and LHH regularly update the medical staff roster, which includes information on authorized prescribers, and synchronize the updated roster with the Hospital computer systems. Pharmacy staff cannot fill orders without verifying that the prescriber matches current authorized information in the computer system.

SFGH Pharmaceutical Ordering and Dispensing

For inpatient medications, authorized medical staff can prescribe any formulary³ medications in the patient's chart and the pharmacist enters the prescription into the SFGH pharmacy system. Pharmacy technicians deliver the requested medication to the appropriate Omni-Cell machine⁴ on the unit floor.⁵

Nurses retrieve inpatient medication from the Omni-Cell after entering their username and password. After a nurse has accessed a patient account, the Omni-Cell computer lists all medications the patient and unlocks the medication trays below the computer, which stock numerous non-narcotic medications. The nurse selects the appropriate medication from the tray and checks it out of the computer. Each Omni-Cell has a par level which is monitored by the computer. However, should a nurse take more medication than necessary, the recorded inventory level which are reported to the Pharmacy storeroom daily may not correspond with actual level in the machine.

Narcotics are dispensed from the Omni-Cell in single doses and narcotic counts must be reconciled at the end of each nursing shift. Ointments and liquids are delivered to the units as needed, and kept on the floor in a locked cassette system which is unlocked by nurses as needed.

The SFGH outpatient pharmacy dispenses prescriptions to walk-up (retail) customers and outpatients. In order to receive medications, patients must have been previously seen at SFGH and have a valid medical record number.

³ Non-formulary medications require approval from the formulary manager. The formulary manager will evaluate the request, speak with the physician, and suggest formulary alternatives if appropriate. If the formulary manager and the ordering physician agree to proceed with ordering the non-formulary medication, the formulary manager will approve a one-time use, and submit a summary of this medication, with a summary and count of all other non- non-formulary medication, to a subcommittee of the Pharmaceutical Evaluation Committee.

⁴ Omni-Cell machines are computerized medication storage and dispensation devices that allow medications to be stored and dispensed near the point of care, while controlling and tracking medication distribution.

LHH Pharmaceutical Ordering and Dispensing

LHH has two pharmacy areas, the main pharmacy and the refill pharmacy. Because LHH houses and treats a population with more consistent pharmaceutical demands than those of the population at SFGH, LHH has a refill pharmacy which processes orders for refill prescriptions. The main pharmacy maintains first dose (non-refill) medications, liquids, ointments, and narcotics.

The main pharmacy receives orders on an ongoing basis in the form of hard copy prescriptions or faxes from authorized medical staff. Pharmacists receiving the prescription orders evaluate the clinical justification for the prescription and note if the order is a first-dose or a refill. If the order is a refill, the pharmacist forwards the order to the refill pharmacy (see below), and if the order is a first-dose or a narcotic, the pharmacist prints the prescription label in the main pharmacy. A pharmacist technician picks up the label and pulls and packages the medications. A pharmacist checks the packaged prescription to ensure the order has been filled accurately prior to the ordering medical staff retrieving and electronically checking out the filled prescription.

The refill pharmacy receives physician orders from the pharmacy computer system, and refills orders weekly on a specified day of the week. The refill pharmacy fills orders within 7 days. Refill prescriptions are dispensed by an automatic packaging machine, which has locked compartments for each pharmaceutical, and dispenses the quantity of medication requested through the main pharmacy, on behalf of the ordering medical staff.

SFGH and LHH Pharmacy Inventory and Stocking

Par Levels

Pharmacy staff at both SFGH and LHH maintain par levels of all medication in the clinical units but not in the pharmacies. Par levels at both hospitals are not well-defined, and pharmacy staff at SFGH advise that the Department of Pharmaceutical Services has neither the computer system nor the staffing to establish or track specific par levels. The LHH Pharmacies aim to stock a one to two week supply of medication, and the SFGH Pharmacies do not aim to stock any specific quantity.

According to the Director of Pharmaceutical Services, SFGH does not set up par levels in the outpatient or inpatient pharmacies because of price changes. If Pharmaceutical Services staff expect future price increases for specific medications, staff will over-order and over-stock these medications.

Pharmacy staff at both SFGH and LHH check pharmacy inventory daily by “experience and eyeballing.” According to the Director of Pharmaceutical Services, controlled substances are formally inventoried. When staff notice overstock, they can return items to the distributor within 30 days for full reimbursement. Most vendors will also reimburse for expired medication.

Pharmaceutical Returns

At SFGH, all unused medications are returned to the inpatient pharmacy. Pharmacy staff check returned medication against a patient's medical record number to ensure that a patient is not charged for the medication, but staff do not update pharmacy inventory records to indicate the receipt of such medication. The pharmacist evaluates returned medication for integrity, and shelves it or destroys it.

At LHH, all medications are returned to the main pharmacy, regardless of whether the medication originated in the main pharmacy or the refill pharmacy. Returned medication is not checked in at all. The pharmacist evaluates returned medication for integrity, and shelves it or destroys it.

Neither Hospital addresses restocking of medication in their policies and procedures. Because no tracking or inventory is performed of returned medications, it is likely that the pharmacies house uncounted overstock of numerous medications.

Annual Hand Count Inventory and Audit

According to the Director of Pharmaceutical Services, SFGH and LHH have insufficient pharmacy staff to maintain running inventories of pharmaceuticals that are received and dispensed. Both SFGH and LHH conduct annual counts of medications in stock at the time of the count.

SFGH annually contracts an outside firm to hand-count all medication in the inpatient and outpatient pharmacies. An external auditor audits the inventory taken during the inventory process. SFGH provided the hand-count inventory for all medications for FY 2008-09, but was not able to produce the corresponding audit report, which was published in late August of 2009.

LHH annually contracts an outside firm to hand-count all medication in the main and refill pharmacies. An external auditor audits the inventory. LHH provided the hand-count inventory for all medications for FY 2008-09, but advised that although an audit of the inventory was conducted, no record of this audit was taken.

Pharmacy Storeroom

The pharmacies at both SFGH and LHH submit orders for items which need to be restocked to the pharmacy storerooms. The pharmacy storerooms place purchase orders for pharmaceuticals through the distributor or through vendors. The SFGH pharmacy storeroom places orders for pharmaceuticals twice daily, and the LHH pharmacy storeroom orders once daily. Both storerooms follow the same basic procedure for ordering medication, as follows: based on observed inventory levels, pharmacy assistants enter restocking orders into a handheld machine which forwards the order to the distributor.

At LHH, the storeroom pharmacist checks all orders before they are submitted to the distributor or vendor; however, at SFGH a pharmacy technician checks the orders after they have been transmitted.

After the distributor receives the order, the distributor emails the storeroom with the availability of requested medications. If the medication is available, the distributor will deliver the order the next morning, and if the medication is not available, staff search through the distributor catalog for substitute medications⁶ and order the appropriate medication for next-day delivery.

SFGH Pharmacy Want Lists

SFGH's inpatient and outpatient pharmacies send daily requisitions or "want lists" for stock medication to the storeroom. LHH pharmacy does not use such want lists. The SFGH pharmacy orders these stock medications for next day delivery. According to department policy, pharmaceutical requisitions should have the name and strength of the medication, the vendor's reorder number (the vendor sticker, reorder number, or medication number), the date, the initials of the person ordering the medication, and the current level of stock.

We sampled nine medication "want lists" submitted to the SFGH Pharmacy and identified the following inconsistencies:

- Two want lists, or 22 percent, had one or more missing vendor stickers, reorder numbers, or medication numbers;
- Seven want lists, or 78 percent, had missing dates;
- Four want lists, or 44 percent, lacked documentation of the stock level

⁶ Substitute medications include the same medication produced in different quantities or by another manufacturers. Since the substitute medications are ordered through the distributor, contracted discount prices still apply to these substituted medications.

The want list form does not require either a readable name or telephone number of the person responsible for completing the requisition or an approval or authorization signature. The form does require an initial, and two of the nine lists we sampled, or 22 percent, were lacking initials.

Receiving

Pharmaceuticals are delivered to both hospitals according to a just-in-time model within 24 hours of order placement. Pursuant to Department of Pharmaceutical Services protocol, all medication must be received and checked in by different staff than the staff placing the order. The pharmacy assistant receives pharmaceuticals by scanning the medication packaging and matches it with the packing slip to ensure that the pharmaceuticals listed on the packing slip match the received pharmaceuticals. Narcotics are checked in by a pharmacy technician and a pharmacist other than the ordering pharmacist. After medication is scanned and matched, a pharmacy Supervisor signs the delivery invoice and sends the invoice to the accounting unit for payment.

Conclusions

SFGH and LHH Materials Management Units receive “just-in-time” deliveries of medical supplies and pharmaceuticals, in which the authorized distributor delivers orders within 12 hours. This reduces the need to maintain large storeroom inventory and the resulting over stocking of supplies. Nonetheless, the potential for overstocking and wastage of medical supplies on SFGH’s clinical units exists. Although the SFGH Department of Nursing has policies to limit stockpiling of supplies on the clinical units, the Materials Manager does not currently review many clinical unit purchases and never inventories informal stockpiles of medical supplies.

SFGH and LHH pharmacy inventory controls are largely informal. Par levels for drugs stored in the pharmacies are not specifically defined, and according to pharmacy staff, neither hospital has sufficient staff or computer capacity to maintain close count of pharmaceutical par levels. Pharmacy staff at both SFGH and LHH check pharmacy inventory daily by “experience and eyeballing.” Although pharmacy staff check unused medications to ensure the medication is not expired or damaged, and credit the unused medication against the respective patient’s account, neither SFGH nor LHH inventories returned medications or addresses restocking of medication in their policies and procedures.

Recommendations

In order to reduce potential overstocking, the Associate Hospital Administrator for Support Services should:

- 12.1 Establish and document a formal protocol at SFGH to evaluate supply usage and revise par levels as necessary to match supply usage.

- 12.2 Establish guidelines for Materials Management staff to evaluate purchase requisitions submitted by clinical unit and other hospital staff, including (a) product specifications, and (b) quantity.
- 12.3 In conjunction with the SFGH Director of Nursing, (a) determine the appropriate dollar amount for which clinical unit staff are authorized to purchase medical supplies without approval by the Materials Manager, and (b) assign Materials Management staff to inventory medical supplies stored on the clinical units outside of the exchange carts and Omni-Cell units.

In order to efficiently maintain product lists in PMM, the Associate Hospital Administrator for Support Services should:

- 12.4 In conjunction with the SFGH and LHH Materials Managers, (a) reduce the number of authorized positions that can enter items into the PMM list, (b) document criteria for when items are entered into PMM and into ADPICS, and (c) review all items currently in PMM to eliminate existing duplicate entries.

In order to implement or enhance internal inventory controls, the Department of Pharmaceutical Services should:

- 12.5 Consistently require storeroom requisitions to have required order numbers, dates, stock levels, or requestor identification.
- 12.6 Conduct periodic Omni-Cell hand count inventories by Pharmacy staff to ensure proper inventory and dispensing controls.
- 12.7 Establish written procedures for receipt of returned medication, including whether unused pharmaceuticals should be returned to the pharmacy of origin and procedures for checking in returned pharmaceuticals.
- 12.8 Produce and maintain records of the audits of the annual hand-count inventory of pharmaceuticals.

Costs and Benefits

Strengthening internal controls over materials and pharmaceutical inventory is expected to reduce the risk of loss from waste, theft or fraud. Although neither SFGH nor LHH has data quantifying the risks of loss, reduction in loss equivalent to one percent of annual medical and pharmaceutical purchases would equal an estimated \$650,000.

13. The Department of Public Health's Group Purchasing Organization

- Under the Administrative Code, the Department of Public Health can purchase medical and other supplies through Novation, a group purchasing organization. Participation in Novation is intended to achieve cost savings through group purchasing power. In FY 2008-09 San Francisco General Hospital (SFGH) and Laguna Honda Hospital (LHH) purchased one-half of their medical supplies through Novation, or \$19.1 million of \$37.6 million.
- SFGH and LHH purchase from vendors outside of Novation if Novation contract vendors are not able to provide the specific medical supply. For purchases less than \$50,000, for which the City does not require formal competitive bids, the SFGH Materials Manager informally solicits favorable prices from specific vendors. However, SFGH Materials Management staff do not consistently seek competitive price quotes from more than one vendor to leverage the best possible price.
- SFGH and LHH also purchase non-medical supplies from Novation vendors although the City has Citywide term contracts with the same vendors. For example, in FY 2008-09, the SFGH purchased \$1.3 million in non-medical supplies, including purchases through vendors such as Grainger and Pacific Omega Electrical Supply with whom the City has term contracts. According to the SFGH Materials Manager, SFGH Materials Management staff check Citywide contract prices when purchasing from the same vendor through Novation. However, neither SFGH nor LHH have written procedures on comparative price checks when purchasing non-medical supplies through Novation vendors.

The Group Purchasing Organization

Under the Administrative Code, the Department of Public Health (DPH), including both San Francisco General Hospital (SFGH) and Laguna Honda Hospital (LHH), are authorized to purchase medical and non-medical supplies and pharmaceuticals through Novation, the group purchasing organization.¹ Participation in the group purchasing organization is intended to:

¹ Novation is responsible for selecting vendors and negotiating price discounts on behalf of all members. According to Novation's published policy, Novation selects product vendors based on a competitive bid process, and conducts ongoing market analysis of prices. Novation offers tier discounts proportional to a member hospital's purchasing volume.

- Achieve cost savings through group purchasing power, and
- Create an efficient supply and distribution process.

Purchase of Pharmaceuticals through Novation

The Department of Pharmaceutical Services manages the SFGH and LHH pharmacies, including purchasing drugs for SFGH, LHH, Jail Health Services and Primary Care on a combined contract through the group purchasing organization, Novation. McKesson is Novation's authorized distributor for Pharmaceutical Services at both SFGH and LHH.

In FY 2008-09, the Department of Pharmaceutical Services purchased \$28.6 million in drugs, of which \$27.8 million were through McKesson. Under the contract with McKesson, the Department of Pharmaceutical Services must purchase at least 90 percent of pharmaceuticals from McKesson. The Department of Pharmaceutical Services purchases some drugs, such as antiretroviral agents for treatment of HIV infections, from non-contract sole source suppliers. Also, certain specialized or high risk drugs are available only through "specialty pharmacies" under federal Food and Drug Administration (FDA) rules.

Purchase of Medical Supplies through Novation

Approximately one-half of SFGH and LHH purchases are through Novation. In FY 2008-09 SFGH and LHH purchased \$37.6 million in medical supplies, of which \$19.0 million or approximately 51 percent, were purchased through Novation.

Table 13.1

Medical Supply Purchases by Hospital and Group Purchasing Organization FY 2006-07 to FY 2008-09

	FY 2006-07	FY 2007-08	FY 2008-09
<u>Total Purchases</u>			
SFGH	\$34,006,716	\$34,199,667	\$34,655,351
LHH	<u>3,371,069</u>	<u>3,217,082</u>	<u>2,951,973</u>
Total	\$37,377,784	\$37,416,749	\$37,607,324
<u>Purchases through Novation</u>			
SFGH	\$14,605,404	\$15,697,701	\$17,782,066
LHH	<u>1,360,730</u>	<u>1,317,188</u>	<u>1,290,408</u>
Total	\$15,966,134	\$17,014,890	\$19,072,474
Percent of Purchases through Novation	43%	45%	51%

Source: FAMIS, Novation, Cardinal (SFGH), and PHS (LHH)

Purchasing Medical Supplies through the SFGH and LHH Distributors

SFGH and LHH purchase from Novation-authorized vendors and other vendors through a distributor, or “prime vendor”. SFGH’s distributor is Cardinal² and LHH’s distributor is Professional Hospital Supply (PHS). Until October of 2002, both SFGH and LHH shared Cardinal as their distributor, but in 2002 LHH solicited their own distributor, pursuant to a competitive bid process. The distributors deliver items to SFGH and LHH on a 24-hour basis with no delivery fees other than the annual distribution fee, which is approximately \$480,000 for Cardinal and \$90,650 for PHS.

SFGH and LHH can purchase medical supplies:

- (1) From Novation vendors directly from Novation;
- (2) From Novation vendors through the distributor; or
- (3) From non-contract vendors through the distributor.

SFGH and LHH also purchase from vendors other than those under contract to Novation or the distributor if:

- (1) Medical practitioners request a special item³ for specific patient care needs; or
- (2) Through open market purchases in which the department establishes a departmental blanket purchase order with a specific vendor.

SFGH and LHH purchase many of their medical and other supplies through their distributors, as shown in Table 13.2. Purchases through the distributor can include both purchases from Novation contracts and purchases from other vendors. While most of LHH purchases through the distributor are from Novation contracts, less than one-half of SFGH purchases through the distributor are from Novation contacts.

² SFGH also orders through Value-Link, which is the same company as Cardinal, but is generally for products that are low volume.

³ Under State statutes (Proposition 6) medical practitioners can require purchase of specialized medical supplies to meet specific patient care needs.

Table 13.2
Medical Supply Purchases through the SFGH Distributor
FY 2008-09

Materials & Supplies Purchases through the SFGH Distributor	FY 2006-07	FY 2007-08	FY 2008-09
Purchases through Novation ¹	\$6,092,914	\$6,411,435	\$6,085,270
Purchases through Other Vendors	<u>6,569,321</u>	<u>6,383,088</u>	<u>6,773,104</u>
Total Purchases	\$12,662,235	\$12,794,523	\$12,858,374
Percent from Novation Contracts	48%	50%	47%

Source: Cardinal (SFGH distributor)

¹ \$6,085,270 in SFGH Novation purchases through the distributor are included in total SFGH Novation purchases of \$17,782,066 shown in Table 13.1.

Purchases through the distributor but not from contracts are priced “at or below the competitive market price”, according to the distributor. This differs from Novation contracts, in which Novation conducts a competitive process and negotiates contract terms and prices with the selected vendor.

Tracking Purchases and Discounts for Medical Supplies

SFGH and LHH purchase from most vendors, including Novation authorized vendors, distributor vendors, and independent vendors, through the Pathways Materials Management (PMM) system which was implemented in October 2008. When items are ordered for the first time through PMM, purchasing staff must create a field for the order, including the contract price (if applicable). When subsequent orders are placed, purchasing staff can place an order directly in the previously created field, which then automatically sends the order to the appropriate vendor.

SFGH and LHH achieve cost savings for Novation-contracted purchases, including:

- Discounted contract prices;
- Discounts for high volume purchases from specific vendors (tier discounts); and
- Electronic ordering or early payment discounts.

The Department of Public Health's Accounting Department is responsible for ensuring that materials and supplies transactions are recorded and paid accurately and promptly, for both SFGH and LHH. The Department of Public Health's Materials Management Department is responsible for ordering, receiving, and monitoring materials and supplies

usage and expenditures for most hospital inventory. Although both Novation and the distributors provide reports to SFGH and LHH on purchasing activity, neither hospital has a comprehensive picture of medical supply and other purchases through Novation, the distributor, or the City's purchasing system, ADPICS. Nor does Materials Management track purchases, including the amount expended on discounted items. Neither Materials Management nor Accounting could produce matching data and reports.

Reporting by Novation and the Distributors

Novation provides a quarterly report to both SFGH and LHH which summarizes the SFGH and LHH purchases for the quarter, including types of products purchased, vendors from which SFGH and LHH purchased the products, and dollar value of the purchases. These reports do not specifically identify tier discounts or other types of discounts which SFGH and LHH have accessed or which SFGH and LHH could access. Materials Management staff at SFGH do not review these reports and Materials Management staff at LHH review the reports occasionally when time permits.

The distributors issue weekly reports to SFGH and LHH indicating when prices for specific items are expected to change. Purchasing staff reviewing the distributor reports are authorized to approve any price increases up to 10 percent per increase, but the staff do not track the frequency of such increases, which could lead to compounding increases significantly exceeding 10 percent.

Access to Volume or Other Discounts

SFGH and LHH receive or are eligible to receive various discounts when purchasing from Novation or the respective distributors, Cardinal and PHS.

Discounts for Volume Purchases through Distributors

Both Cardinal and PHS provide SFGH and LHH discounted distribution fees for volume purchases through the distributor. Novation also provides a dividend for volume purchasing, although Novation calculates volume purchases separately for SFGH and LHH.

Discounts for Volume Purchases through Individual Contracts

Individual Novation contracts for specific items provide volume discounts for specific purchases. Because Novation considers SFGH and LHH to be separate contracting agencies, the volume discounts are not applied to combined purchases from the SFGH and LHH. SFGH and LHH neither track the availability of nor ensure the application of existing volume discounts.

Tracking Contract Expiration Dates and Renegotiated Prices

After a contract for an item expires, Novation frequently renegotiates a lower item price. Novation informs the distributors and SFGH and LHH on an irregular but ongoing basis of contract status and changes in pricing, but it is the responsibility of each hospital to update all internal records, thereby ensuring accurate payment.

LHH staff maintain a contract database of contract expiration dates which is regularly monitored and updated, but SFGH does not maintain such a database. Since SFGH does not monitor contract status, if the vendor fails to update billing information, the Hospital could continue paying an out-of-date and potentially higher price for an item.

Neither Novation nor SFGH and LHH maintain comprehensive lists of discounted items, which results in SFGH and LHH being unable to check prices charged by the distributor or vendor against group purchasing organization negotiated discounts. This lack of price monitoring could lead to price discrepancies between DPH's ordering system, the vendor, and Accounting, which in turn creates extra work for buyers, and results in delays in payment and forfeiture of pay-on-time discounts.

Potential for Improved Oversight

Materials Management is responsible for purchasing hospital materials and supplies, distributing supplies to the units, and maintaining inventory. As part of the Materials Management purchasing function, Materials Management staff is responsible for analyzing comparative product costs and seeking lowest price purchases from vendors.

During the course of the management audit, SFGH's 1942 Assistant Materials Coordinator position, the function of which is to monitor contracts covered under the group purchasing organization, was vacant due to a long term leave, although by the date of the exit conference the incumbent had returned to work. The SFGH Materials Manager needs to ensure that this position is fully utilized to oversee contracts, identify and pursue various discount pricing options, and track and compare expenditure data.

Materials Management staff at LHH note that, when their current distributor contract with PHS expires on August 31, 2011, the Hospital would be willing to combine a distribution contract with SFGH, which would likely result in additional volume discount savings and streamlined contract management.

Off-Contract Purchases

The SFGH and LHH often purchase medical supplies without competitive bids:

- Proposition 6 purchases, which are only made at SFGH, are also known as "physicians' choice orders." Proposition 6 orders are for specific items required by a

physician for acute medical needs, and there is no cap to the amount of a purchase. SFGH and LHH are fully reimbursed for these items, as the cost of the item is billed to patient, and subsequently to a third party, such as Medi-Cal or private insurance.

- Open market purchases are orders for off-contract items. Under the Administrative Code, City departments can purchase commodities up to \$50,000 without competitive bid. Under OCA's policies and procedures, City departments can set up departmental blanket agreements up to \$50,000 with specific vendors for frequent small purchases.

Proposition 6 purchases and open market purchases may be placed through either the City's purchasing system (ADPICS) or DPH's purchasing system (PMM).

Proposition 6 purchases are exempt from competitive bidding. Although the Administrative Code does not require competitive bidding for open market purchases up to \$50,000, OCA's policy is to solicit informal price quotes for these purchases. Materials Management staff report that they rarely perform competitive pricing for open market purchases.

Methods of Placing Off-Contract Purchases

The SFGH Materials Manager informally solicits favorable prices from specific vendors but SFGH Materials Management staff do not consistently seek competitive price quotes from more than one vendor when purchasing off-contract items. Neither SFGH nor LHH have established guidelines for purchasing items not covered under the group purchasing organization contract. Both SFGH and LHH should establish documented procedures for off-contract purchasing, especially comparison pricing for high volume or high cost goods.

City policy requires an informal bid process for products with a value of \$10,000 to \$50,000 and formal bids for products with a value greater than \$50,000. If Materials Management purchases items off-contract, such purchases must adhere to the above pricing thresholds.

Purchasing off-Contract Items from the Distributor

Both SFGH and LHH follow the same procedure for purchasing off-contract items directly from their respective distributors. If the Hospital needs to place an order for an item which is not covered under the Novation contract but is carried by the distributor, the Hospital will purchase the item directly from the distributor. Both SFGH and LHH note that they elect to go through the distributor without evaluating other price options for the following reasons: (a) no additional shipping or distribution fees will be incurred and (b) the item will be delivered quickly.

Purchasing off-Contract Items Directly from the Vendor

Both SFGH and LHH follow the same procedure for purchasing off-contract items directly from vendors. Items not covered under the group purchasing organization contract and not available from the distributor are ordered directly from the vendors.

SFGH and LHH are often eligible to obtain discounts from the vendors based on criteria such as paying on time, paying electronically, or ordering a certain volume of an item; however, neither Hospital reports pursuing any such vendor discounts.

Determining Lowest Price for Off-Contract Products

Neither SFGH nor LHH have standard methods to determine if the Hospital is receiving the lowest price for products purchased off-contract. If the Hospital has previously purchased a product, product information is stored in the inventory management computer database. Materials Management staff re-order products in the inventory management database without a cost evaluation. According to Materials Management staff, unless the product is clearly overpriced, the product cost is not questioned and is usually purchased as requisitioned. Both SFGH and LHH should develop formal criteria and methods of determining whether products are overpriced.

Purchasing Non-Medical Supplies through Novation

The Administrative Code allows the Department of Public Health to purchase non-medical as well as medical supplies from Novation vendors. In some instances, the Department purchases non-medical supplies from Novation vendors although the City has Citywide term contracts with the same vendors. For example, in FY 2008-09, the SFGH purchased \$1.3 million in non-medical supplies, including purchases through vendors such as Grainger and Pacific Omega Electrical Supply with whom the City has term contracts. According to the SFGH Materials Manager, SFGH Materials Management staff check Citywide contract prices when purchasing from the same vendor through Novation. However, neither SFGH nor LHH have written procedures on comparative price checks when purchasing non-medical supplies through Novation vendors.

Conclusions

While purchasing through the group purchasing organization, Novation, allows SFGH and LHH to take advantage of group purchasing power, and supply chain and distribution efficiencies, neither Hospital fully accesses the benefits. The SFGH and LHH have gaps in purchasing reporting and less than full information on available discounts and competitive pricing. Also, SFGH and LHH haven't developed formal written procedures to ensure best possible prices, including routinely seeking competitive price quotes from

more than one vendor and comparing Novation vendor prices for non-medical supplies against prices offered by the same vendor through Citywide term contracts.

Recommendations

In order to increase management oversight over the purchasing process, the Hospital Associate Administrator for Support Services should:

- 13.1 Assign the 1942 Assistant Materials Coordinator to (1) develop comprehensive reports of SFGH medical purchases through the City's purchasing system, ADPICS, and the Hospital's purchasing system, PMM; (2) monitor Novation and Cardinal prices for competitiveness, price changes, and discounts; and (3) identify and pursue various discount pricing options.
- 13.2 Monitor non-contract vendor prices for medical supply purchases through SFGH's distributor to ensure that the Hospital is receiving the lowest possible price.
- 13.3 Develop written procedures for competitive price comparisons for commodity purchases less than \$50,000 and for non-medical purchases from vendors with Novation and Citywide contracts.
- 13.4 Solicit a shared distributor for SFGH and LHH when the existing distributor contracts expire to achieve additional volume discount savings and streamlined contract management.

Costs and Benefits

SFGH and LHH could achieve an estimated \$460,000 in additional savings annually if the SFGH and LHH achieved 2.5 percent in discounts or other savings through more rigorous monitoring on non-contract purchases.

14. Vendor Payments

- City departments are primarily responsible for ensuring timely and accurate payment of vendor invoices, although the Administrative Code requires the Controller and Purchaser to establish vendor payment procedures. Neither the Controller's Officer nor OCA have a consolidated document outlining the vendor payment process. The Budget Analyst compiled a description of the vendor payment processes from various documents on the City's intranet or provided by OCA and through interviews.
- Not all City departments have developed internal vendor payment guidelines. Nor do department vendor guidelines ensure conformance with the Controller's vendor payment policies. While 10 of the 15 City departments surveyed by the Budget Analyst have formal or informal internal vendor payment guidelines, two of these City departments with formal vendor payment guidelines were found non-compliant with procedures considered high priority by the Controller in the 2008 post audit of financial transactions. Nonetheless, the risk of vendor payment errors would be reduced if City department managers implement and enforce vendor payment guidelines, including communicating these guidelines to staff.
- Some City departments' vendor payment practices expose the City to over- or fraudulent pricing for commodities. For example, City departments do not consistently list specific commodity prices on purchase orders or require vendors to list specific commodity prices on invoices. In the Budget Analyst's review of 27 purchases, 9 purchase orders and 6 invoices failed to list specific commodity prices. One purchase order for \$20,000 was for "lighting, fixtures, portable units, flashlights, lamps, and bulbs." The department's accounting staff paid the invoice of \$20,050 (exceeding the purchase order by \$50) with no verification of the specific commodities purchased, quantity purchased, or the purchase price.

Controller's Office and OCA's Vendor Payment Policies and Guidelines

City departments (end-users) are primarily responsible to ensure that vendors are paid once invoices are received. The Controller's Office has vendor payment policies for regular vendor payments and guidelines for prompt payments to Local Business Enterprises (LBEs) for commodity purchases.

Vendor Payment Policies

In accordance with Section 21.03(f) of the City’s Administrative Code, “the Purchaser and Controller shall establish procedures to approve all bills and vouchers for Commodities and Services.” The Controller’s Office and OCA have several procedures for paying vendor invoices, which is dependent on whether the commodity purchase was (a) encumbered in ADPICS or FAMIS¹ or (b) never encumbered.

In general, all commodity purchases should be encumbered if the commodity purchase is more than \$200. A City department can use the direct voucher payments (detailed in Section 7) if the commodity purchase is (a) less than \$200 and non-recurring or (b) for other reasons specified in the Purchaser’s procedure manual².

A commodity purchase can be encumbered either through a purchase order, delegated departmental purchase orders (Prop Q), a blanket purchase agreement (term contract) release, or departmental blanket purchase order release. The following procedure should be followed to pay a vendor’s invoice through the City’s purchasing system:

1. Once the vendor ships the commodity and sends an original invoice, the City department should (a) verify that the commodity received is the commodity that was ordered and (b) match the original invoice, packing slips and encumbrance document.

If the original invoice is not available, the following documents should be provided: (a) an explanation of why the original invoice is not available, (b) certification that payment has not been made, (c) an explanation of what steps have been taken to avoid a reoccurrence, and (d) the invoice and letter signed by City department head or designated fiscal officer. Payments should not be made using a vendor statement.

2. All invoices must have an authorized signature from the City department head or designated fiscal officer on the original document, which confirms that (a) the receipt of goods is satisfactory and (b) the invoice is correct. The initiator of the vendor payment should be different from the approver to ensure secondary review.
3. Invoices should be processed for payment within a week and City departments should take advantage of discounts whenever possible.

¹ The majority of commodities purchased by City department can be encumbered through ADPICS. City departments can encumber through FAMIS for the purchase of postage, subscriptions, travel expenses or other purchases that have special requirements and conditions.

² A direct voucher can also be used for final payments of closed purchase orders, accounting errors and payments for order that did not follow the City’s procurement process.

4. The City department enters and posts the invoice in either ADPICS or FAMIS, which is detailed in the Controller's Office FAMIS Purchasing (ADPICS) v5 upgrade training manual. If the invoice is entered in ADPICS, the system will create a voucher. Once the City department approves the voucher, the Controller's Office issues payment.

The payment request package should include (a) original and supporting documentation, (b) required City department approvals and (c) any justification for any exceptions (i.e. late payment request). Once the Controller's Office approves the request, the payment will be issued.

Once the invoice has been approved, the FAMIS or ADPICS system will automatically print a check or submit a request for an electronic payment. The Controller's Office Claim and Disbursement unit inspect the printed checks to make sure that the checks print correctly and that they contain the correct checks numbers.

5. If the payment is processed through ADPICS, City departments should keep original supporting documentation, which includes (a) packing slips, (b) receiving reports, (c) original invoices or authorized invoice copies and (d) purchase order, (e) vendor insurance that is valid as of date of order.

Neither the Controller's Officer nor OCA have a consolidated document outlining the vendor payment process. The Budget Analyst compiled the vendor payment processes noted above from three documents from the Controller's Office intranet website³, three documents provided by OCA,⁴ and an interview with the Controller's Office. Most of the vendor payment policies are contained in presentations and guidelines for other procurement processes. While the Controller's Office and OCA have detailed guidelines for prompt payments (LBE vendors and construction vendors), one-time payments and advance payments, they do not have a guideline for all vendors.

Payment Guidelines for LBE Vendors

The LBE payment program is based on Chapter 14B.7 (L) of the City's Administrative Code which states that "The City shall pay Local Business Enterprises certified by the Human Rights Commission (LBE) within 30 days of the date on which the City receives an invoice for work performed for and accepted by the City."

³ Documents from the Controller's Office intranet website include (a) "Delegated Approvals & Review of Encumbrances, Work Orders & Expense Reimbursements" Presentation on January 14, 2009, (b) "Controller's Office Frequently Asked Questions: Accounting Operations, Claims And Disbursements, Grants Management" updated on September 29, 2006 and (c) "Post Audit Training" Presentation on July 14, 2006.

⁴ Documents from the OCA include (a) "Flowchart of Procurement Transactions" updated on July 31, 2009, (b) "How to buy things in City Government" updated in April 2009, and (c) "How to do business with the City and County of San Francisco" updated in March 2006.

While the LBE payment guideline was specifically created for the timely payment of LBE vendors, the Controller's Office recommends that City departments include non-LBE vendors for consistency of payment policies and procedures. However, it is not required.

Once the City department receives an invoice from an LBE vendor, the City department should make every effort to ensure that the invoice is paid within 30 days. The payment guideline states that City departments should adhere to the following procedures:

1. Once an invoice is received, the invoice should be given an acceptable Invoice Receipt Date (Day Zero), which can be one of the dates below, whichever is later:
 - Date the invoice is received by the City, or
 - Payment date specified in the contract or purchase order (not to preclude vendor early performance), or
 - Date materials or services are delivered to the City.

If an invoice is sent electronically, the electronic time stamp of invoice (i.e. email time and date) is acceptable.

2. The invoice should be manually entered into FAMIS or ADPICS by the City department. The invoice will be considered "accepted" when all required approvals by the City department have been received. The Invoice Acceptance date should not be later than seven days past the Invoice Receipt Date.

If there is an invoice dispute, an Invoice Dispute Notification must be sent to the vendor specifying reasons and corrective actions by the City within seven calendar days of the Invoice Receipt Date. An invoice dispute includes a stop notice lien filed with the Controller's Office. An Invoice Dispute Notification stops the prompt payment clock until the dispute is resolved. Invoice Dispute Notifications can be e-mailed to vendors.

Once the dispute has been resolved, a corrected invoice must be submitted. The prompt payment clock re-starts on the date the corrected invoice is received by the City. If the disputed invoice cannot be corrected, the dispute will go to the Human Rights Commission for further evaluation.

3. The payment date is either the check date or the bank settlement date if the payment is made by Electronic Fund Transfer. LBE vendor invoices should be paid within 30 days of the Invoice Receipt Date.

Non-LBE commodity vendors accounted for 2,660, or 96 percent, of the total 2,771 vendors that provided commodities in FY 2008-09. According to the Controller's Office, approximately 4 percent of payments to vendors were more than 60 days after the invoice date, or 8,531 vouchers of 190,812 purchasing vouchers in FAMIS in 2008. 47 City departments paid at least some invoices more than 60 days after the invoice date.

Prompt Payment Discounts

In the Controller's Office 2008 financial post audit reports⁵, the Controller's Office found that 4,376 transactions, or 38 percent of 11,384 transactions eligible for prompt payment discounts, were not processed in time to receive the discount. 25 City departments did not process invoices in time to receive the prompt payment discount, losing \$93,619 Citywide.

The Controller's Office follows up the financial post audit with City departments by conducting City department or Citywide trainings. Also, if requested, the Controller's Office will meet with City departments to discuss specific issues and how these issues can be corrected.

Department Vendor Payment Guidelines

The Controller's payment guidelines state that "Departments may develop different payment policies and procedures from those herein to foster prompt payment, including use of additional accelerated payment methods." The Controller's office does not provide guidelines for creating internal guidelines since each department has a different organizational structure. However, the Controller's Office will provide assistance if a City department makes a request.

Not All City Departments Develop Formal Vendor Payment Guidelines

The Budget Analyst surveyed 15 City departments on the department's vendor payment guidelines and procedures.⁶ Eight City departments had written vendor guidelines, while seven City departments had informal procedures (two departments) or relied on the Controller's policies (five departments).

Department Vendor Payment Guidelines Vary in Detail and Thoroughness

Six key steps in vendor payment procedures are:

- (1) Department staff verify that product is received;
- (2) Back up documentation is required to pay invoice;
- (3) Department program/division staff review the invoice;
- (4) Department accounting/finance staff review the invoice;

⁵ Every calendar year the Controller's Office conducts a review of City departments' procurement transactions in a financial post audit to ensure that the City departments are complying with City's laws, regulations and policies. Once the Controller's Office conducts the audit and compiles the findings, they explain the findings to the City departments. The Post Audit findings are not recommendations, but findings for incorrect processing of the City's policies and procedures.

⁶ These departments were the: Airport, Department of Building Inspection, Department of Children, Youth and their Families (DCYF), Department of Emergency Management, Economic and Workforce Development, Fire Department, General Service Agency (GSA) – City Administrator, Human Services Agency, Juvenile Probation, Municipal Transportation Agency (MTA), Police, Public Utilities Commission (PUC), Public Works, Recreation and Park, and Sheriff.

- (5) Invoices are entered into FAMIS or ADPICS; and
 (6) Department management must approve invoices.

Table 14.1 below shows these six components of each City department's formal or informal vendor payment guidelines.

Table 14.1

Contents of the City Departments' Internal Vendor Payment Guidelines

Internal Guidelines	Product receipt verified by dept. staff	Back up docs required	Dept. staff review invoice	Dept. account staff review invoice	Invoices are entered into FAMIS or ADPICS	Invoices require mgmt approval
Airport ¹	x	x	x	x	x	x
Building Inspection	x	x	x	x	x ⁴	x
Human Services Agency	x	x	x	x	x	x
Juvenile Probation	x	x	x ³	x	x	x
Police	x	x	x	x	x	x
MTA ²	x	x	x ⁴	x	x	x
Public Works	x	x	x	x	x	x
PUC	x	x	x	x	x	x
Recreation and Park	x	x	x	x	x	x
Sheriff ¹	x	x	x	x	x	x

Source: Budget Analyst Survey

¹ No written internal vendor payment guidelines were provided, but City department described their internal process in the survey

² Draft internal guidelines

³ The key step is practiced by the City department and part of their informal vendor payment guidelines.

⁴ The department added these steps to their vendor payment guidelines during the management audit.

In addition to the six key steps stated above, the Airport, Human Services Agency, MTA, Public Works and the PUC also log their invoices into an internal department database.

City Departments Do Not Consistently Comply with the Controller's Vendor Payment Guidelines

In the 2008 financial post audit of City departments' vendor payment transactions, the Controller found that some City departments do not consistently comply with the Controller's payment procedures. For example, 42 of 55 City departments (or 76.4 percent) pay or authorize payment of a vendor's invoice prior to certifying the purchase contract with the vendor for at least some department transactions.

Table 14.2
City Departments' Transaction Errors
Controllers Calendar Year 2008 Post Audit of Financial Transactions

Vendor Payment Policy	Total Number of Transactions with Error	Total Number of Transactions Reviewed	Percent of Transactions with Errors	Number of Departments with One or More Errors N = 55	Percent of Departments with One or More Errors
Payment or Authorization Prior to or Without Certification of Contract	191	3,687	5.2%	42	76.4%
Authorization Signature Missing	29	3,687	0.8%	9	16.4%
Paid from Copy Invoices without Certification	17	3,687	0.5%	13	23.6%
Same Initiator, Receiver, and Approver	3	3,687	0.1%	2	3.6%
Missing Supporting or Original Documentation (invoice, packing slip, etc.)	47	3,687	1.3%	15	27.3%

Source: Controller's Office

Whether departments had formal vendor payment guidelines did not fully correspond to compliance with the Controller's policies. In the Controller's 2008 post-audit of City departments' financial transactions, including vendor payments, two City departments with formal vendor payment guidelines were found non-compliant with procedures considered high priority by the Controller. Nonetheless, if City department managers implement and enforce vendor payment guidelines, including communicating these guidelines to staff, the risk of vendor payment errors is reduced.

Vendor Payments

The Budget Analyst reviewed a sample of 27 purchase orders, department purchase orders, and blanket purchase orders from 11 City departments⁷, including interviews with

⁷ Eleven City departments include Airport, Fire Department, GSA – Administrative Services, Human Services Agency, Juvenile Probation, Library, MTA, Police, Recreation and Park, Public Works, and PUC.

City department staff, to determine if the requisitions, purchase orders, and invoices correctly listed (a) the prices of individual commodities and (b) price discounts.

Purchase Orders Do Not Consistently List Commodity Prices

City departments purchase from vendors through (a) purchase orders for one time purchases from a specific vendor, or (b) purchase order releases from vendors with departmental blanket agreements or term contracts. Although OCA does not have specific written procedures for writing purchase orders and purchase order releases, City departments and OCA staff should list individual commodities and prices in the purchase order to ensure that the City is paying the correct price.

Table 14.3 below shows that 9 out of 27 purchase orders and purchase order releases did not have commodity prices listed.

Table 14.3

Prices Listed in Purchase Orders, Department Purchase Orders, and Blanket Purchase Orders

	Number	Percent
Prices listed	18	67.7%
Prices not listed	9	33.3%
Total	27	100%

Source: Budget Analyst sample of 27 purchase orders

The City’s purchasing system, ADPCICS, generates purchase orders and purchase order releases with specific fields for unit costs and quantities. For the purchase orders without detailed lists of commodities and prices, department staff would enter the unit cost as the total purchase order amount, rather than the specific cost per unit, and the quantity as “1.00” rather than the actual quantity ordered. For example:

- One purchase order listed the quantity as “1.00” and unit cost as “\$11,500” for “health and safety equipment calibration services”. The actual purchase was for quantities of “21” with unit costs ranging from “\$100” to “300” with total costs of \$8,300.
- One purchase order, using the department’s delegated purchasing authority (or “Prop Q”) listed the quantity as “1.00” and unit cost as “\$1,680” for “replacement for 1 Arrowood, 34dx36w, lateral file, freestanding, two drawer....1 labor to receive, inspect, deliver and install”. The actual purchase was for quantities of “3” with unit costs ranging from \$377 to \$578, plus labor charges, totaling \$1,680.
- One purchase order release from a term contract listed the quantity as “1.00” and the unit cost as “\$20,000” for “lighting, fixtures, portable units, flashlights, lamps, and bulbs”. The actual purchase was for quantities of “9” with total purchase of

\$20,050.83. The invoice failed to specify the unit cost or total cost for each item purchased. The department paid the invoice, although it could not verify that the department was paying the contract price for the items.

Commodity Prices on Invoices

For 15 the 27 purchase orders and purchase order releases, the commodity prices on the invoice matched the commodity price in the purchase order, as shown in Table 14.4 below.

Table 14.4

Comparison of Commodity Prices Listed in the Invoice to the Commodity Prices Listed in the Purchase

	Count	Percent
Invoice matches purchase order	15	55.6%
Invoice amount exceeds purchase order amount	2	7.4%
Prices on invoice are lower than purchase order	1	3.7%
Invoice lists total price but not price per commodity	6	22.2%
Other	3	11.1%
Total	27	100.0%

Source: Budget Analyst sample of 27 purchase orders

- In two invoices, the vendor incorrectly charged, and the department incorrectly paid, amounts that exceeded the purchase order: (1) the vendor charged travel time that was not included in the purchase order; and (2) the vendor included freight charges in the invoice that had not been included in the original vendor quote.
- In one invoice, the invoice amount was less than the purchase order because the purchase order prices were incorrect.
- In six invoices, neither the invoice nor the purchase order listed the specific commodities and prices. The departments paid these invoices without documentation that the vendor was charging and the City was paying the correct price.
- For the three other invoices:
 - (1) The Library purchases books and materials under a departmental blanket agreement, with discounts ranging from 15 to 75 percent depending on the volume or purchases. The Library makes progress payments against the total order as the books and materials are received.
 - (2) One purchase order included discounts from the vendors' list prices that were not documented in the invoice.

- (3) The commodity prices in the purchase order release differed from the departmental blanket agreement, although the invoice prices were consistent with the departmental blanket agreement.

Discount Percent Listed in Purchase Orders

Table 14.5 below shows that 8 of the 27 purchase orders and purchase order releases listed price discounts.

Table 14.5
Purchase Orders or Purchase Order Releases
with Approved Discounts

Purchase Order or Purchase Order Release	Number	Percent
Discounts	8	29.6%
No Discounts	19	70.4%
Total	27	100%

Source: Budget Analyst sample of 27 purchase orders

According to the purchase orders and purchase order releases, City departments received discounts for (a) paying invoices in a timely manner (ex. one percent discount for paying within 10 days), (b) volume purchases, (c) or simply purchasing specific commodities from a vendor.

Few Invoices Documented Approved Discounts

Only three of the eight purchase orders and purchase order releases with documented discounts had invoices with the discounts, as shown in Table 14.6.

Table 14.6
Invoices with Documented Discounts

Invoice	Number	Percent
Discounts	3	37.5%
No Discounts	5	62.5%
Total	8	100%

Source: Budget Analyst sample of 27 purchase orders

City departments did not receive discounts in five invoices because:

- City departments did not purchase sufficient quantities for volume discounts;
- City departments did not pay vendors in a timely manner to receive discount; or

- Vendors either did not document the discounts in the invoice or grant the discounts for unspecified reasons.

Disconnections Between Department Operating and Accounting Staff

According to the interviews with three City departments' purchasing and/or accounting staff, the departments' lack communication and consistent procedures for price checking and vendor payment. When purchase orders or invoices do not list the specific commodities and prices, accounting staff rely on program staff to check the commodity prices. Additionally, if program staff fail to forward vendor invoices to accounting staff in a timely manner, the department loses the discount for early payment of the invoice.

Conclusions

The Controller's Office and OCA are responsible to (a) establish the necessary vendor payment guidelines and (b) ensure that City departments are complying with City's vendor payment laws, regulations and policies. City departments are responsible for vendor payments. Neither the Controller's Office nor OCA has a consolidated vendor payment manual, although some vendor payment guidelines can be found on the City's intranet.

While many of the 15 City departments surveyed have formal or informal internal vendor payment guidelines, these guidelines were not uniformly comprehensive. Nor did these guidelines ensure that City departments were compliant with the Controller's policies. However, internal vendor payment guidelines are an important step in ensuring that the City is paying accurately for its commodities purchases.

City departments' procedures for paying invoices do not guarantee that the City is receiving the best available price or that vendor payments are accurate. Neither purchase orders nor invoices consistently list commodity prices, potentially exposing the City to over- or fraudulent pricing. Nor do invoices consistently document available price discounts. Also, inadequate City department coordination and communication contributes to inconsistent validation of commodity prices and delayed vendor payments.

Recommendations

In order to ensure that all City departments follow vendor payment guideline consistent with the Controller's policies, the Controller's Office, with collaboration of OCA, should:

- 14.1 Create a single vendor payment guideline that can be used by all City departments for all vendors.
- 14.2 Amend the Prompt Payment Guidelines, to require that City departments pay non-LBEs within 30 days.

- 14.3 Conduct a training of the new vendor payment guideline for all City department staff responsible for processing vendor payments.

In order to adhere to the Controller's Office new vendor payment guideline, the Controller should direct City department financial officers to:

- 14.4 Revise or create the City department's internal vendor payment procedure to comply with the Controller's vendor payment guidelines.
- 14.5 Provide ongoing internal training to department staff responsible for vendor payments to ensure compliance with department procedures and the Controller's guidelines.
- 14.6 Review invoices to ensure that commodities and prices are detailed in the purchase order and invoice, prices are correct, and discounts are applied.
- 14.7 Require accounting staff to track and pay invoices to receive prompt payment discounts.

Costs and Benefits

Implementation of these recommendations would improve the City departments' compliance with the City's vendor payment policies, and therefore, decrease the number of high and moderate priority issues identified during the Controller's annual post-audit of City departments' vendor payment transactions.

The City would realize approximately \$100,000 annually in prompt payment discounts through timely payment of invoices.

15. Administrative and Social Requirements

- **The City and County of San Francisco has numerous administrative and social policy requirements for City contractors. Several different City departments are responsible for enforcing specific contract requirements, although in some instances no department is clearly responsible for enforcing specific requirements. These requirements—which are codified in the City Charter and Administrative and Municipal Codes—cover areas such as contractor insurance, minimum compensation, health benefits, and other requirements. OCA does not maintain a comprehensive list of these requirements or have documented procedures, defining the extent of OCA’s responsibility for implementing these requirements in purchasing contracts.**
- **The Local Business Enterprise (LBE) Ordinance was established to enable small local businesses to compete for public contracts. OCA’s Rules and Regulations provide that departments should use good faith efforts to purchase commodities from LBE vendors. Despite these policies, the Budget Analyst found that only 4.2 percent, or 117 vendors, out of the 2,771 vendors from whom City departments purchased commodities in FY 2008-09 were LBE certified.**

Central Oversight of Administrative and Social Requirements

The City and County of San Francisco has established various administrative and social policy requirements applicable to commodity procurement which have been codified in the City’s Charter, Administrative and Municipal Codes, and Executive Directives. Collectively, these requirements reflect the City’s social values and mores with respect to the treatment of workers and the environment and also establish the legal framework that governs the contractual relationship between the City and its commodity suppliers.

Although the Office of Contract Administration (OCA) is supposed to function as the City’s centralized purchasing unit, OCA is not tasked with central oversight and enforcement of these provisions. Rather, for some requirements, oversight and enforcement responsibility is delegated to several City departments who are only tangentially involved in the City’s commodity procurement process, while others appear not to be actively monitored or enforced at all. Table 15.1 provides a comprehensive list of the administrative and social policy requirements identified in coordination with OCA for the purposes of this performance audit.

Table 15.1
City and County of San Francisco
Administrative and Social Policy Requirements

	Requirement	Responsible Agency
Administrative	1) Business Tax	Tax Collector. OCA verifies business tax registration.
	2) Insurance	Risk Manager, OCA verifies insurance documentation.
	3) Bond	OCA requests Controller to approve the bond
	4) IRS Form W-9	Controller
Social	5) Local Business Enterprise Ordinance	Human Rights Commission
	6) Nondiscrimination (12B Equal Benefits Ordinance)	Human Rights Commission
	7) Health Care Accountability Ordinance	Office of Labor Standards Enforcement (OCA)
	8) Minimum Compensation Ordinance	Office of Labor Standards Enforcement (OCA)
	9) Sweatfree Contracting Ordinance	Office of Labor Standards Enforcement (OCA)
	10) Sunshine Ordinance	Sunshine Ordinance Task Force
	11) Tropical Hardwoods	Department of Environment; OCA verifies that any request to purchase tropical hardwoods meets one of the exceptions listed in the Ordinance
	12) Food Service Waste Reduction Requirements	Department of Environment
	13) Resource Conservation	Department of Environment
	14) Prohibition on Political Activity with City Funds	Ethics Commission
	15) Limitations on Contributions	Ethics Commission
	16) First Source Hiring Program	First Source Hiring Administrator
	17) Americans with Disabilities Act	Mayor's Office on Disability
	18) Slavery Era Disclosure	Office of the City Administrator
	19)) MacBride Principles - Northern Ireland	Responsible entity not identified
	20) Preservative-Treated Wood Containing Arsenic	Responsible entity not identified
	21) Drug-Free Workplace	Responsible entity not identified

Although the City has diverse and numerous requirements for commodity vendors, OCA does not maintain a comprehensive list of requirements or documented procedures for OCA staff in implementing these requirements in purchasing contracts.

Controller’s Financial Post Audit

The Controller’s annual post audit of City departments’ financial transactions is one of the few systematic reviews of vendor compliance with applicable City requirements. Results from the Controller’s financial post audit for Calendar Year 2008 showed that a number of departments conducted business with (i.e., purchased from) vendors that were not in compliance with certain administrative and social requirements as shown in Table 15.2.

Table 15.2

**The Number of City Departments Conducting Business with At Least One Non Compliant Vendor
Calendar Year 2008**

Administrative Requirement	Total Number of Vendors Not In Compliance	Total Number of Transactions Reviewed	Percent of Transactions with Non Compliance	Number of Departments with One or More Non Compliant Transactions N = 55	Percent of Departments with One or More Non Compliant Transactions
Vendors with Non Current Business Tax Certificate	42	3,687	1.1%	19	34.5%
Noncompliance with Human Rights Commission Rules or Waivers Not on File	39	3,687	1.1%	19	34.5%
Vendor Insurance Not on File nor Verified at Time of Service	9	3,687	0.2%	6	10.9%

Source: Controller’s Office

The Controller’s Office recommended that the departments “should perform continuous training and monitoring of procurement process to address vendor compliance issues, and review vendor compliance for each transaction with applicable City requirements.”

OCA currently does not use the results of the Controller's financial post audit to determine how to better provide purchasing-related training to relevant City staff. The financial post audit reports include purchasing-related information that describes City departments' adherence or misuse of purchasing processes and procedures. OCA could use such information to prioritize training issues and design training for City department staff. For example, OCA could develop training topics for City department staff on vendor compliance with the City's business tax, equal benefits, and insurance requirements.

Local Business Enterprise Commodity Vendors

The Board of Supervisors adopted the Local Business Enterprise (LBE) Ordinance to give local small businesses an opportunity to compete for City contracts. The Human Rights Commission approves LBE certification for local small businesses that have their principal place of business in San Francisco. Once a business is certified as eligible, it becomes entitled to a 10 percent bid discount or ratings bonus on bids submitted on City contracts that are covered by the law. The Human Rights Commission, which maintains an online database of certified LBE suppliers for use by the public and other City departments and agencies, is responsible for increasing participation in City contracts by local businesses. As of July 2009, there were a total of 1,090 businesses that were LBE certified.

Consistent with this provision, OCA's Rules and Regulations provide that departments "should use good faith efforts [to use] Local Business Enterprises" in purchasing commodities and services. OCA's procedures manual includes a section on how to practically implement the LBE Ordinance, including the following procedures:

- (a) Certified LBE's should receive a 10 percent bid discount;
- (b) When creating a bid, OCA purchasers should consider whether the bid can be divided into smaller portions, which will make it easier for LBE's to compete;
- (c) Purchasers are instructed to look in the Human Rights Commission's list of certified LBE firms in the Commission's website to determine whether the relevant service/commodity category can be provided by an LBE firm. Purchasers are instructed to send a bid notice (e.g., via e-mail) to all LBE's certified in the relevant service/commodity category; and
- (d) For purchases equal to or less than \$10,000, the purchaser is instructed to make best efforts to place orders with LBE firms.

OCA management staff and buyers reported that they use the Human Rights Commission's LBE database as a resource for identifying LBE firms during various stages of the purchasing process. Nonetheless, very few City commodity vendors are Local Business Enterprises, and only a small number of City commodity vendors are based in San Francisco (whether designated as an LBE or not).

- 4.2 percent of City commodity vendors (117 vendors of 2,771 unique commodity vendors) were certified by the Human Rights Commission as Local Business Enterprises in FY 2008-09.
- 23.6 percent of City Commodity vendors (262 vendors of 1,112 unique commodity vendors) were located in San Francisco (i.e., those vendors that had San Francisco mailing addresses), based on a review of July 2008 purchase orders.

Although the City does not require LBE certification or having a San Francisco address to do business with the City, the City's current practices do not provide many contracts to City vendors. OCA and the Human Rights Commission should evaluate reasons for LBE's low participation in City contracts and develop measures to increase LBE participation.

Conclusions

Several different City departments are responsible for enforcing specific requirements, although no departments are clearly responsible for enforcing some requirements. While OCA is responsible for commodity contracts containing these requirements, OCA is neither responsible nor sufficiently staffed for enforcement of all requirements. The Controller's annual post audit of City departments' financial transactions is one of the few systematic audits of the City's administrative and social requirements.

Also, although the City does not require LBE certification or having a San Francisco address to do business with the City, the City's current practices do not provide many contracts to City vendors. OCA and the Human Rights Commission should evaluate reasons for LBE's low participation in City contracts and develop measures to increase LBE participation.

Recommendations

In order to improve the City's oversight of the City's administrative and social policy requirements, the Purchaser should:

- 15.1 (a) Develop a comprehensive list of all administrative and social policy requirements established by the Administrative or other Municipal Codes that are included in purchasing contracts, (b) identify which City department is responsible for overseeing each requirement, and (c) document procedures for OCA staff in implementing these requirements in purchasing contracts in conjunction with the City Administrator.

In order to improve the City's oversight of the City's administrative and social policy requirements, the City Administrator should:

- 15.2 Evaluate reasons for low LBE participation in commodity and information technology contracts (see Section 9) and develop measures to increase LBE

participation in conjunction with the Purchaser and Director of the Human Rights Commission, and report to the Board of Supervisors prior to May 30, 2010.

Costs and Benefits

The implementation of these recommendations should be accomplished using existing resources. The benefits would include clarifying responsibility for enforcing certain administrative and social policy requirements and identifying reasons for low LBE participation in commodity and information technology contracts.

16. Vendor Performance

- **The City has not established guidelines to ensure that City vendors are qualified and responsible, although evaluating vendor performance is considered best practices by the federal government and many local governments. Nor does OCA have a vendor evaluation process, relying on City departments' complaints to identify poor vendor performance.**
- **OCA generally resolves vendor complaints informally without implementing more formal procedures, such as terminating vendor contracts or debaring vendors from bidding on City contracts. However, in the past year OCA terminated two contracts because the vendor went out of business and one contract because the vendor failed to pay its Local Business Enterprise (LBE) subcontractors. Additionally, OCA cancelled the purchase order for two fire trucks when the vendor who was awarded the purchase order missed the original delivery date and could not give assurances, or even a schedule, for manufacturing and delivering the fire trucks.**
- **However, OCA can not reject a vendor bidding on a new contract or purchase order for prior poor performance unless the vendor has been formally disqualified under Administrative Code provisions. This differs from the practice utilized by the federal Office of Management and Budget, in which vendor performance evaluations are used in future contract award decisions.**

Tracking Vendor Performance

The City has not established guidelines to ensure that City vendors are qualified and responsible, although evaluating vendor performance is considered best practices by some government agencies. The federal government considers a contractor's past performance in considering whether the contractor should receive future work. According to the federal Office of Management and Budget (OMB), vendor evaluation results in better current performance because of (1) increased communication between the vendor and the government, and (2) vendors know that the evaluations will be used in future award decisions.

The County of Los Angeles has implemented a formal contractor evaluation policy at the request of the Board of Supervisors. All contracts must contain provisions for annual performance evaluations. Significant contractor deficiencies are reported to the Board of Supervisors and can result in termination of the contract. Departments are required to maintain contractor evaluation results to document performance.

The City of Los Angeles has an ordinance implementing a contractor evaluation program and establishing a database on contractor performance. Under the ordinance, the City's purchaser develops rules for commodity vendor performance evaluations, subject to the City Council's approval. The evaluation database is intended to include information on the quality of goods, customer service, and timeliness of deliveries. Information on specific vendors in the evaluation database is considered when evaluating bids for commodities.

OCA Has No Formal Vendor Evaluation Process

OCA has no formal process to evaluate vendor performance, relying on department comments to report poor vendor performance. When OCA receives a complaint from City department staff on vendor performance, generally the OCA purchaser will (1) discuss the complaint with department staff and the vendor, (2) request documented evidence, and (3) send a written notice of the problem to the vendor. If necessary OCA management confers with the City Attorney on whether to send a warning notice of default or other actions pending debarment of the vendor from City contracting. The severity of the problem determines OCA's response to the complaint.

According to the Purchaser, OCA considers vendor performance when extending or bidding a term contract. If the City department considers vendor performance unsatisfactory, OCA will not extend the contract. If OCA is rebidding an existing contract, OCA works with the City department to revise the contract specifications to address weaknesses in vendor performance.

According to the Purchaser, OCA receives few vendor complaints given the number of transactions processed. Often, vendor complaints can be resolved. For example, when a vendor providing fuel was not able to make deliveries on time, the end-user departments and the vendor agreed to reduce the number of departments covered by the fuel contract. In another example, when one department complained that a vendor was not meeting contract deadlines, OCA recommended that the department document whether the vendor met deadlines for future deliveries, and review the contract's statement of work so that the bid specifications would be more comprehensive when the next contract is bid.

Administrative Code Provisions for Non-Performing Vendors

According to the Administrative Code, if a vendor does not deliver an order within the agreed upon terms or quality, OCA or the respective City department can (1) order from another vendor and charge the original vendor the difference in price, and (2) terminate the contract with the vendor.

According to the Purchaser, charging price differentials to or terminating contracts with vendors who fail to deliver is uncommon. OCA does not track these occurrences centrally but does document problems with vendors and the actions taken in the purchase order files and the ADPICS notepad. Generally, OCA would work with the vendor and the department to resolve problems with non-delivery of commodities prior to imposing remedies allowed under the Administrative Code.

OCA does not keep a list of vendor contracts that have been terminated for non-performance. However, based on OCA's internal survey, in the past year OCA terminated two contracts because the vendor went out of business and one contract because the vendor failed to pay its Local Business Enterprise (LBE) subcontractors. Additionally, the vendor who was awarded the purchase order to deliver two fire trucks to the Airport missed the original delivery date and could not give assurances, or even a schedule, for manufacturing and delivering the fire trucks. The purchase order was awarded in September 2007 and cancelled in May 2009. According to the Purchaser, the City could try to collect on the vendor's performance bond or could try to assess the vendor for price differences, but the Airport has not exercised either option to date.

Non-Responsible and Disqualified Vendors

The Administrative Code also provides procedures for disqualifying vendors for failure to comply with the provisions of their contract. Disqualified vendors cannot bid on City contracts for a period of up to five years. Vendors are usually disqualified from bidding on City contracts for egregious conduct, such as criminal activity.

Although no vendors have been disqualified in the past three years, the Public Utilities Commission and City Attorney's Office are working on the potential disqualification of two vendors charged by the District Attorney with criminal activity. In the absence of formal disqualification, one of the two vendors is still an active vendor with the City while the other vendor has gone out of business.

For non-performing vendors who have not been officially disqualified from bidding on City contracts, OCA has the option to deem the vendor "non-responsible" and not qualified to perform on the contract. The Purchaser has procedures for vendors to protest rejection of a bid due to non-responsibility, but does not have formal procedures to determine if a vendor is non-responsible. In the past three years, OCA has not deemed any vendors non-responsible.

Conclusion

OCA needs to develop guidelines for evaluating vendors to ensure that City vendors are high performing. While resolving vendor complaints at the lowest possible level is the most efficient approach to resolving problems, the City has no method to deduct points from non-responsible vendors when scoring bids for commodity contracts.

Recommendations

In order to increase oversight over vendor performance, the Purchaser should:

- 16.1 Develop vendor and contractor performance guidelines that (a) centrally track vendor or contractor non-performance; (b) sets criteria for terminating contracts for non-performance; and (c) establishes procedures for using vendor or contractor performance evaluations in scoring bids for new contracts.

Costs and Benefits

Developing guidelines and tracking contractor performance would require OCA to reallocate staff resources. This recommendation is consistent with recommendations of Section 1 of this report on allocation of staff resources.

**The Budget Analyst's Recommendation Matrix
and the Written Response from the Purchaser,
Department of Public Health, Department of
Technology, Controller, and City Administrator**



Gavin Newsom
Mayor

Naomi Kelly
Director and Purchaser
Purchasing

December 7, 2009

To: Harvey Rose
Budget Analyst

From: Bill Jones *Bill Jones*
Acting Director

Subject: Response to recommendations and OCA's accomplishments

OCA is pleased to have worked with the Budget Analyst in their audit of commodity purchasing practices for the City. We consider the Budget Analyst's report an opportunity to review what is working well and areas of opportunity to improve OCA's operations.

Included with this memo are our responses to the Budget Analyst's recommendations for OCA and a list of some of OCA's accomplishments. Due to operational demands and time constraints, OCA will submit a rebuttal to appropriate sections of the audit under separate cover at a later date.

Generally, OCA agrees or partially agrees with all the recommendations relevant to OCA, with the exceptions of some of the priority designations and responsibility for delineating requirements for city ordinances. Significant accomplishments can be summarized as developing term contracts for citywide use which have incorporated important goals such as promoting: LBE contracting opportunities, green products, emergency preparedness, and social legislation such as the Sweatfree Ordinance.

Again, OCA wishes to acknowledge the Budget Analyst's staff and their efforts to identify opportunities for improving commodity purchasing practices within the City.

Enclosures: Response to recommendations
OCA's accomplishments

cc: Naomi Kelly, Director, OCA
Severin Campbell, Budget Analyst



November 30, 2009

Mr. Harvey Rose
Office of the Budget Analyst
1390 Market Street, Suite 1025
San Francisco, CA 94102

Reference: Management Audit of DPH Purchasing Process and Inventory Controls

Thank you for the results and recommendations from your office's audit of the DPH Purchasing Process and Inventory Controls. Although these areas have experienced many key successes in recent years, the Budget Analyst Management Audit has pointed out additional areas of improvement for the program. The Department welcomes these suggestions and we will work with to implement any suggestion that is feasible for the continued success our purchasing efforts. The Management Audit will serve as a guide in implementing needed reforms and developing new aspects for this process. We have outlined our responses to each recommendation below:

Comments on Recommendations

In order to reduce potential overstocking, the Associate Hospital Administrator for Support Services should:

12.1 Establish and document a formal protocol at San Francisco General Hospital to evaluate supply usage and revise par levels as necessary to match supply usage.

RESPONSE: We concur. Our in-house purchasing system, Pathways Material Management (PMM), has usage par level parameters that can be set for department usage. The same procedures and policies we currently use for Omnicells, exchange carts, and par level handhelds will be established in our other programs.

12.2 Establish guidelines for Materials Management staff to evaluate purchase requisitions submitted by clinical unit and other hospital staff, including (a) product specifications, and (b) quantity.

RESPONSE: We concur. We currently have informal procedures that we have modified as necessary to balance the needs of the end user and our fiscal realities. We will establish formal guidelines for all Materials Management staff to use consistently, while maintaining the flexibility to modify as necessary to achieve organizational goals.

12.3 In conjunction with the San Francisco General Hospital Director of Nursing, (a) determine the appropriate dollar amount for which clinical unit staff are authorized to purchase medical supplies without approval by the Materials Manager, and (b) assign Materials Management staff to inventory medical supplies stored on the clinical units outside of the exchange carts and Omni-Cell units.

RESPONSE: We concur. Appropriate dollar levels have already been established in PMM. Assigned authorization and security levels for all requesters and approvers will be in place by June 30th 2010.

In order to efficiently maintain product lists in PMM, the Associate Hospital Administrator for Support Services should:

12.4 In conjunction with the San Francisco General Hospital and Laguna Honda Hospital Materials Managers, (a) reduce the number of authorized positions that can enter items into the PMM list, (b) document criteria for when items are entered into PMM and into ADPICS, and (c) review all items currently in PMM to eliminate existing duplicate entries.

RESPONSE: We concur. SFGH positions with authorization to add items into PMM will be reduced from 9 to 6. There are only two positions with the authority at Laguna Honda. ADPICS does not apply to SFGH regarding this recommendation. Both SFGH and Laguna Honda will run comparison reports to identify and eliminate existing duplicate entries in the PMM system.

In order to implement or enhance internal inventory controls, the Department of Pharmaceutical Services should:

12.5 Consistently require storeroom requisitions to have required order numbers, dates, stock levels, or requestor identification.

RESPONSE: We concur. Pharmaceutical Services will reinforce the requirement with all staff and instruct the purchasing technician to no longer accept any requisitions unless all required fields are completed.

12.6 Conduct periodic Omni-Cell hand count inventories by Pharmacy staff to ensure proper inventory and dispensing controls.

RESPONSE: We concur. Pharmaceutical Services will remind and retrain staff to consistently stock medications correctly and to partner with the nurse managers to ensure that they are aware of inventory adjustments, issues, etc.

12.7 Establish written procedures for receipt of returned medication, including whether unused pharmaceuticals should be returned to the pharmacy of origin and procedures for checking in returned pharmaceuticals.

RESPONSE: We concur. Pharmaceutical Services will develop a policy and procedure on whether and how to accept returned pharmaceuticals.

12.8 Produce and maintain records of the audits of the annual hand-count inventory of pharmaceuticals.

RESPONSE: We concur. Pharmaceutical Services will coordinate processes with the Finance Department to maintain records of the audits for hand-counts of pharmaceuticals. Audit records will be retained for a minimum of three (3) years.

In order to increase management oversight over the purchasing process, the Hospital Associate Administrator for Support Services should:

13.1 Assign the 1942 Assistant Materials Coordinator to (1) develop comprehensive reports of SFGH medical purchases through the City's purchasing system, ADPICS, and the Hospital's purchasing system, PMM; (2) monitor Novation and Cardinal prices for competitiveness, price changes, and discounts; and (3) identify and pursue various discount pricing options.

RESPONSE: We concur. SFGH will incorporate this role into the 1942 position and work to obtain GHX (Global Health Exchange) or similar engines to compare with market discount reporting for Novation and MDBuyline.

13.2 Monitor non-contract vendor prices for medical supply purchases through San Francisco General Hospital's distributor to ensure that the Hospital is receiving the lowest possible price.

RESPONSE: We concur. SFGH will perform sample comparison bids on a regular basis.

13.3 Develop written procedures for competitive price comparisons for commodity purchases less than \$50,000 and for non-medical purchases from vendors with Novation and Citywide contracts.


RESPONSE: We concur. Written procedures exist in OCA procedure manuals. Materials Management will follow these procedures for both Novation and Citywide contracts.

13.4 Solicit a shared distributor for San Francisco General Hospital and Laguna Honda Hospital when the existing distributor contracts expire to achieve additional volume discount savings and streamlined contract management.

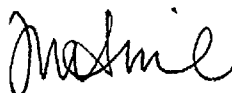
RESPONSE: We concur. Both SFGH and Laguna Honda will explore the feasibility of returning to a shared distributor when the existing contracts expire.

I hope that these responses are agreeable to your office. Please contact us should you have any additional concerns.

Sincerely,



Susan A. Currin
Executive Administrator
San Francisco General Hospital &
Trauma Center



Mivic Hirose
Executive Administrator
Laguna Honda Hospital &
Rehabilitation Center

cc: Mitch Katz, MD, Director of Health
Delvecchio Finley, Associate Administrator-SFGH
Mike Llewellyn, COO- LHH
Sharon Kotabe, Associate Administrator- DPH
Valerie Inouye, CFO- SFGH
Tess Navarro, CFO- LHH
Marijane Pierson, Materials Manager- SFGH
Russell Nakai, Materials Manager- LHH



City & County of San Francisco
**Department of
Technology**
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November 30, 2009

Mr. Harvey Rose
Budget Analyst
City and County of San Francisco Board of Supervisors
1390 Market Street, Suite 1025
San Francisco, CA 93102

Dear Mr. Rose,

The Department of Technology has reviewed the Budget Analyst's findings and recommendations pertaining to the City's information technology purchasing practices in your most recent management audit of the City's overall procurement practices. This is an area of critical importance in light of the diminishing resources that the City has to invest in information technology (IT) and we welcome the opportunity to review and discuss the challenges the IT community faces in this area.

Overall, we agree with your assessment in the current state of IT procurement in the City and your recommendations. We have already begun the difficult task of addressing the issues you have called out. Our specific comments to the Budget Analyst's recommendations are as follows:

Section 8: Information Technology Purchasing

The Budget Analyst discusses the efforts over the past several years to bring the City's IT community together with respect to coordination of IT planning and purchasing. Indeed, we believe these efforts have resulted in a fundamental shift in how the City approaches information technology overall and we are excited to leverage these efforts in the coming year to achieve tangible goals and objectives.

Recommendations:

In order to provide greater citywide collaboration of IT planning and purchasing, the Director of the Committee on Information Technology should:

- 8.1 Provide more guidance to departments, including clear written guidance, as to how to complete an IT plan and assist departments in developing quantifiable goals within a timeline that the department can check against actual outcomes.



Department Response: Agree. More explicit instructions have already been written and will be distributed with this year's annual budget instructions. COIT staff, as in years past, is available at any time to assist departments with their submissions to COIT.

- 8.2 Develop IT inventory policies and standards and present to COIT for approval.

Department Response: Agree.

- 8.3 Finalize the citywide IT Plan and present to COIT for approval.

Department Response: Agree.

In order to minimize confusion and unnecessary delay to the IT purchasing process, the Chief Information Officer should:

- 8.4 Work with COIT and the Purchaser to develop criteria and timelines for approving, delaying or rejecting IT commodity requests.

Department Response: Agree. We believe that with automation of the CIO review process in ADPICS effective in late August, review timelines have been greatly reduced. For the four weeks ending October 7th, 2009, on average requests were reviewed and processed by the CIO in 2.6 days. However, now that the review process has been refined, the criteria for IT procurement assessment will now be informed by data gathered and we look forward to working both with the Purchaser and through COIT.

Section 9: Technology Store Purchasing

Recommendations:

In order to ensure that the Technology Store administrative fee only covers actual Technology Store administrative costs, the Director of the Committee on Information Technology, the Purchaser, and the City Administrator should:

- 9.2 Recommend to the Board of Supervisors that Administrative Code Section 21.8 be amended to shift responsibility for review of the Technology Store administrative fee to the City Administrator.

Department Response: Agree.

Recommendation Priority Ranking

Based on the management audit findings, the Budget Analyst has made 66 recommendations which are ranked based on priority for implementation. The definitions of priority are as follows:

- Priority 1: Priority 1 recommendations should be implemented immediately.
- Priority 2: Priority 2 recommendations should be completed, have achieved significant progress, or have a schedule for completion prior to June 30, 2010. OCA or the respective department should submit information on recommendation implementation to the Chair of the Board of Supervisors Government Audit and Oversight Committee prior to June 30, 2010.
- Priority 3: Priority 3 recommendations are longer term and should be completed, have achieved significant progress, or have a schedule for completion prior to September 30, 2010. OCA or the responsible department should submit information on recommendation implementation to the Chair of the Board of Supervisors Government Audit and Oversight Committee prior to September 30, 2010.

	Recommendation	Priority	Department Response	Implementation Status/ Comments
	In order to fully implement the Mayor’s business model for purchasing, the Purchaser should:			
1.1	Develop an annual staff plan that assigns management and staff resources to (a) analyzing trends in commodity purchasing, (b) revising purchasing procedures to address commodity purchasing trends, (c) enforcing purchasing standards, and (d) providing training.	2	Partially agree	According to the Purchaser, the Director annually prepares: (a) a strategic plan; and, (b) a performance plan; both for the City Administrator. She will review those plans and incorporate this recommendation’s specific items as appropriate into the relevant plan.
1.2	Develop an annual training plan for OCA purchasers that includes purchasing best practices and process improvements. This training plan should (a) address OCA priorities (such as establishing term contracts) and areas needing improvement (such as establishing departmental blanket agreements); and (b) provide for follow up to ensure staff understanding and compliance.	2	Agree	According to the Purchaser, although OCA has informal training and procedures, we’ll develop the annual plan.
1.3	Review the Controller’s financial post audit findings and recommendations pertaining to delegated departmental purchasing, application of Administrative Code requirements, or vendor payment, and work with City departments to ensure implementation of the Controller’s recommendations.	1	Agree	According to the Purchaser, OCA will work with the Controller to develop our appropriate role to support the Controller in this area. OCA believes this should be a priority 2.

	Recommendation	Priority	Department Response	Implementation Status/ Comments
	In order to improve ADPICS data reliability and better use ADPICS data reporting capabilities, the Purchaser should:			
2.1	Develop a policy to ensure correct data entry for data reporting and analysis.	2	Partially agree	According to the Purchaser, the integrity of the data is the responsibility of the Controller and the departmental employees who do the data entry. OCA will work with the Controller to develop appropriate guidelines for how departments enter data into ADPICS.
2.2	Develop (1) a dictionary for end-users, defining each ADPICS field and the entries into each ADPICS field; and (2) a matrix for end-users, linking entries into specific ADPICS fields to ensure consistency.	2	Partially agree	According to the Purchaser, the Controller is the agency responsible for maintenance of ADPICS (and FAMIS). The Controller, with assistance from OCA, has posted dictionaries for purchase orders and blankets. OCA will work with the Controller to develop the remaining appropriate dictionaries, and the matrix.

	Recommendation	Priority	Department Response	Implementation Status/ Comments
2.3	Consider making the “Buyer Name” data field to be a mandatory field (i.e., for both OCA buyers and departmental buyers) to ensure that all purchases can be tracked to the appropriate staff who either initiated or completed the purchase order request.	3	Agree	<p>According to the Purchaser, for OCA documents, OCA staff fill in the Buyer Name for almost all transactions. For non-OCA transactions, that field may be useful. OCA will work with the Controller to review whether to make it a required field, including the cost of programming and on-going effort to maintain the data table associated with the field.</p> <p>Even if the Buyer Name field is empty, all ADPICS documents have an approval path history showing the originator and all approvers, which provides an audit trail.</p>
2.4	Create monthly, quarterly, and annual management reports to identify purchasing trends. In order to implement this recommendation, the Purchaser should: (1) Identify high risk areas requiring monitoring (such as high volume purchases for specific commodities or from specific vendors to identify contracting opportunities; or frequent use of direct vouchers exceeding \$200); (2) Work with the Controller’s Office to identify data needs and schedule routine ADPICS downloads; (3) Develop a reporting structure for analysis and oversight of purchasing data; and (4) Incorporate analysis into strategic and annual work plans.	1	Partially agree	<p>According to the Purchaser, the reports are desirable. OCA will work with the Controller on the reports’ subject matter and frequency.</p>

	Recommendation	Priority	Department Response	Implementation Status/ Comments
	In order to increase the number of Citywide term contracts, the Purchaser should:			
3.1	Develop quantitative criteria for establishing term contracts, including (a) annual volume of purchases for specific commodities, and (b) annual volume of purchases from specific vendors.	2	Agree	According to the Purchaser, this additional analysis could have benefits. OCA will address this in tandem with the new reports referred to in item 2.4 to determine candidates for new term contracts.
3.2	Ensure implementation of the Purchaser's FY 2009-10 performance objective to require each purchaser to complete three new term contracts each year and include an additional objective to add discounted commodities to existing term contracts.	2	Agree	According to the Purchaser, the objective is to bid three contracts, and that total can be a combination of new contracts and rebids of expiring contracts, which often include new commodities.
3.3	Increase the annual performance goal for the percentage of commodity purchases through term contracts based on OCA priorities rather than historical experience.	3	Agree	According to the Purchaser, OCA will review how it sets this performance goal and try to increase it.

	Recommendation	Priority	Department Response	Implementation Status/ Comments
3.4	Require City department staff to purchase all commodities available through contracts from the contract by (a) conducting periodic spot checks of City departments with high volume commodity purchases from vendors with term contracts, (b) reminding City department directors and senior managers on an ongoing basis on the importance of department staff compliance with term contract purchasing, and (c) incorporating information on term contract purchasing and compliance into existing training provided by OCA to department staff.	1	Agree	<p>According to the Purchaser:</p> <p>Part (a): OCA will work with the Controller to develop the reports needed to implement this item. Then OCA will work with the Controller to make this item part of the post-audit protocols.</p> <p>Part (b): OCA already provides the term contract information in several ways: (1) annual memos to departments; (2) postings in the Document Library; (3) citywide e-mails that information about new and amended term contracts.</p> <p>To accommodate the Budget Analyst's recommendation, OCA sent a separate citywide e-mail on November 12 reminding departments of their responsibilities as they use term contracts.</p> <p>Part (c): OCA will continue to provide term contract information in training.</p>
	In order to increase oversight over delegated departmental purchasing, the Purchaser should:			
4.1	Work with the Ethics Commission to determine which City department employees designated to purchase commodities under their delegated departmental authority should file a Statement of Economic Interests, and ensure that City departments comply with this determination.	1	Agree	According to the Purchaser, OCA will consult with the Ethics Commission.

	Recommendation	Priority	Department Response	Implementation Status/ Comments
4.2	Immediately direct all City departments to process all non-Technology Store commodity transactions with values less than \$10,000 in conformance with City departments' delegated departmental purchasing authority.	1	Partially agree	According to the Purchaser: OCA believes informal discussions with departments submitting requisitions below \$10,000 are preferable to directing departments to stop sending us such requisitions. OCA has had success using this approach with two major departments. If OCA finds this approach does not work with other departments, then OCA can consider sending a directive.
	In order to develop an effective procedure to purchase low-dollar value technology equipment, the Purchaser should:			
4.3	In conjunction with the Chief Information Officer, (a) identify the data and analytical needs to plan for standardizing computer, laptop, and printer equipment and implementing volume purchasing; (b) develop a work plan for identifying and addressing barriers to batching requisitions and purchasing equipment for multiple City departments; and (c) report to the City Administrator prior to June 30, 2010 on the expected timelines and requirements for equipment standardization and volume purchasing	1	Partially agree	According to the Purchaser, the CIO has taken the lead on this recommendation and OCA will support the CIO's efforts. According to the City Administrator, the City Administrator agrees with receiving the report discussed in (c).

	Recommendation	Priority	Department Response	Implementation Status/ Comments
	In order to obtain the best available price for commodities, the Purchaser should			
5.1	Require solicitation of at least three price quotes for all departmental blanket agreements between \$10,000 and \$50,000 and competitive bids for all departmental blanket agreements greater than \$50,000.	1	Partially agree	<p>According to the Purchaser :</p> <p>OCA agrees with this recommendation insofar as it applies to blankets that are biddable. Many types of departmental blankets are not biddable. For example, for sole-source blankets, it is not possible to bid them or obtain price quotes from more than one vendor.</p> <p>Another example is Open Market Purchase departmental blankets, which cover situations where the information required for bidding is unknown, such as types of items and their quantities. Furthermore, the department could need anything from a vendor's inventory, which could include tens of thousands of different items.</p> <p>As OCA implements the Budget Analyst's related recommendations for developing new reports to obtain historical usage, this should lead to new contracts and a commensurate reduction in the number of departmental blankets.</p>

	Recommendation	Priority	Department Response	Implementation Status/ Comments
	To better manage existing departmental blanket agreements, the Purchaser should:			
5.2	Ensure than only one vendor is available for commodities requested under sole source agreements.	2	Agree	According to the Purchaser, this is part of OCA's regular procedures.
5.3	Ensure that sufficient and complete information is entered into the ADPICS notepad screen regarding (a) the status of the sole source waiver request, and (b) the department's justification for approving the sole source waiver.	2	Partially agree	According to the Purchaser, OCA's practice is to include in the ADPICS note pad a notation that there is an approved sole source waiver on file. This is sufficient for OCA's purposes, because OCA maintains a binder of the approved sole source forms and a log of all the forms.

	Recommendation	Priority	Department Response	Implementation Status/ Comments
	In order to standardize City departments' development of commodity specifications, the City Administrator should:			
6.1	Develop commodity specification guidelines for City departments for specialized or technical purchases, in conjunction with the Purchaser.	3	Disagree	<p>According to the City Administrator, the City Administrator does not have the subject matter expertise to develop commodity specification guidelines for specialized or technical purchases. This responsibility rests with the Departments for particular bids per the Administrative Code.</p> <p>According to the Purchaser, the Administrative Code gives departments the responsibility for developing technical specifications for particular bids. OCA will support the City Administrator or departments, as appropriate, in developing guidelines for technical spec development.</p>
	In order to comply with Administrative Code Section 21.C.2., the Purchaser should:			
6.2	Annually review and adjust as necessary the sales tax discount in consultation with the City Attorney.	2	Agree	According to the Purchaser, OCA will consult with the City Attorney annually.

	Recommendation	Priority	Department Response	Implementation Status/ Comments
6.3	Determine a rate or rates for appropriately discounting City payroll tax expenses, in consultation with the City Attorney and Controller.	2	Agree	OCA will consult with the Controller and the City Attorney.
	In order to identify and reduce the misuse of direct voucher payments, the Purchaser should:			
7.1	Review ADPICS notepad screens for a sample of direct vouchers greater than \$200 (or the established threshold).	2	Agree	According to the Purchaser, this is part of normal procedures.
7.2	Identify commonly occurring errors in establishing blanket agreements or processing transactions that result in direct vouchers, and departments that have frequent use of direct vouchers greater than \$200 (or the established threshold); and incorporate training on purchasing transactions that result in frequent errors or the use of direct vouchers into existing training for City department staff.	2	Partially agree	According to the Purchaser, because both OCA and the Controller process DVs over \$200, OCA will work with the Controller to identify how the situations that give rise to these DVs can be minimized.
7.3	Work with the Controller to determine the most effective threshold for direct vouchers that both streamlines the purchasing approval process and ensures that public monies are being used appropriately.	2	Agree	According to the Purchaser, OCA will work with the Controller to revise the threshold.
7.4	Revise OCA’s Purchasing Procedures Manual to (a) define “Exceptions to Normal OCA Guidelines”, and (b) provide examples for when direct voucher are or are not appropriate.	2	Agree	According to the Purchaser, because both OCA and the Controller process DVs over \$200, OCA will work with the Controller to implement this recommendation.

	Recommendation	Priority	Department Response	Implementation Status/ Comments
	In order to provide greater citywide collaboration of IT planning and purchasing, the Director of COIT should:			
8.1	Provide more guidance to departments, including clear written guidance, as to how to complete an IT plan and assist departments in developing quantifiable goals within a timeline that the department can check against actual outcomes.	2	Agree	According to the Department of Technology, more explicit instructions have already been written and will be distributed with this year's annual budget instructions. COIT staff, as in years past, is available at any time to assist departments with their submissions to COIT.
8.2	Develop IT inventory policies and standards and present to COIT for approval.	2	Agree	
8.3	Finalize the citywide IT Plan and present to COIT for approval	2	Agree	

	Recommendation	Priority	Department Response	Implementation Status/ Comments
	In order to minimize unnecessary delay to the IT purchasing process, the Chief Information Officer should:			
8.4	Work with COIT and the Purchaser to develop criteria and timelines for approving, delaying or rejecting IT commodity requests	1	Agree	<p>According to the Department of Technology, the Department believes that with automation of the CIO review process in ADPICS effective in late August, review timelines have been greatly reduced. For the four weeks ending October 7th, 2009, on average requests were reviewed and processed by the CIO in 2.6 days. However, now that the review process has been refined, the criteria for IT procurement assessment will now be informed by data gathered and we look forward to working both with the Purchaser and through COIT.</p> <p>According to the Purchaser, OCA will assist the COIT and the CIO as requested.</p>

	Recommendation	Priority	Department Response	Implementation Status/ Comments
	In order to create a structured control to ensure that Technology Store vendors are providing the appropriate discount and mark-up rates, the Purchaser should:			
9.1	Institute a program of periodic audits of Technology Store vendors, as proscribed in Appendix A of the Technology Store contracts.	2	Agree	According to the Purchaser, prior to this audit, OCA had an informal process for spot-checking prices. After meeting with the auditors, OCA implemented a more formalized procedure to randomly audit orders on a weekly basis. If there are any discrepancies, the vendor is contacted for corrections.

	Recommendation	Priority	Department Response	Implementation Status/ Comments
	In order to ensure that the Technology Store administrative fee only covers actual Technology Store administrative costs, the Director of the Committee on Information Technology, the Purchaser, and the City Administrator should:			
9.2	Recommend to the Board of Supervisors that (1) Administrative Code Section 21.02 be amended to transfer responsibility for the Technology Store from COIT to OCA, and (2) Administrative Code Section 21.8 be amended to transfer responsibility for review of the Technology Store administrative fee to the City Administrator.	1	Agree	<p>According to the Purchaser, OCA will work with the CIO and the City Administrator to make appropriate recommendations for any necessary changes to the Code.</p> <p>According to the City Administrator, the City Administrator will work with the CIO and Purchaser to make appropriate recommendations to the Board for any necessary changes to the Code.</p> <p>According to the Department of Technology, the Department agrees with this recommendation.</p>

	Recommendation	Priority	Department Response	Implementation Status/ Comments
	AND the City Administrator should:			
9.3	Set up an annual review process, consistent with the Administrative Code, to set the administrative fee at a rate that covers actual administrative costs of managing the Technology Store contracts.	2	Partially agree	<p>According to the City Administrator, with the help of the Controller’s Office, the City Administrator can work with OCA and CIO to set up a review process to set the administrative fee on a periodic basis. It is unclear whether an annual review is necessary vs. a biennial review.</p> <p>According to the Purchaser, OCA will assist the City Administrator in this review.</p>
	AND the Controller should:			
9.4	Review the City’s General Cost Allocation Plan to ensure that it does not include costs already covered by the funds collected through the administrative fee charged on all Technology Store purchases.	1	Partially agree	<p>According to the Purchaser, OCA will assist the Controller and the City Administrator in this review.</p>

	Recommendation	Priority	Department Response	Implementation Status/ Comments
	In order to promote Micro-LBE participation in the Technology Store, the Purchaser should:			
9.5	Evaluate reasons for low LBE participation and develop measures to increase LBE in conjunction with the Director of the Human Rights Commission, and report to the Board of Supervisors prior to May 30, 2010 (see Recommendation 16.3).	1	Partially agree	<p>According to the Purchaser:</p> <p>As the RFP was being developed, OCA and HRC met with vendors who had been LBE subs under the Computer Store. The LBEs expressed the desire to work directly with departments as primes rather than as subs. This helped OCA and HRC develop a new pilot Micro-LBE set-aside program, which created new opportunities. OCA worked closely with HRC to develop subcontracting goals for the contract; the goals themselves were set by HRC.</p> <p>As the City gains experience with the Technology Store, OCA will work with HRC to identify additional product and service areas that could be candidates for new Micro-LBE set-aside contracts.</p>

	Recommendation	Priority	Department Response	Implementation Status/ Comments
	In order to create a younger and more efficient City-wide vehicle fleet, the Director of Fleet Management should:			
10.1	Work with the other fleet managers to develop a comprehensive City-wide, vehicle replacement policy that incorporates Mercury Associates’ “Fleet Management Best Practices Assessment” recommendations for (a) vehicle use data collection; and (b) a business plan for reducing the average age of the vehicle fleet.	2	Agree	According to the City Administrator, plans are underway to develop a comprehensive citywide fleet policy, to address vehicle purchase, use, storage, maintenance, replacement, reporting, etc.
10.2	Present a Citywide vehicle replacement policy prior to April 30, 2010.	1	Partially agree	According to the City Administrator, Fleet Mgmt is working to implement a citywide fleet mgmt information system and needs all available staff resources to focus on this major project. The new system will help collect usage and cost data to guide replacement policy and decision.
	In order to achieve compliance with the City’s Transit-First Policy, the Director of Fleet Management should:			
10.3	Work with the other fleet managers and the DOE to develop (a) a City-wide policy that promotes alternative transportation, and (b) creative alternatives to single vehicle use.	3	Agree	According to the City Administrator, developing car sharing contracts to create single use alternatives. Need resources (parking spaces & driver self-service software) to develop additional City share vehicle pools.

	Recommendation	Priority	Department Response	Implementation Status/ Comments
	In order to reduce maintenance costs and achieve purchasing efficiencies, the fleet managers should:			
10.4	Work with OCA and the City Attorney’s Office to cooperatively decide on an actionable vehicle model standardization plan that balances necessary flexibility with improved efficiency.	2	Agree	According to the City Administrator, Fleet Management has begun work in conjunction with OCA to develop up to 5 vehicle term contracts to standardize the fleet, bringing the current vehicle selector list from about 200 models down to possibly 40.
	In order to discourage hoarding or underuse of vehicles in General Services Departments while providing for sufficient vehicle replacement funding, the Director of Fleet Management should:			
10.5	Develop a GSA general pool vehicle leasing fee that passes on the true cost of vehicle purchase and maintenance on to departments.	2	Agree	According to the City Administrator, Fleet Management will need additional analytical resources – a temp 1822 class is pending – to conduct cost allocations review on labor rate, lease rate, and possibly asset mgmt fee. Car sharing contract will capture and passes true cost to user depts.

	Recommendation	Priority	Department Response	Implementation Status/ Comments
	In order to bring take-home vehicle practices in line with the Administrative Code, the Director of Fleet Management should:			
10.6	Enforce penalties accorded 4.11(c) against employees who are taking vehicles home in violation of City policies.	1	Partially agree	According to the City Administrator, Fleet Management should only be responsible for data collection, record keeping and reporting. Disciplinary actions should remain at the department level.
10.7	Work to lower take-home vehicle use to numbers allowed by the Administrative Code; or	2	Agree	According to the City Administrator, Fleet Management should do data collection, record keeping and reporting.
	Work with the City Attorney’s Office to amend Administrative Code Section 4.11(b) to adjust the allowable number of take-home vehicles to a number that satisfies both departmental and Fleet Management needs	2	Agree	The City Administrator agrees to propose Code changes from pre-authorized numbers to discretion of dept heads and City Administrator to meet business needs.

	Recommendation	Priority	Department Response	Implementation Status/ Comments
	In order to hasten the vehicle purchasing process, the Purchaser should:			
11.1	Establish performance standards in order to track issuance times and identify possible obstacles to quicker purchase order issuance.	2	Agree	<p>According to the Purchaser, OCA maintains a vehicle log, which contains information on processing times, which the Budget Analyst used. OCA will work with Fleet Management to refine this log to identify ways to improve turnaround times and monitor performance.</p> <p>In addition, OCA will establish target times for reviewing requisitions and returning to departments those lacking important information.</p>
11.2	Assign additional staff resources to vehicle procurement during peak vehicle ordering periods (historically spring).	2	Partially agree	<p>According to the Purchaser, OCA will review its staff allocation and will implement this recommendation if it is appropriate to do so.</p>

	Recommendation	Priority	Department Response	Implementation Status/ Comments
	In order to reduce redundancy in requisition review and thereby hasten the vehicle purchasing process, the City Administrator should:			
11.3	Determine whether the Director of Fleet Management or OCA should review the technical appropriateness of requested vehicle options and trim levels, and memorialize the accountability in writing.	1	<p style="text-align: center;">City Administrator: Agree</p> <p style="text-align: center;">Purchaser: Partially agree</p>	<p>According to the City Administrator, the City Administrator will work with Fleet Management and OCA to determine the appropriate roles and responsibilities for the 2 departments.</p> <p>According to the Purchaser: OCA will work with Fleet Management to reexamine the process of developing and reviewing technical specifications for options and trim levels.</p> <p>OCA believes that both Fleet Management and OCA should continue to review specifications, and that this is not a redundant process.</p> <p>Specifications for vehicles are highly complex. Fleet Management focuses on the technical aspects of the specifications while OCA focuses on price and appropriateness.</p>

	Recommendation	Priority	Department Response	Implementation Status/ Comments
	In order to take advantage of available discounts, the Purchaser should:			
11.4	Work cooperatively with requesting departments and the Controller in order to determine a reasonable expectation for payment processing times.	2	Partially agree	According to the Purchaser, although no vehicle bidder has offered a prompt payment discount for several years, OCA will work with the Controller and departments on this recommendation. Depending on our findings, OCA will review our bid evaluation procedures and revise discount limitations appropriately.
11.5	After determining such reasonable processing times, OCA should remove the 2 percent limit on discount adjustments during the bid evaluation so long as the offered discount would occur within the reasonably expected payment period.	2	Partially agree	According to the Purchaser, based on the results of the review described in 11.4, OCA will adjust its bid discount limitation accordingly.
	In order to reduce potential overstocking, the Associate Hospital Administrator for Support Services should:			
12.1	Establish and document a formal protocol at San Francisco General Hospital to evaluate supply usage and revise par levels as necessary to match supply usage.	3	Agree	According to the Department of Public Health, the Department's in-house purchasing system, Pathways Material Management (PMM), has usage par level parameters that can be set for department usage. The same procedures and policies that the Department currently uses for Omnicells, exchange carts, and par level handhels will be established in the Department's other programs.

	Recommendation	Priority	Department Response	Implementation Status/ Comments
12.2	Establish guidelines for Materials Management staff to evaluate purchase requisitions submitted by clinical unit and other hospital staff, including (a) product specifications, and (b) quantity.	2	Agree	According to the Department of Public Health, the Department currently has informal procedures that have been modified as necessary to balance the needs of the end user and fiscal realities. The Department will establish formal guidelines for all Materials Management staff to use consistently, while maintaining the flexibility to modify as necessary to achieve organizational goals.
12.3	In conjunction with the San Francisco General Hospital Director of Nursing, (a) determine the appropriate dollar amount for which clinical unit staff are authorized to purchase medical supplies without approval by the Materials Manager, and (b) assign Materials Management staff to inventory medical supplies stored on the clinical units outside of the exchange carts and Omni-Cell units.	2	Agree	According to the Department of Public Health, appropriate dollar levels have already been established in PMM. Assigned authorization and security levels for all requesters and approvers will be in place by June 30, 2010.

	Recommendation	Priority	Department Response	Implementation Status/ Comments
	In order to efficiently maintain product lists in PMM, the Associate Hospital Administrator for Support Services should:			
12.4	In conjunction with the San Francisco General Hospital and Laguna Honda Hospital Materials Managers, (a) reduce the number of authorized positions that can enter items into the PMM list, (b) document criteria for when items are entered into PMM and into ADPICS, and (c) review all items currently in PMM to eliminate existing duplicate entries.	2	Agree	According to the Department of Public Health, SFGH positions with authorization to add items into PMM will be reduced from 9 to 6. There are only 2 positions with authority at LHH. ADPICS does not apply to SFGH regarding this recommendation. Both SFGH and LHH will run comparison reports to identify and eliminate existing duplicate entries in the PMM system.
	In order to implement or enhance internal inventory controls, the Department of Pharmaceutical Services should:			
12.5	Consistently require storeroom requisitions to have required order numbers, dates, stock levels, or requestor identification.	1	Agree	According to the Department of Public Health, Pharmaceutical Services will reinforce the requirement with all staff and instruct the purchasing technician to no longer accept any requisitions unless all required fields are completed.

	Recommendation	Priority	Department Response	Implementation Status/ Comments
12.6	Conduct periodic Omni-Cell hand count inventories by Pharmacy staff to ensure proper inventory and dispensing controls.	2	Agree	According to the Department of Public Health, Pharmaceutical Services will remind and retrain staff to consistently stock medications correctly and to partner with the nurse managers to ensure that they are aware of inventory adjustments, issues, etc.
12.7	Establish written procedures for receipt of returned medication, including whether unused pharmaceuticals should be returned to the pharmacy of origin and procedures for checking in returned pharmaceuticals.	2	Agree	According to the Department of Public Health, Pharmaceutical Services will develop a policy and procedure on whether and how to accept returned pharmaceuticals.
12.8	Produce and maintain records of the audits of the annual hand-count inventory of pharmaceuticals.	1	Agree	According to the Department of Public Health, Pharmaceutical Services will coordinate processes with the Finance Department to maintain records of the audits for hand-counts of pharmaceuticals. Audit records will be retained for a minimum of 3 years.

	Recommendation	Priority	Department Response	Implementation Status/ Comments
	In order to increase management oversight over the purchasing process, the Hospital Associate Administrator for Support Services should:			
13.1	Assign the 1942 Assistant Materials Coordinator to (1) develop comprehensive reports of SFGH medical purchases through the City’s purchasing system, ADPICS, and the Hospital’s purchasing system, PMM; (2) monitor Novation and Cardinal prices for competitiveness, price changes, and discounts; and (3) identify and pursue various discount pricing options.	1	Agree	According to the Department of Public Health, SFGH will incorporate this role into the 1942 positions and work to obtain Global Health Exchange or similar engines to compare with market discount reporting for Novation and MDBuyline.
13.2	Monitor non-contract vendor prices for medical supply purchases through San Francisco General Hospital’s distributor to ensure that the Hospital is receiving the lowest possible price.	1	Agree	According to the Department of Public Health, SFGH will perform sample comparison bids on a regular basis.
13.3	Develop written procedures for competitive price comparisons for commodity purchases less than \$50,000 and for non-medical purchases from vendors with Novation and Citywide contracts.	1	Agree	According to the Department of Public Health, written procedures exist in OCA procedure manuals. Materials Management will follow these procedures for both Novation and Citywide contracts.
13.4	Solicit a shared distributor for San Francisco General Hospital and Laguna Honda Hospital when the existing distributor contracts expire to achieve additional volume discount savings and streamlined contract management.	3	Agree	According to the Department of Public Health, both SFGH and LHH will explore the feasibility of returning to a shared distributor when the existing contracts expire.

	Recommendation	Priority	Department Response	Implementation Status/ Comments
	In order to ensure that all City departments follow vendor payment guideline consistent with the Controller’s policies, the Controller’s Office, with collaboration of OCA, should:			
14.1	Create a single vendor payment guideline that can be used by all City departments for all vendors.	2	Agree	<p>According to the Controller, the Controller will work with OCA on creating a consolidated vendor payment document.</p> <p>According to the Purchaser, OCA will work with the Controller to create a single document on invoice payment.</p>
14.2	Amend the Prompt Payment Guidelines, to require that City departments pay non-LBEs within 30 days.	2	Partially agree	<p>According to the Controller will develop a policy for payment of vendors within 30 days <u>once</u> all payment documents have been approved.</p> <p>According to the Purchaser, OCA will work with the Controller to include this change as part of the guideline referred to in 14.1.</p>

	Recommendation	Priority	Department Response	Implementation Status/ Comments
14.3	Conduct a training of the new vendor payment guidelines for all City department staff responsible for processing vendor payments.	2	Agree	According to the Controller, the Controller already conducts training on vendor payment guidelines as part of FAMIS training. According to the Purchaser, OCA will work with the Controller to provide the requisite training.
	In order to adhere to the Controller’s Office new vendor payment guideline, the Controller should direct City department financial officers to:			
14.4	Revise or create the City department’s internal vendor payment procedure to comply with the Controller’s vendor payment guidelines.	2	Agree	According to the Controller, the Controller addresses this issue in vendor payment guidelines and training.
14.5	Provide ongoing internal training to department staff responsible for vendor payments to ensure compliance with department procedures and the Controller’s guidelines.	2	Agree	According to the Controller, the Controller provides training, subject to staffing limitations.
14.6	Review invoices to ensure that commodities and prices are detailed in the purchase order and invoice, prices are correct, and discounts are applied.	1	Agree	According to the Controller, this is a standard internal control.
14.7	Require accounting staff to track and pay invoices to receive prompt payment discounts.	1	Agree	According to the Controller, this is a standard internal control.

	Recommendation	Priority	Department Response	Implementation Status/ Comments
	In order to improve the City's oversight of the City's administrative and social policy requirements, the Purchaser should:			
15.1	(a) Develop a comprehensive list of all administrative and social policy requirements established by the Administrative or other Municipal Codes that are included in purchasing contracts, (b) identify which City department is responsible for overseeing each requirement, and (c) document procedures for OCA staff in implementing these requirements in purchasing contracts in conjunction with the City Administrator.	3	Partially agree	<p>(A) and (B) Disagree. According to the Purchaser, OCA believes this is not an appropriate responsibility for this office. A comprehensive list of all administrative requirements goes well beyond the subject expertise of OCA and in some cases may conflict with the departments who are charged by ordinance to interpret, administer or enforce them. Also, for ordinances that do not designate departments to administer or enforce them, OCA cannot designate or require another department to be responsible. OCA could agree to use the Budget Analyst's list and identify the bid and standard contract language that is currently used relevant to contracting requirements.</p> <p>(C) Agree. According to the Purchaser, OCA can develop internal procedures describing the responsibilities for OCA staff, which are generally limited to ensuring that contracts contain the appropriate clauses, and to continue on-going training of OCA staff as ordinances relate to contracting.</p> <p>According to the Purchaser, OCA suggests for future legislation, that consideration be given to identify and designate the appropriate department to be responsible for administration and enforcement for each ordinance.</p>

Recommendation Priority Ranking

	Recommendation	Priority	Department Response	Implementation Status/ Comments
15.2	Evaluate reasons for low LBE participation in commodity and information technology contracts (see Section 9) and develop measures to increase LBE in conjunction with the Purchaser and Director of the Human Rights Commission, and report to the Board of Supervisors prior to May 30, 2010).	1	Partially agree	<p>According to the City Administrator, during the past year, OCA has implemented pilot programs to increase LBE participation in commodity and information technology contracts, i.e., Micro Set Aside programs. The City Administrator can work with OCA and HRC to look at increasing the participation levels, however, the City Administrator's Office does not have oversight of the City's administrative and social policy requirements. It is up to the contracting departments to ensure they are in compliance with these requirements.</p> <p>According to the Purchaser, OCA agrees that the LBE participation in City contracting can be improved and we will continue to work with HRC to explore opportunities to accomplish this. To the extent possible, OCA purposely unbundles and breaks down contracts so that the LBE Ordinance's 10% bid preference will apply. The Ordinance limits the bid preference to contracts below \$10 million.</p> <p>A promising area is set-asides for Micro-LBEs, a method that is being implemented in the Technology Store and office supplies contracts. OCA proposed and will review with HRC the advisability of raising the \$100,000 ceiling on Micro-LBE set-aside contracts.</p> <p>Regarding IT contracts that are not part of the Technology Store, they are largely professional service contracts, or a combination of services and products, which are awarded via RFPs managed by departments and which involve the application of the 10% LBE preference and subcontracting goals. LBE participation in professional service contracts is governed by the LBE Ordinance and HRC's regulations.</p>

	Recommendation	Priority	Department Response	Implementation Status/ Comments
	In order to increase oversight over vendor performance, the Purchaser should:			
16.1	Develop vendor performance guidelines that (a) centrally tracks contractor deficiencies; and (b) sets criteria for terminating contracts for non-performance; (c) establishes procedures for using contractor performance evaluations in scoring bids for new contracts.	2	Partially agree	OCA will review this with the City Attorney and determine what guidelines, if any, are appropriate.