

**COUNTY OF SAN MATEO
INTER-DEPARTMENTAL CORRESPONDENCE**

DATE: March 2, 2010

TO: Reyna Farrales, Deputy County Manager

FROM: Tom Huening, Controller

SUBJECT: Countywide Purchasing – Operational Review

We are pleased to submit our report on the Purchasing Unit of the County Manager's Office - Shared Services Division.

The primary objective of the review was to assist management in identifying areas that yielded the greatest benefit from its ongoing process improvement and cost saving efforts.

Our report consists of an executive summary followed by detailed analyses, recommendations and management responses.

The review was a collaborative effort, covered a significant area and resulted in a large number of recommended changes. We strongly recommend that management develop an implementation plan that prioritizes recommendations and establishes time-lines. The Internal Audit Division will provide assistance where needed and perform follow-ups based on the implementation plan or at least on a six-monthly basis until major issues are resolved.

The audit team worked closely with Purchasing staff to identify issues, provide and review data, and consider potential solutions. We are very grateful to you; Peter Tocchini, Shared Services Manager; Charles Davenport, Lead Buyer; and other staff involved in the Purchasing review for their participation. We look forward to working with them and providing assistance in implementing the recommendations.

Attachment: Countywide Purchasing Review Report

cc: Peter Tocchini, Shared Services Manager
Charles Davenport, Lead Buyer
Reyna Farrales, Deputy County Manager
David Boesch, County Manager/Clerk of the Board of Supervisors (6)
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San Mateo County Purchasing

Operational Review

June 2009



Controller's Office
Audit Division

San Mateo County Purchasing Operational Review

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Executive Summary

This review was requested by the Deputy County Manager – Administrative Services and covered countywide purchasing of commodities. The primary objective was to assist management in identifying areas for improvement in the procurement process that would yield the greatest benefit to the County.

The County spends approximately *\$56 million* annually on commodities. We focused on the key strategies and steps in the purchasing process that maximize cost savings and minimize risks.

The County Manager is the County Purchasing Agent (PA) and, per the County Ordinance Code, may designate a Purchasing Agent Manager and deputy purchasing agents as necessary and delegate to them the necessary duties and responsibilities. Currently, department heads are able to purchase goods and supplies valued at less than \$5,000 on their own under the delegated purchasing authority. The authority for purchases of \$5,000 and above is delegated to Central Purchasing (Purchasing). The departments manage their own purchasing needs and obtain Purchasing's help only when required – mainly for purchases exceeding \$5,000, made from a vendor who does not have a Vendor Agreement (VA) with the County or when setting-up or renewing VAs. VAs are used to purchase commonly used commodities at contracted competitive prices structured to require a minimum amount of paperwork and time. Departments also refer purchases of under \$5,000 to Purchasing, when they require the expertise of a buyer.

The County's Purchasing Unit is under the Shared Services Program of the County Manager's Office. The Purchasing staff include 4 buyers (a Lead Buyer and three Buyer IIs), a Surplus Property Manager and two Office Specialists. The Purchasing Unit received a 97 % satisfaction rating from its customers in fiscal year 2007-08.

The Controller's Information Systems Unit (CIS) also plays a vital role in county procurement. It manages the County's main accounting system, IFAS, which processes purchase requisitions, purchase orders and vendor payments. CIS and Purchasing collaborate on common issues relating to county procurement.

Our review indicates that the County can realize annual cost savings of at least *\$1.8 million* by proactively managing countywide purchases and making the systems and other improvements that will be needed to facilitate such proactive management. Our report is organized under these seven key strategic areas to facilitate a coherent presentation. The following however, are the most significant findings contained in the body of the report:

■ ***Overall Savings Opportunity of at Least \$1.8 million***

This savings opportunity can be realized through a proactive management of countywide purchases that optimizes the utilization of VAs and other cost saving strategies. Although our analysis shows a potential savings of \$5.3 million, we lowered that to \$1.8 million or by 2/3 to allow for potential overstatement due to inaccuracies in VA and other purchasing related information we utilized in our analysis. As we discuss in the proceeding sections, certain procedural and system deficiencies result in inaccurate purchasing related data maintained in IFAS, the primary source of information for our analysis. In addition to this analysis we performed tests on a sample of purchase transaction and noted missed savings opportunities of as much as \$560,000. We performed other tests, as we will elaborate in the following pages of this report, that indicate additional opportunities for significant cost savings.

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■ **Overall Procurement Strategy**

The County lacks an effective overall purchasing strategy. To effectively leverage the County's buying power, a central unit needs to regularly analyze the County's spending profile, based on which develop and maintain an overall purchasing strategy, focused on managing key spending categories and the associated vendors and agreements.

■ **Vendor Agreements**

Vendor Agreement (VA), a competitively-bid agreement for commonly purchased items, is the primary tool the County uses to maximize cost savings. VAs are also utilized when the County participates in cooperative or multi-agency agreements. We noted several issues relating to the management of VAs –

- Since compliance with VA threshold requirements are managed essentially at the department level, countywide purchases or purchases by several departments from one vendor can exceed the VA threshold of \$5,000 but not be considered for a VA.
- Adequate controls are not in place to ensure that VA numbers and other purchase related information, necessary for the proactive management purchases, are accurately entered to IFAS. VAs are maintained on a separate system, AVAS, that is not integrated into IFAS, allowing users to ignore input fields in IFAS requiring VA numbers and other vendor related information. Since it is not necessary to use AVAS to initiate or complete a purchase or a payment transaction, users are able to ignore AVAS as a resource when making County purchases. Though Purchasing offers AVAS training classes, our survey results indicate that 70% of the department buyers do not have access to AVAS and the remaining do not use it on a consistent basis. Per Purchasing, AVAS training has been provided to 121 individuals within 61 departments/divisions throughout the County and is made available on an ongoing basis to employees who specifically request it.
- As of the date of our review, we noted that 41 out of 126 VAs for current vendors had expired.
- Established VAs may not include all the major purchases from the VA vendor. Our test-work in this area showed likely missed cost savings of \$413,000.

We also noted instances where opportunities for leveraging the County's purchasing power using statewide/multi-agency contracts had not been fully exploited.

■ **Roles and Responsibilities**

It is not clear from the current governance model which unit is or should be responsible for ensuring, through appropriate systems and processes, the proactive management of the purchasing process. Specific units or individuals can not be held accountable for the performance of key purchasing functions. Purchasing and the user departments each believe the other is responsible for these functions, including ensuring adherence to existing VA terms.

Since Central Purchasing has expert buyers who understand countywide purchases, it should be given the responsibility for the proactive management and monitoring of countywide purchases. Departments, on the other hand, handle the day to day processing of purchase transactions and therefore should take the responsibility for ensuring the accuracy and completeness of VA and requisition related data entered in IFAS. Fixing these responsibilities would provide assurance that IFAS reports used in managing the countywide purchases are accurate and reliable. Since the Controller's Office 'owns' IFAS it will need to work closely with Purchasing and other stakeholders in implementing recommendations relating to IFAS processes and reports.

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Changes recommended by this report, including increases in responsibilities will require significant additional resources. The amount of resources required will depend upon the nature and scope of the changes management decides to implement.

■ *Information Systems Capabilities*

As noted above VAs are maintained in AVAS, a system that is not integrated into IFAS. Most of the VA related fields in IFAS are not mandatory. The data is entered manually and is not system validated. Consequently, there is a high risk that required data will not be entered at all, be inaccurate or incomplete. During the course of the review we noted that

- VA numbers are being used incorrectly. Incorrect VA numbers are associated with and entered for vendors who do not have agreements.
- Purchases are made with expired VAs and with VA numbers that do not exist.

As a result of the above lapses, current IFAS reports do not have accurate and complete purchasing information needed to proactively monitor and manage VA usage and countywide purchasing.

■ *Policies and Procedures*

The State law and the County Ordinance Code provide general purchasing policies and guidelines. To facilitate compliance with these requirements and identified best practices, detailed written procedures need to be developed.

The findings from this review indicate varying degrees of familiarity with policies, procedures and best practices among affected personnel. Some basic procedural deficiencies were also noted, such as those relating to vendor selection and retention of the related documentation and price checks on invoices by departments. Such lack of understanding of basic procedures by staff leads to errors and omissions that result in lost savings. Current training and outreach efforts can be further improved to reduce this risk and enhance the effectiveness of the purchasing process.

Recommendations

The issues arising from this review would require fundamental changes in the approach to managing countywide purchases including changes in responsibilities and information systems that would enable the proactive management of countywide purchases in an effective and economical manner.

We anticipate that it will take some time to fully implement the changes we recommend. Further studies will be required to determine the nature and timing of the needed system and personnel changes identified in this report. The Purchasing staff and departmental personnel involved in purchasing transactions will need significant training as we recommend significant changes in roles and responsibilities. Some immediate stop gap measures however, can be implemented for the County to start realizing savings immediately. By using data extraction and analysis tools, IFAS information can be presented in reports needed in the managing and monitoring activities we recommend. The Controller's Internal Audit Division (IA) has developed procedures, as part of this review, to produce such reports. IA can provide these reports to Purchasing on an ongoing basis until appropriate functionality is added to the primary systems currently in use. The detail of our proposal is contained in the recommendations section of this report. A summary of recommendations is given below.

- Management should instruct department heads to fully comply with the current policies and procedures designed to maximize savings opportunities. Such policies and procedures include 1) utilization of AVAS to research vendors and prices as part of the purchasing process, 2) ensuring

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completeness and accuracy of data entered in IFAS fields relating to VAs and requisitions, 3) matching of prices on invoices to that approved per VAs, and 4) referring all likely VA eligible purchases to Purchasing.

- Purchasing should create a professional development plan to provide department buyers ongoing training in the County's purchasing policies, procedures, applicable laws, regulations and best practices. As discussed with management, departmental buyers should attend mandatory training sessions on purchasing and related IFAS procedures on a regular basis.
- To maximize savings opportunities management should ensure that responsibilities for an overall procurement strategy is clearly defined. Since Central Purchasing has expert buyers who understand countywide purchases it is logical that it take this responsibility.
- Some large vendors currently provide VA pricing for items purchased through their websites. A secured login is required to provide control. Since the use of VAs is limited because of access and other issues with AVAS, and any viable solution is not expected in the short term, Purchasing should take steps to make the web buying option available to department buyers. Adequate internal control safeguards should be implemented as necessary. IA can provide assistance in assessing risks and recommending internal control procedures.
- Purchasing should proactively monitor and manage countywide purchasing to maximize cost savings. Since the current systems do not generate the standard reports that would be required, IA can create customized reports for Purchasing's use utilizing data analysis tools, as an interim solution.
- As of the date of our review, we noted that 41 out of 126 VAs had expired. Purchasing should review the current and likely purchases relating to these VAs for cost savings opportunities.
- Purchasing should implement a formal documented process for evaluating vendors on a regular basis. This evaluation should be performed at least once every 3 years and each time a VA is considered for renewal or extension.
- Purchasing should establish clear guidelines for selecting vendors for a VA. The bid and other vendor selection documentation should provide a clear audit trail of the vendor selection process and be maintained in accordance with formal retention requirements.
- To ensure that the County takes full advantage of discounted prices per the VAs, Purchasing should provide the departments detailed price lists that can be used to validate the invoiced prices.
- Purchasing should evaluate its buyers' performance on an annual basis based on quantitative measures that contribute towards its overall goals and objectives.
- To provide quick and easy access to its guides and manuals, Purchasing should post such documents on its County intranet website.
- Given the significant amount the County spends on purchases, management should take advantage of prevailing technologies to automate and streamline the purchasing processes, where possible. Through automation, cost effective monitoring and control capabilities can be made available to Purchasing and other units to proactively manage countywide purchasing, taking maximum advantage of cost saving opportunities.

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We strongly recommend that management develop an implementation plan that prioritizes recommendations and establishes time-lines. The Internal Audit Division will provide assistance where needed and perform follow-ups based on the implementation plan or at least on a six-monthly basis until major issues are resolved.

Due to the significant process improvement and cost-saving opportunities noted in this countywide review, Internal Audit plans to perform similar reviews at the departmental level once this audit is finalized. These reviews will also enable the Controller to comply with County Ordinance Code Section 2.83.020(c) that requires periodic audits of County Departments that have delegated purchasing authority.

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Background Information

The County Manager is the County Purchasing Agent (PA) per the County Ordinance Code and may designate a Purchasing Agent Manager and deputy purchasing agents as necessary and delegate to them the necessary duties and responsibilities. The PA's duties include acquiring by purchase, lease, lease-purchase, or other suitable method all personal property requisitioned by any County officer or head of a department. The PA is also authorized to execute the necessary documents and award contracts to the lowest responsible and responsive bidders for and on behalf of the County.

Currently department heads have delegated purchasing authority for goods and supplies valued at less than \$5,000. Authority for purchases of \$5,000 and above is delegated to a central Purchasing Unit (Purchasing). Purchasing is one of the three units under the Shared Services Program of the County Manager's Office. The Shared Services Manager performs the duties of the County PA and reports to the Deputy County Manager – Administrative Services. Purchasing staff includes a Lead Buyer, three Buyer IIs, a Surplus Property Officer and two Office Specialists. The other two units in the Shared Services Program are the Copy Center and Mail Services. See attached Organization Chart.

Estimated Annual Commodities Purchases	\$ 56.5 m
No. of Buyers in Purchasing	4
No. of current VAs* as of April, 2009	85
Estimated Purchases without VA Usage	\$ 28.5 m
Savings Rate from VA Usage	18.6%
<i>Cost Savings Opportunity by Increasing VA Usage:</i>	
- Max. Estimated Savings	\$ 5.3 m
- Min. Estimated Savings @ 1/3	\$ 1.8 m
* Vendor Agreements	

The primary function of Purchasing is to procure quality goods and services based upon fair and open competition in an ethical, legal, cost effective and timely manner. Purchasing handles vendor selection and the purchase order processes as well as negotiates, maintains and renews vendor agreements (VA's) to procure commonly used supplies with an annual minimum countywide purchase volume of \$5,000. The purpose of the VAs is to enable county units or the user departments to purchase competitively priced products, goods, supplies and services with a minimum amount of paperwork and as fast as possible. Purchasing estimates an average savings of 18.6% on purchase requests referred to it.

The Controller's Information Systems (CIS) also plays a vital role in county procurement as it manages the County's main accounting system IFAS, which handles the purchase requisition, purchase order and accounts payable processes. CIS and Purchasing collaborate on common issues relating to county procurement.

General Work Flow

See attached flowchart that provides an outline (page 52).

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Review Perspective

Purchasing was under Employee and Public Services (now Human Resources) from July 1993 to October 2006 and under General Services prior to July 1993. General Services was disbanded in 1993. Our review of prior audit reports indicate that recommendations relating to responsibilities for adequate systems capability for monitoring countywide purchases and for ensuring compliance with purchasing policy have been made in the past but so far not been sufficiently addressed. These issues remain significant as noted in this audit. The major reason appears to be Purchasing and CIS units' efforts on other ongoing priorities that compete for the limited available resources.

The purchasing authority for purchases less than \$5,000 was delegated to departments in 1993 when the County closed its central PA Stores with the disbanding of General Services and adopted 'delegated purchasing'. Since then departments manage their own purchasing needs and obtain Purchasing's help when required – mainly for purchases of \$5,000 and above from vendors without VAs or when setting-up or renewing VAs. Purchasing has four buyers who provide these services and has received high ratings from its customers – 97% in fiscal year 2007-08. It appears that at present, a countywide purchasing strategy is considered only when VAs for particular commodities are being set-up. Staffing/workload issues will be one of the major considerations if Purchasing is to effectively and proactively manage countywide purchases.

Both Purchasing and CIS provide significant countywide services and have strived to achieve their respective goals and objectives in a financially restrictive environment and have been proactive in improving processes. The changes recommended in this report would require additional staffing and financial resources to ensure that systems capabilities are made adequate, and appropriate expertise is made available to facilitate proactive monitoring of countywide purchases that effectively leverages the County's buying power. Our analysis indicates that by not taking such actions the County has missed significant savings opportunity over the years and continues to do so.

Implementation of the recommended processes and systems changes would take time. As noted under Implementation, Follow-ups and Other Audits section at the end of the report, certain measures should be taken in the interim to minimize missed savings opportunities. As noted therein, the Audit Division is willing to contribute where appropriate.

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Purpose and Scope

This review was requested by the Deputy County Manager – Administrative Services. We worked with the Shared Services (Purchasing) Manager and his Purchasing staff, Controller's Information Systems (CIS) Manager, departmental buyers and other appropriate county personnel. The primary objective of this review was to assist management in identifying areas for improvement in the procurement process that yield the greatest benefit to the county.

This review focuses on the County's commodities purchase transactions and the strategies utilized to maximize compliance with policy and cost savings. We focused on the key strategies and steps in the purchasing process that maximize cost savings and minimize risks. These key strategies are grouped under the following main areas:

1. Spending profile and overall procurement strategy
2. Procurement methods
3. Entity level controls
4. Central Purchasing controls
5. Department level controls
6. Information System capabilities
7. Roles and responsibilities

To achieve our audit objectives we performed the following audit procedures:

- ✓ Reviewed San Mateo County Purchasing Customer Guide and Procedures Manual;
- ✓ Reviewed relevant County policies and procedures as it related to procurement of goods and services;
- ✓ Interviewed Purchasing and user department personnel;
- ✓ Downloaded FY 2007-08 purchasing data from IFAS Open Hold database;
- ✓ Reviewed FY2007-08 Division recommended budget;
- ✓ Reviewed applicable Grand Jury and other audit recommendations;
- ✓ Evaluated the current system of internal controls;
- ✓ Evaluated the vendor agreement process;
- ✓ Tested a sample of purchases to ensure that items are necessary, meet the requirements of the user, are purchased at a fair price and adhere to policies and regulations;
- ✓ Analyzed other purchasing transactions;
- ✓ Performed analysis on purchases coded as Buyer/Departmental Requisition (RB/RD) to determine the reasonableness of the 18.6% discount rate, whether prices being paid are the negotiated prices per VAs and plausibility of establishing additional VAs;
- ✓ Performed Fair Market Value price testing on top vendors with VAs;
- ✓ Performed analysis on Countywide purchases for supply vendors;
- ✓ Reviewed results of a Countywide survey to identify control issues in the procurement process;
- ✓ Reviewed the AVAS purchasing system; and
- ✓ Performed other tests as deemed necessary.

The findings from this review deal with some core procurement issues and are interrelated. For the purposes of a coherent presentation we have organized the findings by 7 key strategic areas noted above.

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Best Practices

Where appropriate we evaluated Purchasing policies, processes and outcomes against the following best practices:

1. All purchases must have legitimate business need or purpose and be properly authorized in accordance with applicable authority limitations.
2. All goods/supplies must be obtained in the most cost-effective manner. This policy is facilitated by the use of the most appropriate procurement strategy (e.g., bidding, negotiating, vendor agreements, strategic alliance, cooperative agreements, etc.). Cost should look beyond just price and focus on the total procurement and life cycle costs.
3. County as well as vendor employees must conduct business in conformity with ethical standards and all other applicable laws and regulations.
4. As appropriate, agreements (e.g., purchase orders, vendor agreements, etc.) must be properly executed to adequately protect the County's interests. All agreements must have appropriate indemnification language to protect against any potential litigation. All agreements must have description of materials, scope of contracted work, pricing and other pertinent terms in sufficient detail to facilitate compliance checking/monitoring during receiving, payment, audit, etc.
5. Regular evaluation of vendor performance must be done to ensure conformity with agreement provisions, ethical standards and all other applicable policies and regulations.
6. Adequate segregation of duties must exist among individuals with purchasing responsibilities and also those with receiving and accounting responsibilities.
7. Appropriate capabilities and controls must be incorporated into information system(s), including monitoring, validated fields, threshold and security level controls, etc, that facilitate achieving the control and policy objectives.
8. A strategic plan should be developed by and/or for Purchasing Agent through an analysis of County's spending profile and needs that focuses on managing key spending categories and the associated vendors and agreements.
9. There must be a governance model that clearly articulates roles and responsibilities and the underlying regulations to ensure true accountability of all individual participants and units.
10. There must be a professional development plan that provides ongoing training in entity's policies and procedures, applicable laws and regulations and best practices. The plan should include annual updates that cover changes and issues noted from monitoring of purchase transactions.
11. A periodic independent evaluation of the purchasing function should be performed to determine its efficiency and effectiveness.

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1. Spending Profile and Overall Procurement Strategy

Performing a regular analysis of the County’s spending profile and purchase needs will enable the development of a strategic plan that focuses on managing the key spending categories and the associated vendors and agreements.

The County spends about \$56 million annually on commodities purchases. Payments to vendors and others are processed through the Accounts Payable Open Hold module (OH) in IFAS, the County’s main financial information system. From our analysis we noted that during fiscal year 2007-08, there were 129,000 payments (checks and debits) processed through OH totaling \$1.8 billion. These include payments for purchase of commodities as well as non-purchase transactions such as service contracts, remittance of taxes and fees, payments for utilities, and reimbursements. Payments are also made on behalf of other agencies and governmental entities. This review focuses on the County’s commodities purchase transactions. Purchasing statistics are based on fiscal year 2007-08 OH data.

Purchases by Department FY08			
<u>Department/Unit</u>	<u>%</u>	<u>Annual \$</u>	<u>Fund Type</u>
1 San Mateo Medical Center		\$ 18,132,000	Enterprise Fund
2 P.W. Maintenance Services Dept		9,012,000	General Fund
3 Information Services		5,212,000	General Fund
4 Sheriff's Office		3,218,000	General Fund
5 Assessor-County Clerk-Recorder		3,024,000	General Fund
6 Correctional Services		2,440,000	General Fund
7 Health Business Administration		2,175,000	General Fund
8 Public Health Services		1,534,000	General Fund
9 Program Support		1,504,000	General Fund
10 Parks & Recreation		858,000	General Fund
Top 10	83%	47,109,000	
Others	17%	9,349,000	
		<u>\$ 56,458,000</u>	

We noted that the responsibility for an effective central purchasing strategy is not clearly defined. Currently, Purchasing relies on departments to develop their own strategies and is itself geared towards facilitating the purchases of items needed by the departments in a competitive and timely manner. A brief historical perspective may explain the current situation. As explained under the Review Perspective Section above the County closed its central PA stores in 1993 and adopted ‘delegated purchasing’. Since then departments mostly purchase items as needed and refer purchases of \$5,000 and above to central Purchasing which handles vendor selection and purchase order processes and where necessary establishes vendor agreements with favorable terms for utilization by departments. Departments still have the option of having Purchasing assist with purchases below \$5,000.

Prior to the above changes the central PA made virtually all the county purchases (with some special exceptions such as IT equipment) and therefore would have been aware of the spending profile and trends that are essential for an effective overall purchasing strategy. It appears that since the changes went into effect, the responsibilities for developing, maintaining and monitoring an effective central purchasing strategy remained undefined.

To effectively leverage the County’s buying power, a central unit needs to regularly analyze the County’s spending profile so as to develop and maintain an overall purchasing strategy that focuses on managing the key spending categories and the associated vendors and agreements. The purchasing strategy needs to be evaluated regularly to maintain and where possible improve its effectiveness. Management has to develop appropriate metrics or performance measures that enable such an evaluation by including all the key elements necessary to evaluate and improve

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effectiveness and economy. Such metrics will enable Purchasing to identify and make needed program policy and procedure revisions to ensure effective and efficient purchasing services to the County.

Some generic examples of analysis and evaluations are as follows:

- Identification of major commodity vendors and major purchase items and regular analysis to ensure such lists are kept updated so that focus remains on material items and opportunities. (While data for items purchased may not be readily available from current systems, VA terms do require vendors to provide usage data).
- Evaluation of the commodity market at regular intervals (at a minimum on an annual basis) to assess changing products, price trends and procurement arrangements, especially for major purchase items.
- Identifying opportunities for vendor consolidation and competition.
- Consistent monitoring of vendors with an annual purchase volume in excess of appropriate thresholds (current VA thresholds are \$5,000 or an average of 12 purchases annually).
- Vendor evaluation – while this may be done periodically (see Appendix 4 for an example of a vendor scorecard), it is crucial that prior to the expiration of a VA, departments who make frequent purchases from the vendor are contacted to assess and evaluate performance in terms of cost, product quality and selection, and service.

Purchases by Vendor FY08		
Vendor Name	%	Annual \$
1 CARDINAL HEALTH		\$ 7,048,000
2 POLETTI ASSOCIATES INC		3,694,000
3 OWENS AND MINOR		2,729,000
4 BIRITE FOOD SERVICE DISTRIBUTION		2,236,000
5 DELL		1,851,000
6 OFFICE DEPOT		1,794,000
7 PETERSON TRACTOR CO		1,235,000
8 VALLEY OIL CO		1,233,000
9 ALONZO PRINTING CO INC		939,000
10 DOWNTOWN FORD		900,000
Top 10	42%	23,659,000
Others - \$5000 and over	57%	32,313,000
Others – less than \$5000	1%	486,000
		\$56,458,000

Developing and maintaining a spending profile requires availability of appropriate purchasing data. A major issue arising from this review is the lack of readily available purchasing data, both at the business unit and entity levels. These issues are discussed in the respective sections of the report.

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2. Procurement Methods

Purchasing and County departments use one of the following methods, as appropriate, to procure goods and supplies:

- Vendor Agreements - these are competitively-bid agreements for commonly purchased items. Vendor Agreements (VAs) were formerly known as and are now informally referred to as Blanket Purchase Orders (BPOs). VAs are also set up for items purchased under cooperative or multi-agency agreements- see below.

Purchases FY2007-08 – Stratified by Invoice Amount					
<u>Range - Invoice Amt</u>	<u>Invoice Count</u>	<u>Percent</u>	<u>Value</u>	<u>Percent</u>	
0.00 - 2,499.99	46,712	92.5%	\$15,414,016	27.2%	
2,500.00 - 4,999.99	2,013	4.0%	7,125,781	12.5%	
\$5,000.00 & Over	1,756	3.5%	34,212,423	60.3%	
Totals	<u>50,481</u>	<u>100.0%</u>	<u>\$56,752,220</u>	<u>100.0%</u>	
Note: Credits (negatives) were removed from above - Count: 1,540; Value: \$(294,594)					

- Cooperative or multi-agency agreements – these agreements leverage the buying power of several entities. The County Ordinance Code allows the PA to enter into agreements with other agencies for the purpose of obtaining bids for purchases.

- Direct Purchases – these are for items not covered under the above methods. Generally, departments have the option of purchasing items up to \$4,999.99 in value. Purchases valued from \$5,000 and above are referred to Purchasing, which obtains competitive quotes/bids. Individual purchases of \$100,000 and above are subject to a formal bidding process.

Our review focused on VAs and cooperative (or multi-agency) agreements.

2a. Underutilization of Vendor Agreements

Under-utilization of VAs is a major finding from this review. Several factors contribute to this underutilization. These factors are discussed in some detail in various sections of this report. In this section we will review –

- the overall finding, i.e., the overall impact of underutilization of VAs;
- the contributing factors which are cross-referenced to applicable sections of the report; and
- Our test-work that supports the overall finding.

Purchases Eligible for Vendor Agreements	
Total Estimated Purchases	\$ 56,458,000
Direct Purchases and Other	
Non-VA Eligible Purchases	(5,244,000)
VA Eligible Purchases	51,213,000
Purchases with VAs	(22,682,000)
Purchases without VA Usage	<u>\$ 28,531,000</u>
Savings Rate from VA Usage	18.6%
Maximum Likely Savings	\$ 5,307,000
Minimum Savings @ 1/3	\$ 1,769,000
Notes:	
1. Purchase transaction per IFAS Open Hold (AP) were matched with VA list per AVAS.	
2. Savings Rate is per Purchasing's budget.	
3. Due to various issues relating to recording of VAs in IFAS we estimate minimum savings at 1/3.	

Overall Finding

Based on our analysis, the annual VA eligible purchases amount to about \$51.2 million. Out of these \$22.7 million are specifically coded as VA purchases or are from vendors with whom the County has VAs. This leaves \$28.5 million of VA eligible purchases that are not covered by VAs with negotiated

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volume discounts. Applying Purchasing’s estimated VA savings rate of 18.6% to \$28.5 million indicates maximum savings opportunity of \$5.3 million. Due to several issues relating to recording of VA details in IFAS we conservatively estimate minimum savings opportunity of \$1.8 million or 1/3 of the maximum amount.

We were unable to obtain documentation supporting the 18.6% savings rate. Moreover, the required validation data is not tracked by current systems or manual processes. However, based on evidence from our test-work and external data, we believe the savings rate is a reasonable estimate.

Contributing Factors

Several factors contribute to under-utilization of VAs and where applicable these are discussed in detail under the applicable sections in this report. Some of the key factors are:

- i. Lack of adequate monitoring of countywide purchases due mostly to lack of readily available reports. See Sections 4c and 6.
- ii. Difficulty accessing VAs in AVAS. AVAS is an automated ordering program that enables users to create a vendor "Order Release Form" by searching a database of vendors and items with pre-negotiated prices per VAs. See Section 6b.
- iii. Expired VAs that are not renewed in a timely manner. See Section 4b.
- iv. Lack of an adequate governance model that clearly articulates roles and responsibilities and the underlying policies that ensure true accountability of personnel and units involved in County purchasing. It is not clear who is or should be responsible for the systems and the processes that would ensure that policies are up to date and followed to maximize savings and compliance. See Section 7.

Test-work Supporting Overall Finding

Our test-work included analyzing purchase transactions at the department and countywide levels that were coded as “RD” (Departmental Requisition) or “RB” (Buyer’s Requisition – through Purchasing) and selecting a sample of vendors for review. Results from the review are discussed in this section. Results from our test-work on cooperative or multi-agency agreements (which are also covered by VAs) are discussed separately below under Section 2b.

At the departmental level we identified many instances where departments made purchases exceeding the \$5,000 VA eligibility limit from vendors without the requisite VAs. Of these, we selected 24 vendors for further analysis and determined that Purchasing could immediately work on creating VAs for 6 vendors and review the remaining 18 for VA opportunity. See Appendix 1.

Summary of Test-work Results Underutilization of VAs	
Total purchases made without VAs from vendors in the sample*	\$3,008,960.95
Estimated VA savings rate**	18.60%
Missed Savings Opportunity	<u>\$ 559,666.74</u>
* RDs: \$1,749,898.58 plus RBs: \$1,259,062.37	
** Savings Rate is per Purchasing's budget.	

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The total annual purchases from the 24 vendors were \$1,749,898.58. Utilizing the 18.6% savings rate estimate would compute to \$325,481.14 of missed savings opportunity.

On a countywide level, we identified 7 additional vendors with total annual purchases of \$1,259,062.37 that exceeded the VA threshold but did not have VAs (see Appendix 2). At the 18.6% savings rate, the missed savings opportunity computes to \$234,185.60.

Total missed savings opportunity per our sample of purchases selected for analysis amounts to \$559,667. The RB and RD purchases tested in this analysis totaled \$3 million, which is 12% of total RB and RD purchases during fiscal year 2007-08.

2b. Cooperative/Multi-Agency Agreements

As noted above the County Ordinance Code allows the PA to enter into agreements with other agencies for the purpose of obtaining bids for purchases. The Procurement Division of the State of California’s Department of General Services administers statewide commodity contracts for use by State departments and California local governments. Statewide commodity contracts are a type of Leveraged Procurement Agreement (LPA) used as one of the State's main procurement vehicles for leveraging its buying power.

Currently, there are some County vendors who base their VA pricing using statewide contracts or sell items that are provided by statewide contract vendors. For the purposes of this review, we researched and tested pricing of two major vendors BiRite Foodservice Distributors and Poletti Associates to determine whether additional savings could be realized if our purchases could be further leveraged through the already established statewide contracts. Results are summarized on the adjacent table; details are discussed below.

Summary of Test-work Results Prices Paid v Statewide Agreements	
<u>BiRite Foodservice Distributors</u>	
Annual Purchases FY08: \$2.2m	
Tested pricing on comparable items of other Statewide contract vendors	
- net minimum savings per sample	6.7%
<u>Poletti Associates - Office Furniture</u>	
Annual Purchases FY08: \$3.7m	
Tested list prices to Statewide contract	
- net additional savings per sample	12.8%

BiRite Foodservice Distributors: FY2007-08 Purchases: \$2,236,419.96

Currently there is no VA with BiRite for food items. The State of California has a contract (# 05-08-89-15) with 2 food vendors, Sysco and US Foodservice, for the period November 25th 2008 to November 24th 2010. We requested a Top 10 list from BiRite and tested comparable food items on the list to the Statewide contract. Our review of sampled items found that the state contract with Sysco and US Foodservice could provide average gross savings of 25.3% and 33.5%, which after taking into account a more conservative estimate and the maximum markup terms and administrative fees will still provide minimum net savings of 6.73% (see table below).

The State Food Contracts have cost formulas on ‘core’ and ‘non-core’ items. Core items have a fixed price for the first 90 days of the contract after which they are classified as non-core and are priced at cost plus markup. Mark-up rates are specified in the contract and the non-core items’ mark-ups range from 6.5% to 11.5% and have an administrative fee of 1.77%. Applying a conservative estimate of a 20% savings rate (test-work shows average gross savings of 25.3% and 33.5%) through the utilization of State Food Contracts and factoring in the markup and

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administrative fees at a maximum of 13.27% (11.5% + 1.77%) after the 90-day fixed price expiration period, the County can still potentially realize net savings of 6.73% from BiRite. Based on our limited analysis of BiRite, we believe that there are opportunities for further savings with other food item vendors. Purchasing has to perform further analysis to determine if it would be cost efficient to utilize State Food Contracts as well as determine whether these vendors can provide us with items that are comparable to our current purchases. See 1 above.

BiRite Analysis – Prices Paid v State Contract Prices									
Items Purchased during the Period: 10/1/2008 - 12/31/2008			Bi-Rite	Cal State Contract Price		Dollar Variance		Percentage Savings	
Description	Manufacturer	Pack/Size	Avg Unit Price	Sysco	US Food Service	Sysco	US FS	Sysco	US FS
WORLD HORIZONS, PINEAPPLE TIDBIT IN NATURAL JUICE	MITSUI FOODS, INC(UNIPRO)	6#10	29.23	26.69	21.8	2.54	7.43	8.69%	25.42%
OCEAN SPRAY, JUICE APPLE 100% CUP "NO- THAW"	OCEAN SPRAY CRANBERRIES,I	48/4 OZ	13.59	6.23	4.91	7.36	8.68	54.18%	63.85%
OCEAN SPRAY, JUICE ORANGE 100% CUP "NO- THAW"	OCEAN SPRAY CRANBERRIES,I	48/4 OZ	15.26	6.19	5.46	9.07	9.8	59.42%	64.22%
KOCH, CHICKEN LEG WHOLE IQF RTC	KOCH FOODS	48/6.3 OZ	31.92	28.13	27.71	3.79	4.21	11.87%	13.19%
Average			\$22.50	\$16.81	\$14.97	\$5.69	\$7.53		
Average Savings						25.3%	33.5%		
Overall Conservative Savings Estimate - Gross						20%			
Mark-up rates (6.5% - 11.5%)				Maximum		11.50%			
Administrative Fees						1.77%			
Less - Mark-ups and Admin Fees						13.3%			
Net minimum Savings						6.7%			

Poletti Associates FY 2007-08 Purchases: \$3,693,932.96

Poletti utilizes VIA Seating Inc and American Seating Company manufacturers for its chairs, both of whom have contracts with the State of California (4-09-71-0093A and GSA category 711 19, # GS-28F-8030H, respectively).

We tested comparable items, based on the Top 10 List provided by Poletti per our request. Nine of the 10 items were chairs and of these 7 were manufactured by VIA Seating Inc and 2 by American Seating Company.

The VA with Poletti requires that the County receive an average discount of 56% on Poletti's list price for VIA manufactured items and 54.5% discount on its list price for American Seating manufactured items. We compared Poletti's list prices with those listed per the state contract and noted that Poletti's prices were higher by an average of 12.77% (see table below).

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Poletti Analysis - VA v State Contract					
Chair Type	Manufacturer	Price Charged per VA	State Contract List Price	VA Price - State Price (Savings)	Savings %
AC0020 Acton Stack Essentials Plastic	American Seating Company	\$69.82	\$54.01	\$15.81	22.64%
AC1220 Acton Stack Essentials Plastic	American Seating Company	\$163.72	\$92.84	\$70.88	43.29%
223-B Camden armless chair grade 1	VIA Inc	\$172.92	\$170.00	\$2.92	1.69%
203-B Camden chair with arms grade 1	VIA Inc	\$149.60	\$147.00	\$2.60	1.74%
124-3C-10A3-21TB133-15SC-22UBF Terra chair gd A	VIA Inc	\$359.04	\$281.00	\$78.04	21.74%
124-5C-10A3-12SS-12AIR1 grade A	VIA Inc	\$345.40	\$281.00	\$64.40	18.65%
1803-5C-18A Brisbane grade 1	VIA Inc	\$353.32	\$347.00	\$6.32	1.79%
5301-11X-2A Dyce chair grade A	VIA Inc	\$377.52	\$371.00	\$6.52	1.73%
4303-17C-6A5 Devan/Bergen chair grade 2	VIA Inc	\$710.16	\$698.00	\$12.16	1.71%
Average					12.77%

Poletti was a major vendor in the fiscal year reviewed. We performed additional analysis to show an example of major vendor analysis for likely cost saving opportunities as suggested under Section 1 above.

The usage report of quantity purchases that Poletti provided totaled only \$42,637.08. As with other vendors in the sample we had requested information on top 10 purchases and were hoping for a more adequate report in view of the \$3.7 million total purchases for the year. The vendor was unable to provide an adequate usage report as requested and as required by the terms of the VA. As a result, a sufficient analysis could not be performed as items comprising significant invoiced charges were not on the Top 10 list provided by vendor. Additionally, as noted under Section 5a, we noted that Poletti's invoices did not itemize charges for design and installation costs and so could not be verified to the VA.

We used the report provided for our analysis and noted that if we had purchased the items directly from the manufacturers, we would have paid only \$38,914.56, and realized additional savings of 8.7%. As noted above the total annual purchase from this vendor was \$3.7 million.

As an example of comparing with similar purchases made by other counties, we contacted Santa Clara County and inquired about their office chairs supplier. We were informed that the County has a furniture contract with SideMark and utilize Teknion as the manufacturer of their chairs. Labor and assembly costs per chair were quoted at \$15. Under our VA with Poletti, assembly costs are \$25 for up to 5 chairs and \$20 for 6 or more per delivery address. Having such information would necessitate an analysis to determine whether Poletti assembly charges are reasonable and comparable.

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3. Entity Level Controls

3a. Policies and Procedures

State law requires the County to adopt policies and procedures, including bidding regulations, governing purchases of supplies and equipment. Purchases are required to be in accordance with the adopted policies and the applicable laws.

State law and the County Ordinance Code provide mostly general purchasing policies or guidelines. Written procedures are required in sufficient detail to interpret the guidelines and facilitate compliance as well as achieve best practices. Purchasing has developed a Purchasing Customer Guide that are distributed to trainees (department buyers and supervisors).

Our survey of departmental buyers shows that only 29% or 33 respondents have a copy of the Guide and out of these only 4 consult it more than 50% of the time and only 13 are at least somewhat satisfied with the guidance provided. Based on this survey data, management has to take appropriate actions to identify and meet the buyers' needs for guidance. Providing affected personnel an adequate documentation of policies and procedures communicates clearly management's expectations of sound actions from personnel and therefore increases personnel's ability to meet those expectations. Lack of available clear guidance results in non-compliance with policies and procedures that contribute to the lost savings opportunity mentioned under 2 above.

3b. Training

To safeguard county resources and ensure compliance with laws and regulations, the established policies and procedures applicable to County's purchasing are fairly extensive. Over 90% of the buyers surveyed ranked training/guidance in policies as 'important' in helping them better perform purchasing functions. While two-thirds ranked such training/guidance as 'very important', only 20% attended a training class in the last twelve months. A majority (57%) of the 20% who attended a training class found it very helpful.

The findings noted in this report indicate varying degrees of familiarity with policies, procedures and best practices among affected personnel. Where personnel have an inadequate understanding of such matters, it results in errors and other deficiencies that contribute to the lost cost savings opportunity noted under 2 above.

Management has to create a professional development plan for all department buyers in conjunction with HR's Training and Development Division that provides ongoing training in County's purchasing policies and procedures, applicable laws and regulations and best practices. Such a plan should require County purchasing personnel to complete specific training, including annual updates that cover changes and issues noted from monitoring of purchase transactions.

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4. Central Purchasing Controls

4a. Vendor Selection

There are no clear guidelines for selecting vendors for a VA. Purchasing’s Procedures Manual states “Analyze Request for Quotations (RFQ)/ Invitation to Bid (ITB)” but does not provide guidance as to the specific type of analysis required for vendor selection.

We reviewed a sample of vendor selection documentation and noted a lack of consistency, analysis, or specific methodology used to document vendor selection from the bidding process. The bidding documentation reviewed required detailed examination to ascertain the attributes used to qualify or disqualify certain vendors. Additionally, it was difficult to locate all of the appropriate paperwork because the documentation was kept in separate locations depending on the Buyer who handled the vendor selection and whether it was for a RFQ, ITB or VA.

Purchasing’s publicized objectives include compliance with all applicable County, State, and Federal laws, and promoting fair and open competition. Inadequate bid and other supporting vendor selection documentation results in a lack of audit trail necessary to show that these objectives are in fact being met. Best practices in this area include having a checklist, scorecard or summary document based on established metrics such as accuracy, efficiency, cost, product performance and/or volume as part of the bid documentation to standardize the vendor selection process and to clarify the reasons for selecting a specific vendor. Such metrics may need to be specific to particular vendor types as opposed to relying on general measures that may not be meaningful to certain vendor types. It appears that most VAs especially for large vendors are rolled over on expiry. A formal documented process is needed to evaluate these vendors prior to any renewal decision. Examples of vendor score card components are listed in Appendix 3. An example of a vendor scorecard can be found in Appendix 4.

4b. Establishing and Maintaining Vendor Agreements (VAs)

To be effective VAs must be reviewed at regular intervals, kept current, have an adequate description of materials and/or scope of work to facilitate compliance checking/ monitoring, and appropriate indemnification language to protect against any potential litigation.

Findings relating to establishing of VAs include:

- Lack of readily available, reliable, and appropriate information on County purchases that would facilitate review/monitoring of countywide purchases for VA or other cost saving strategies. This issue is discussed in detail in Section 6 – Information System Capabilities.

Establishing & Maintaining VAs Summary of Findings	
Purchased Items not Covered under Primary Food Vendor VA:	
Food items not on VA	\$1,966,506.74
Non Food Items not on VA	253,710.73
	2,220,217.47
Estimated VA savings rate*	18.60%
Missed Savings Opportunity	\$ 412,960
Missed Savings Opportunity - No VAs Established for Food Vendors (Appendix 5)	
	\$110,000
% of Departmental Buyers with no Access to AVAS	70%
Expired VAs as of May 1, 2009	41 out of 126
* Savings Rate is per Purchasing's budget.	

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- Established VAs may not include all the major purchases from the vendor.
- Purchasing does not proactively establish VAs. This relates to the issue of roles and responsibilities – see Section 7.

Findings relating to maintaining of VAs include:

- VAs are maintained separately on AVAS and is not integrated into IFAS, the county’s financial information system that includes the Open-Hold (accounts payable) module which handles the purchase requisition, purchase order and accounts payable processes. This non-integration allows the users to ignore the VA number and any related fields in IFAS or completely ignore AVAS as a resource when making county purchases. This issue is also discussed in Section 6 – Information System Capabilities. Our surveys of departments showed that 70% of buyers are unable to or do not effectively utilize AVAS.
- VAs are not kept current. Forty-one out of 126 VAs had expired as of May 1, 2009.

The above findings are discussed below and/or other sections as cross-referenced.

Established VAs may not include all the major purchases from the vendor.

When reviewing a major food vendor in our sample, BiRite, we noted frequently purchased items were significantly underrepresented on the Vendor Agreements.

The County spends a significant amount on purchases from BiRite, its primary food vendor (\$2.2 million in FY2007-08). However, the established Vendor Agreement with BiRite is only for non-food items (biodegradable, compostable/ recyclable foodware) and not for food items. We requested usage data from BiRite for non food purchases made between July 1st, 2007 and June 30th, 2008 and found that of the \$2.2 million spent on BiRite, the non food items ordered totaled only \$269,913.22, or 12.07% of total amount. As such, our analysis indicates that the County spent \$1.9 million on food purchases from BiRite without an established agreement and as a

Incremental VA Savings From BiRite Contract	
Amount of purchases made with BiRite*	\$ 2,236,419.96
Amount of purchases for non food items	269,913.22
Amount of purchases for food items	1,966,506.74
Purchasing estimated savings using VA’s or PO’s**	18.6%
Missed Savings Opportunity	\$ 365,770.25
* Source: IFAS OH	
** Source: FY2008-FY2009 Adopted Budget	

result missed a savings opportunity of about \$365,000.

BiRite Non Food Purchases	
Amount of purchases for non food items*	\$ 269,913.22
Number of Items (product code)*	459
Number of items on Vendor Agreement	15
Percent of items ordered that were on Vendor Agreement	3.27%
Dollar value of items on Vendor Agreement	\$ 16,202.49
Realized Savings at 18.6%	\$ 3,013.66
Missed Savings at 18.6% (on \$269,913 – 16,202)	\$ 47,190.20
* Source: BiRite Usage Data	

From the data provided by BiRite, we also found that of the 459 non-food items ordered during the period reviewed only 15 or 3.27% were on the VA. The purchase amount for these items was \$16,202 or 6% of total purchase amount for non-food items. Our analysis indicates that the items on the Vendor Agreement are grossly under-representative of commodities that are frequently purchased.

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Purchasing does not proactively establish VAs

Currently the responsibility for proactive management of countywide purchasing is not clearly defined. This deficiency leads to missed savings opportunities. An example is discussed here. The county does not have any established Vendor Agreements for food vendors. Our review of AVAS showed that there were several food agreements which expired in 2007. Each of the food agreements referred to a specific schedule (Dry Goods-Schedule A, Prepared Frozen Foods-Schedule C, and Fresh Meat-Schedule D. See Appendix 5). We reviewed these vendors and found that the County is still making purchases from them, without a negotiated Vendor Agreement, potentially resulting in the County missing out on cost savings of \$110,000.

Purchasing informed us that it was waiting for Santa Clara to conduct their bids for food vendors. Santa Clara initiated the bidding process this year and at the time of our review was expected to make an award by the end of July 2009.

VAs are maintained separately on AVAS

Our surveys of departments showed that they are unable to or do not effectively utilize AVAS. Seventy percent do not have access to the system and of the remaining 30% only 12% use it for up to 50% of the time. This issue may also be related to training, which is discussed in Section 3b. Easy access to VAs is a basic and essential requirement as it affects various other key processes such as VA use and checking invoice details to agreed specs and prices per VAs.

VAs are not kept current

Our review of vendors in AVAS showed 62 vendors that did not have a current contract and were not removed from the system (See Appendix 6). Purchases made in fiscal year 2007-08 using expired VAs totaled \$1.4 million.

We referred 41 VAs that had expired or were set to expire in February 2009 to Purchasing for review. Our subsequent review of the April 2009 VA List showed that two of the 41 VAs were eliminated and 4 were renewed. The status of the remaining 35 is as summarized in the adjacent table. For a list of expired VAs by Buyer, see Appendix 7.

No. of Agreements	Status
3	BOS Review
7	Lead Buyer review
6	In Progress
3	No Action
1	State Contract
3	Waiting for Santa Clara
<u>12</u>	Will be quoted
<u>35</u>	

4c. Monitoring Countywide Purchases

This issue is related to spending profile and overall procurement strategy mentioned in Section 1.

Currently, it is unclear who is responsible for monitoring of vendor expenditures. See Section 7 below that discusses roles and responsibilities. Since Purchasing has expert buyers who understand countywide purchases, it is logical that it take monitoring responsibility. As discussed in other sections of the report, this would impact workload/staffing issues.

The present policy requires departments to use VAs to purchase commonly used supplies with minimum purchase volume of \$5,000 or an average of 12 purchases. Individual departments are responsible for compliance with this requirement. If a VA is needed the user department contacts Purchasing which researches and negotiates a VA taking into account factors like quality,

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volume discounts and other terms favorable to the county, which are preserved over a number of years through the VA.

Since compliance with VA threshold requirements are managed essentially at the department level, countywide purchases from a vendor can exceed the threshold and not be considered for a VA. An example would be when 10 user departments each purchasing printer cartridges from Vendor X individually spend \$4,900 annually and remain below the current VA threshold of \$5,000 but from a countywide perspective spend \$49,000 at Vendor X without a VA and therefore may miss out on volume discounts and other favorable terms.

Our review indicates that departments contact Purchasing only if the individual order is for \$5,000 or above. In other words, a department can make multiple purchases with the same vendor throughout the course of the year in excess of the \$5,000 annual VA threshold without having to notify Purchasing as long as individual purchases are below the threshold.

Under the processes and systems in place at the time of our review there was no established process for a proactive review of purchase transactions for cost saving opportunities and no controls that provide automatic warning or notification that the VA threshold was being exceeded. Based on our review of past audit reports this has been an issue since at least 1999, when an audit report recommended that the County of San Mateo Purchasing Department develop monitoring techniques to ensure that personnel adhere to existing policy. Regular analysis of specific vendors identified through financial monitoring could play an important role in upgrading effectiveness, efficiency and economy of purchasing operations. Some suggestions on monitoring and analysis are as follows:

- Purchases over \$5,000 and 12 transactions (by department/county) with vendors that do not have VAs.
- Orders placed on the same day for the same accounts that exceed the \$5,000 threshold
- Monitor frequency and volume of purchases of the same or similar items to see whether a term contract might be cheaper,
- Monitor different departments' purchase requests for the same or similar items to see whether consolidation may achieve economies,
- Conduct value analysis appraisals for a stipulated percentage of items being procured with the following considerations:
 - New sources of supply
 - Standardization of items
 - Identification of new and better products
 - Identification of alternative products, including aspects of price and quality
 - Storing, handling and vendor stocking costs.
- Monitor for large paid invoices exceeding a predetermined percent of PO Price.

Upgrading systems to fix the current lack of automated controls/features and the reports needed for an effective monitoring of countywide purchases could take some time. Developing an overall spending profile as discussed in Section 1 will enable Purchasing to focus on monitoring key areas using limited resources in the interim before systems capabilities are upgraded.

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4d. Staffing

Issues relating to utilization and performance evaluation are discussed in this section.

Staff utilization

Purchasing has 4 buyers who handle around 130 multi-year VAs and 2600 requisitions as part of their duties. We surveyed the Purchasing department and found that 50% of the staff believe they do not have sufficient time or headcount to dedicate to particular projects and that most of their time is spent dealing with issues from various departments.

Purchases Coded as 'RB' - Buyer Requisitions through Purchasing		
	Dollar Amount	Count
RBs Under \$5,000	\$ 1,493,136.80	1180
% of RBs Under \$5,000	6%	45%
RBs \$5000 & Over	\$22,416,207.43	1468
% of RBs \$5000 & Over	94%	55%
Total	\$23,909,344.23	2648
Source: FY2008_OHDTL		

According to the Purchasing Customer Guide, departments can directly purchase items that are under \$5,000 although, the Purchase Order can be done by either the department or Purchasing. Our analysis showed that 45% of the annual purchases' count was for items under \$5,000. With a total of 4 Buyers, each Buyer processes approximately 6 RBs (Buyer Requisitions) under \$5,000 on a weekly basis. With training departmental buyers may be able handle more of such purchases giving Purchasing staff the necessary time to dedicate to specific projects and larger purchases. We understand that there will still be certain purchases under \$5,000 that will require the expertise of Purchasing staff.

The changes recommended in this report would require additional resources, which based on an appropriate analysis may be realized through efficiency gains and additional head count.

Performance evaluation

The Shared Services Manager distributes a survey to departmental purchasing and fiscal representatives on an annual basis. The survey asks respondents to rate Purchasing's services, communicate any dissatisfaction, provide suggestions on improving services, and recognize employees who provided excellent service. This data is reported as a performance measure in Purchasing's budget, which has a target of 90% for 'customer survey respondents rating services good or better'. As reported in the budget the actual percentages for this performance measure for the last two fiscal years were as follows - FY 2007-08: 97% and FY 2006-07: 76%.

Results from 108 respondents to our countywide survey also indicate overall satisfaction with the current services provided by Purchasing with very small scores at the extremities of the spectrum - 3 respondents viewed the Purchasing Department positively and the same small number reported receiving poor customer service or being treated unprofessionally. Overall 1 in 6 reported some negative experience with the Purchasing Department and half of the negative responses noted that the Purchasing Department takes too long.

There are no other employee performance evaluations apart from the customer surveys. County Administrative Memorandum E-13 states that evaluation of employee performance is an important responsibility and strongly encourages that Employee Performance Reports be completed annually on all permanent employees regardless of their length of service.

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Evaluations provide a framework for setting and accomplishing organizational and individual goals and objectives. In order to make the evaluation process more effective, quantitative attributes that are specific to responsibilities should be added to the review. A partial list of some generic examples of evaluation metrics that would contribute towards Purchasing’s overall goals and objectives is given below:

Buyer Performance Metrics	Purpose
1. Number of expired VAs (by Buyer)	To ensure VAs are updated on a timely basis.
2. Documentation showing evidence of requests for usage reports from vendors on a regular basis and verifying/ or actions taken to ensure that high quantity/dollar items are represented on VA.	To ensure that VAs are representative of items that are purchased and all possible savings are explored.
3. Documentation showing periodic requests to department for copies of specific invoices (high volume/value items) and performance of price checks on select items.	To validate vendor compliance – County is being charged the agreed upon price.
4. Documentation showing performance of periodic market analysis to assess changing products, services, and sources.	To determine if additional/existing VAs need to be developed/updated.
5. Documentation showing benchmark analysis with other counties on at least an annual basis for top spend commodities.	To ensure that prices paid by the County are comparable to others.

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5. Departmental Controls

5a. Price Checks on Invoices

Our testing indicated that the basic control procedure of checking or test checking invoiced prices to the negotiated prices on VAs may not be performed at all or not on a consistent basis. There are several reasons for this internal control weakness, which have been discussed in other sections of the report:

- AVAS access issues – negotiated product specs and prices are on VAs, which are maintained on AVAS.
- Pricing information is not available in sufficient detail to facilitate cross-checking with invoiced prices.
- Itemized invoicing details that would facilitate pricing checks are not required from vendors per the VA; as a result the level of itemization on vendor invoices can be inconsistent with the VA pricing details
- Inadequate invoice review/approval procedures.

Examples from our test work are discussed below. Two items tested had sufficient details for us to calculate the losses due to lack of price checks. The total over-pricing for the two items was \$7,400. Such instances of over-pricing would remain undetected due to the reasons noted above, and could result in significant losses because of the large volume of items purchased and especially for items where pricing is based on formulas or options and special conditions.

Poletti & Associates

The Poletti VA bid form specifies that on an hourly basis installation is charged at \$65 and design is charged at \$55. Poletti’s invoices do not itemize details of installation and design costs. As a result, there is no way to validate whether the County was charged the correct rates.

Berkeley Farms (BF)

We compared the price charged on randomly selected invoices to ensure consistency with the calculation methodology listed on the VA. Pricing per the VA is calculated using an item’s minimum price per California Department of Food and Agriculture’s monthly newsletter plus a corresponding conversion cost specified in the VA.

BF Pricing	November	December
Invoice Price	0.199	0.1859
Calculated Price*	0.1947	0.1817
Difference	0.0043	0.0042
Quantity Ordered (Q4)	332,450.00	
Monthly Average	110,816.67	
Dollar Loss	\$ 476.51	\$ 465.43
* Minimum price is from milk newsletter (.089 for October & .076 for November)		
Conversion cost as per vendor agreement is .1057.		

We requested a list of Top 10 Items by sales and quantity from BF and selected BF 1% Low Fat Half Pint Milk for testing – purchase amount: \$64,362.97. We noted variances between the invoiced prices and prices calculated per the formula specified in the VA. When extrapolated for one year period, the potential loss for the one item tested could be \$5,650.

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Per Director of Food and Nutritional Services of Correctional Health, the predominant purchaser of BF products, the issue of pricing inconsistencies was raised in the past with no results. However, during the course of our analysis, the Director brought the inconsistencies to the attention of Purchasing and was notified that Maguire, Hillcrest, and Glenwood would receive credits totaling \$2,282.08 (see Appendix 8).

Grainger Industrial Supply

We noted pricing inconsistencies for Item 2U228 – paper towel. The price per vendor agreement was \$19.33. However, the vendor agreement was allowed to lapse when it expired on November 30, 2008. We noted the following prices on the invoices:

- Invoice 9738327031, dated 9/22/08 reflected a price of \$19.33 per unit.
- Invoice 9754561240, dated 10/13/08 reflected a price of \$48.38 per unit.
- Invoice 9772470366, dated 11/04/08 reflected a price of \$48.38 per unit.
- Invoice 9759693998, dated 10/20/08 reflected a price of \$48.38 per unit.

When contacted, Grainger informed us that the price discrepancies were “due to expiration of the pricing” (VA). Nonetheless, Grainger will process the necessary credits and re-bill at the VA price (savings of approximately \$1,743 - see Appendix 9).

5b. Order Splitting

We examined the possibility of departments splitting orders to avoid going through Purchasing for orders over \$5,000 as required by policy. Our test-work did not disclose any material issues in this area.

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6. Information System Capabilities

6a. IFAS

The County uses the Integrated Financial and Administrative Solution (IFAS), a financial system developed by Sungard Bi-Tech, as its main accounting system. IFAS was implemented almost 15 years ago and has gone through several enhancements over the years. It has several modules and supports multi-fund budgetary accounting to achieve compliance with federal regulations and accounting standards, and handles the purchase requisition, purchase order and accounts payable processes. However, as mentioned above VAs are maintained separately on AVAS, which is not integrated with IFAS. As discussed in Section 6b, this non-integration allows the users to ignore the VA number and any related fields in IFAS or completely ignore AVAS as a resource when making county purchases.

Most of the VA related fields in IFAS are not mandatory and since the data is entered manually and is not system validated, there is a high risk that required data will not be entered at all, be inaccurate or incomplete. We noted many errors in the data that was entered in the VA related fields indicating that these fields may not be considered significant during supervisory reviews.

During the course of the review we noted that:

- VA numbers are being used incorrectly. Incorrect VA numbers are associated with and entered for vendors who do not have agreements.
- Purchases are made with expired VAs and with VA numbers that do not exist.

As a result of the data irregularities noted above, the IFAS reports currently do not have accurate and complete purchasing information needed for monitoring of purchases for compliance with policy and cost savings opportunities.

While VAs essentially take advantage of volume discounts and reduce the purchase price, there are administrative costs that are essential to ensuring compliance with policy and other internal control requirements but can be significant considering the vast number of purchases the county makes in a year. To maximize efficiency and stakeholder value, larger organizations that spend significant amounts on purchases take advantage of prevailing technology to streamline purchasing processes by automating where possible the buying, approval and input procedures. Automation, integration, and validation of the various steps in the purchasing process also enhances monitoring and control capabilities, which facilitate proactive management of entity-wide purchasing and as indicated in this report can realize significant cost savings.

The audit team inquired about several e-procurement solutions, especially for IFAS users. See e-Procurement section below.

IFAS is under the Controller's Information System (CIS) unit that over many years had been staffed by a manager and one or two technicians. CIS's current structure has a Division Manager, a Financial Services Manager I, a Management Analyst and 2 technicians. Increases in IFAS capabilities may require additional resources. More analysis will be needed to determine the extent and nature of such resources.

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6b. AVAS

Purchasing has made an effort to assist user departments in the VA process by implementing an automated ordering program called AVAS. AVAS had been implemented to reduce time spent searching for products and VAs and enable users to create a vendor "Order Release Form" by searching a database of vendors and items with pre-negotiated prices. AVAS is not a financial system and as noted above is not integrated into IFAS allowing the users to ignore the VA number and any related fields in IFAS or completely ignore AVAS as a resource when making county purchases. Additionally, any "Order Release Forms" printed from AVAS do not reduce a department's available budget as do purchase orders issued through IFAS (AVAS Order Release Forms are not encumbered). As a result of these procedural lapses complete and accurate information needed to proactively manage countywide purchases is not readily available centrally in IFAS.

We noted several other issues that were mentioned before in the report and are summarized here:

- Our survey of departments show that they are unable to or do not effectively utilize AVAS - 70% do not have access and of the remaining 30%, only 12% use it for up to 50% of the time.
- There were 63 VAs in AVAS that were expired and not removed (lack of maintenance of AVAS database; these VAs were not listed on the VA Index).
- Of the 126 VAs listed on the index, 41 have already expired and at the time of our review not been renewed.

6c. e-Procurement Solution

As noted previously in this report large organizations like the County that spend significant amounts on purchases take advantage of prevailing technology to streamline purchasing processes by automating where possible the buying, approval and input procedures. While such automation would require initial investment and ongoing maintenance costs, it would enhance monitoring and control capabilities, which facilitate proactive management of entity-wide purchasing and realize significant cost savings. Without an e-procurement solution that automates certain critical established processes, efficiency gains will be limited.

In an automated system, such as that envisioned, users browse vendor websites and add items via a pick list into a shopping cart, and those items automatically populate a purchase order in the IFAS environment. Such a system would reduce administrative costs by eliminating many paper-based and labor-intensive processes. Other advantages include minimizing the risk of incorrect vendor or item referencing and maximizing purchases of lower priced items from approved vendors. If the entire purchasing and accounts payable functions could occur within IFAS in this manner, it would aggregate complete procurement data within one system and facilitate proactive management of countywide procurement through effective monitoring and automated controls.

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Naturally not all the County's vendors have websites that support e-procurement as discussed above. In the past, IFAS representatives have indicated that system enhancements may be possible so that if a vendor is not web-enabled, a "dummy" site with VA approved prices could be developed within the county that would be accessible in this way through IFAS.

The preferred key characteristics or a 'wish list' of features in an e-procurement system is included at Appendix 10.

The audit team conducted informal research regarding e-procurement software and the general availability of an appropriate product specifically for government agencies, preferably those using IFAS. Team members inquired about viable solutions, sent out surveys, attended a demo and found that certain systems which initially appeared to meet our requirements do not have some necessary features (report writing, interfacing capabilities, etc). More research needs to be done in this area and the Internal Audit Division may be able to assist. Since the selection and implementation of an appropriate e-procurement solution will take time, it is critical that certain immediate corrective measures be implemented in the interim to avoid missing out on savings opportunities. These issues are discussed in the Recommendations section.

The team also noted that an IFAS Blanket Purchase Order module, which may meet Purchasing's information requirements, was being considered by CIS and Purchasing in June 2009. We understand that this module had not been tested as of December 2009.

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7. Roles and Responsibilities

Currently the County does not have an adequate governance model that clearly articulates roles and responsibilities and the underlying policies that ensure true accountability of personnel and units involved in County purchasing. For example it is not clear who is or should be responsible for the systems and the processes that would ensure that policies are up to date and followed to maximize savings and compliance. While Purchasing believes departments should have the controls to adhere to existing VAs, the departments assume Purchasing is responsible for monitoring purchases and/or providing oversight.

Summarized below are the recommended roles and responsibilities of the affected units.

Purchasing should:

- Monitor countywide purchases; as noted previously in the report Purchasing has expert buyers who understand countywide purchases and so it is logical that it take monitoring responsibility.
- Evaluate the commodity market on, at minimum, an annual basis to assess changing products, services (develop a 'spend' reporting process and monitoring techniques to ensure that vendors are continually evaluated),
- Identify opportunities for vendor consolidation and competition,
- Analyze usage data per vendor to solicit bids from other vendors and to compare with multi-agency agreements in order to ensure that the County will be paying the lowest price for similar items,
- Analyze usage data from departments who purchase the most from vendors and determine if items are represented on the VA,
- Work with other departments and implement procedures to conduct periodic price reviews and analyses to identify and track price trends to improve purchasing decisions and reduce costs
- Six months prior to the expiration of a VA, contact Department(s) who make frequent purchases from the vendor in order to assess and evaluate vendor performance in terms of cost, product, selection,
- Research multi-agency agreements and work with other counties to conduct annual price comparison surveys and/or analyses to determine if prices paid by the County are competitive.

Departments should:

- Conduct audits of invoice price and listed price prior to approving invoices for payment. All discrepancies should be documented and reported to the appropriate buyer for proper recourse.
- Monitor commodity expenditures by vendor and communicate those that have over \$5,000 and 12 transactions to Purchasing for research.
- Ensure as part of the review/approval process that the data entry in IFAS fields relating to VAs and requisitions are accurate and complete so that the IFAS reports used by Purchasing would have the information necessary for effective monitoring and management of countywide purchases.

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Since the Controller's Office 'owns' IFAS it will have to work closely, especially its CIS Division, with Purchasing and other stakeholders in implementing recommendations relating to IFAS processes and reports. Responsibilities relating to the implementation and maintenance of any e-procurement solutions will have to be decided based on factors that are normally used in such decisions.

As mentioned elsewhere in this report the changes in roles and responsibilities (and implementing the other recommended changes in this report) would require additional resources, which can only be determined through an appropriate analysis based on the nature and extent of changes implemented. The required additional personnel resources may be realized through efficiency gains and additional head count.

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Recommendations

The issues arising from this review would require fundamental changes in the way countywide purchasing is managed including changes in responsibilities and information systems that would enable proactive management of countywide purchases in an effective and economical manner. We anticipate that the natural time line to fully implement such changes would be relatively long in view of further studies that may be required with respect to systems and personnel. We also anticipate that in view of the knowledge gained by Internal Audit (IA) during this review it could be required to assist with some aspects of such studies and where possible assist with corrective actions in the interim to minimize the loss of significant cost savings opportunity in the short term. Our anticipation regarding IA providing assistance with corrective actions in the interim is also based on the fact that some of the crucial changes required are new that personnel would need to get familiar with before full implementation and IA has the data analysis software and expertise needed to work around the current lack of systems capabilities.

Any interim assistance that IA provides with corrective actions will be on the understanding that it is for a limited time because of IA's limited resources and that management will take appropriate steps to take over as soon as possible.

We are presenting the recommendations in a format that is prioritized, where possible, taking into account factors such as immediacy of results, significance and likely implementation timeline and includes the extent of any IA involvement as noted above. However, as has been mentioned in the report the issues are inter-related and therefore implementation priorities will depend on the strategies adopted by management.

Recommendation 1

Management should instruct department heads to ensure the following:

- a) Departmental buyers should utilize AVAS to research vendors and prices as part of the purchasing process.
- b) Entries in IFAS fields relating to Vendor Agreements (VAs) and requisitions, such as Buyer Requisition (RB number) or Departmental Requisition (RD number) in the PR NO field and VA number in the CONTRACT field, are selected or entered accurately. Personnel reviewing/approving purchases and payments should as part of their review responsibility ensure that these fields are complete and accurate.
- c) Pricing on invoices are checked to approved prices per VAs.
- d) Departments comply with County Purchasing Policy. For example purchases exceeding departmental authority (\$5,000 and above) should be referred to Purchasing.
- e) Purchasing should be notified where departmental purchases are within the departmental authority limit (below \$5,000) but relate to commonly used supplies that are purchased frequently or there is a likelihood that annual purchases of such items will reach or exceed \$5000.

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Specific instructions should be added to the current IFAS procedures and Purchasing's guidelines on the intranet, as applicable.

Interim Actions

In the absence of system controls and standard reports with information for monitoring purchase transactions that would have ensured compliance with the above recommendation, IA will work with Purchasing to create reports that will enable Purchasing to monitor countywide purchase transactions for compliance.

To verify that accurate information is entered into IFAS, IA will provide Purchasing and management with the following reports:

- Purchases made with VA numbers that do not exist or with a VA number that does not apply to the vendor indicating the possibility that the departmental buyer is attempting to bypass the procedures and controls that ensure compliance with policy and maximize cost savings,
- Purchases made with no VA (or 'BPO') numbers entered in the CONTRACT field for vendors with current VAs indicating that the department did not comply with the data entry procedures and may not have taken advantage of discounted VA prices, and
- Purchases made with expired VAs, indicating the extent to which purchases are being made with VAs allowed to lapse and possibly lost opportunities for cost savings.

IA will initially develop and format the abovementioned reports and will distribute them to Purchasing on a quarterly basis. Purchasing will conduct the appropriate follow-up with departments/individuals.

As of December 2009, IA developed and reviewed the abovementioned sample reports with Purchasing. Additionally, IA is working with Controller's Information Systems Unit (CIS) on reports that IFAS may be able to generate for use by Purchasing. CIS informed us that these reports would not be readily available since most of the VA related fields in IFAS are not mandatory and that the reports may not contain accurate information until a system validated table with these fields are created and maintained.

Recommendation 2

We recommend that Purchasing create a professional development plan for all department buyers that provides ongoing training in the County's purchasing policies, procedures, applicable laws, regulations and best practices. Such a plan should offer two types of classes - one for new employees responsible for making purchases and another for experienced purchasers and fiscal representatives. The class for new employees should include guidance on PO thresholds, transactions that qualify for VAs, and other facets of the Purchasing process. The class for experienced purchasers should include annual updates that cover changes and issues noted from the monitoring of purchasing transactions.

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Recommendation 3

To maximize savings opportunities management should ensure that responsibilities for an overall procurement strategy is clearly defined. Since Central Purchasing has expert buyers who understand countywide purchases it is logical that it take this responsibility.

Interim Actions

In view of the lack of readily available purchasing data at the business unit and entity levels, IA will assist Purchasing in performing a regular analysis of the County's spending and identifying trends that are essential for an effective overall purchasing strategy. We will accomplish this by identifying the major vendors, contacting the vendors to determine the commodities that are purchased, and conducting competitive analysis to validate that the County is receiving the best price.

After the identification process, we will work with Purchasing to review various sources in order to determine if additional savings can be realized by further leveraging already established state and/or multi agency contracts. IA and Purchasing will begin research by considering the resources listed below as a starting point:

- State of California Leveraged Procurement Agreements:
 - California Multiple Award Schedules: <http://www.pd.dgs.ca.gov/cmas/default.htm>
 - Master Agreements: <http://www.pd.dgs.ca.gov/masters/default.htm>
 - Statewide Commodity Contracts: <http://www.pd.dgs.ca.gov/contracts/default.htm>
 - Western States Contract Alliance: <http://www.pd.dgs.ca.gov/wsca/default.htm>
- U.S. Communities Government Purchasing Alliance: <http://www.uscommunities.org/>
- U.S. General Services Administration (Federal Contracts): <http://www.gsa.gov/Portal/gsa/ep/home.do?tabId=0>

Once vendors have been identified, Purchasing will request usage data from the vendors to either leverage off of existing state/multi-agency programs or create a new VA that is specific to the County's needs. If we determine that the top spend vendor is represented as part of state/multi-agency contracts, IA will conduct a pricing analysis to verify whether the County can benefit from participating in the program. If the vendors are not represented as part of the state/multi-agency contracts, IA will utilize the usage data to identify the types of items that will need to be represented on the VA at a discounted price.

In addition to performing the tasks above, IA will assist Purchasing in conducting competitive analysis to ensure that the vendor is providing the County with the lowest price. Purchasing will be responsible to establish contracts as appropriate.

As of December 2009, IA developed and reviewed the abovementioned procedures with Purchasing.

Recommendation 4

Certain large vendors give department buyers the option of buying through their websites with secured logins that we understand ensure pricing per the Vendor Agreements. Since the use of AVAS is limited due to access and other issues, and it does not appear that a viable solution will

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be made available in the short term, Purchasing should take steps to make the web buying option available to department buyers with adequate internal control safeguards.

Interim Actions

IA can assist with reviewing security, budget and other applicable internal control issues relating to web purchasing.

Recommendation 5

Purchasing should proactively monitor and manage countywide purchasing to maximize cost savings.

Interim Actions

Since standard reports with the information needed for proactive management of countywide purchasing methods are not readily available, IA and Purchasing will work together to create the necessary reports with assistance from Controller's Information Systems Unit (CIS). As noted under Recommendation 1, IA will assist with reports for monitoring compliance with procedures and controls that ensure IFAS has complete and accurate data needed for this recommendation.

The reports needed for these recommendations will be created using IFAS capability to create special reports and IA's data analysis applications.

Based on our discussions with CIS, some examples of reports that IFAS will be able to generate are:

- Department and Countywide purchases over \$5,000 for commodity vendors,
- Top vendor expenditures within a fiscal year, with year-to-year trend, and
- Vendor additions within a given time period.

We will initially develop and format the abovementioned reports and will distribute them to Purchasing on a quarterly basis.

As of December 2009, IA developed and reviewed reports for departmental and countywide purchases over \$5,000 and Top Vendor expenditures with Purchasing.

IA has discussed with CIS the possibility of generating the abovementioned reports from IFAS. CIS is currently researching whether the report for departmental and countywide purchases over \$5,000 can be created using IFAS report writer function and whether the Top Vendor expenditures information can be made available as a standard report.

Recommendation 6

Forty-one out of 126 Vendor Agreements (VAs) have expired and not been renewed. Purchasing should review the current and likely purchases relating to these VAs for cost savings

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opportunities. Such a review should include consideration of departmental buyers experience with pricing in the current market, available statewide contracts, market research – new/similar products and vendors, and strategies used by other counties or similar entities.

Interim Actions

As noted for Recommendation 1, IA can provide Purchasing with a report showing purchases made with expired VAs, indicating the extent to which purchases are being made with VAs allowed to lapse and possibly lost opportunities for cost savings.

Recommendation 7

Purchasing should implement a formal documented process for evaluating vendors on a regular basis, at least once every 3 years, especially when considering an existing Vendor Agreement for renewal or extension. A vendor scorecard process based on the appropriate metrics should be considered for such a process to ensure it is methodical and consistent.

Appendix 3 gives examples of vendor scorecard components and Appendix 4 gives an example of a vendor scorecard.

Recommendation 8

Purchasing should establish clear guidelines for selecting vendors for a Vendor Agreement. The bid and other vendor selection documentation should provide a clear audit trail of the vendor selection process and should be adequately maintained in accordance with retention requirements.

Recommendation 9

To ensure that the County takes full advantage of discounted prices per the Vendor Agreements (VAs) Purchasing should ensure that the pricing information is available to facilitate checking with invoiced prices. VA terms should require that the level of detail or itemization of prices on vendor invoices be consistent with that per the VA.

Recommendation 10

Purchasing should evaluate its buyers' performance on an annual basis based on quantitative measures that contribute towards its overall goals and objectives. Section 4d of the report provides some generic examples of such measures.

Recommendation 11

To provide quick and easy access to its guides and manuals, Purchasing should post such documents on its County intranet website. The guides and manuals should be updated periodically (at least once every 3 years) for changes in policies, procedures and user needs ascertained from user surveys.

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Recommendation 12

Since the County spends a significant amount on purchases, management should take advantage of prevailing technology to automate and streamline purchasing processes where possible so that the necessary monitoring and control capabilities are available to Purchasing and other units to proactively manage countywide purchasing and maximize cost saving opportunities.

Interim Actions

The audit team conducted informal research regarding e-procurement software and the general availability of an appropriate product specifically for government agencies, preferably those using IFAS. More research needs to be done in this area and IA may be able to assist.

During the course of this review, we noted that an IFAS Blanket Purchase Order module, which may meet Purchasing's information requirements, was being considered by CIS and Purchasing in June 2009. As of December 2009, this module had not been tested.

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Implementation, Follow-ups and Other Audits

We strongly recommend that management develop an implementation plan that prioritizes recommendations. Audit Division will provide assistance where needed as noted under ‘Interim Actions’ above and perform follow-ups based on the implementation plan or at least on a six-monthly basis until major issues are resolved.

Due to the significant process improvement and cost-saving opportunities noted in this countywide review, Internal Audit plans to perform similar reviews at the departmental level once this audit is finalized. These reviews will also enable the Controller meet requirements of County Ordinance Code Section 2.83.020(c) that requires the Controller to periodically conduct audits of each Department to which purchasing authority has been delegated.

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Appendix 1: Sample of Departmental Vendors with No Agreements in Place

Departmental Vendors				
Vendor Name	# of Trans	Dollar	Category	Purchasing Response
ATD AMERICAN CO	42	\$78,717.26	Clothing/Textiles	In process
INTEGRA LIFESCIENCES CORPORATI	16	\$22,695.00	Medical & Surgical Supplies	CB to review
INTERSTATE BRANDS CORPORATION	940	144,912.26	Foods	Waiting for Santa Clara
SPINEVISION INC	20	\$20,677.58	Medical & Surgical Supplies	CB to review
STERIS CORPORATION	16	\$7,493.50	Medical & Surgical Supplies	CB to review
WILCOX FROZEN FOODS INC	857	396,469.15	Foods	Waiting for Santa Clara
COLLABORATIVE TESTING SERVICES	16	\$ 5,477.00	Laboratory Supplies and Services	Will review
ANIXTER INC	22	\$ 5,595.37	Communications Supplies & Services	Will review
CREATIVE PRODUCT SOURCING,INC	30	\$ 5,711.36	Clothing/Textiles	Will review
SMASH ATHLETICS INC	14	\$ 5,842.21	Clothing and Textiles	Will review
TECHNICAL INSTRUMENT SAN FRANC	15	\$ 6,601.04	Laboratory Supplies and Services	Will review
KAUFMANN'S CAMERAS INC	14	\$ 6,967.30	Photographic Supplies and Services	Will review
CALIFORNIA COLOR GRAPHICS	16	\$ 7,450.40	Arts & Crafts	Will review
DENEVI VIDEO REFLECTIONS	12	\$ 8,985.40	Communications, Supplies and Services	Will review
RECALL TOTAL INFORMATION MANAG	30	\$ 9,420.54	Printing & Allied Services	Will review
BRAINSTORM INC	25	\$ 17,182.81	Computer Hardware, Software, & Supplies	Will review
SAFE DESIGNS INC	12	\$ 21,987.48	Clothing/Textiles	Will review
CALIFORNIA SURVEYING AND DRAFT	15	\$ 29,963.45	Drafting/Engineering Supplies and Services	Will review
EDWARDS SERVICE	13	\$ 42,812.51	Misc	Will review
BAYSIDE EQUIPMENT CO	32	\$112,927.35	Equipment/Maintenance	Will review
C G AND E AUTO BODY	110	\$126,268.10	Automotive	Will review
JC PAPER	149	\$133,974.25	Office Supplies	Will review
UNISOURCE WORLDWIDE INC	333	\$220,795.76	Janitorial Supplies (and office supplies)	Will review
GOOD SOURCE INC	216	\$310,971.50	Foods	Will review
Grand Total		1,749,898.58		

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Appendix 2: Sample of Countywide Vendors with No Agreements in Place

Vendor Name	Amount	No. of Transactions	Purchasing Response
AIR LIQUIDE AMERICA CORP Total	102,192.99	252	Will review
ABLE INDUSTRIES Total	22,378.85	19	Will review
ACTION SIGN SYSTEMS INC Total	26,190.36	155	In progress
CALIBRE PRINTING CO Total	286,763.16	192	Will review
CINTAS CORPORATION Total	156,106.09	1385	Will review
COUNTY PRINT Total	455,766.09	980	Will review
LASKY TRADE PRINTING Total	209,664.83	410	Will review

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Appendix 3: Example - Vendor Scorecard Components

Some of the components to consider in a vendor scorecard rating system:

Delivery: On-time performance compared to expected dates

Lead Time: Days required to deliver needed components to the County

Quality: As communicated by user departments

Productivity Savings: Suppliers' contributions in helping to meet our productivity goals

Payment Terms: Helping the County manage its working capital

Supplier Benefits:

- Clearly stated performance expectations
- Improved communication
- The ability to Earn, Keep and Grow our business relationship
- Objective data to measure your performance
- Improved overall competitiveness in the market

County Benefits:

- Clearly communicated performance expectations to our supply base
- Closer relationships with our suppliers
- Better understanding of our supply base's overall performance
- Closer alignment between our customers' needs and our suppliers' capabilities

Vendor Scorecard Point System

Periodically, suppliers will receive a **Period (Monthly/Quarterly/ etc)** and **Year-to-Date** performance score based on the five focus areas:

1. Delivery	(0 to 20 points)
2. Lead Time	(0 to 20 points)
3. Quality	(0 to 20 points)
4. Productivity Savings	(0 to 20 points)
5. Payment Terms	(0 to 20 points)

The maximum possible score for the Month or Year-to-Date is **100 points**)

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Appendix 3: Example - Vendor Scorecard Components

Scoring Details

1. Delivery Scoring (On Time To Request)

OTTR is the percentage of **parts** that are delivered on time to the requested date on the Purchase Order. A shipment received **on** the requested date, or no more than **five working days early**, is considered to be “ON TIME”.

Points On Time To Request Delivery Record (OTTR)

20	OTTR is 100% to 98%
17	OTTR is < 98% to 95%
15	OTTR is < 95% to 90%
9	OTTR is < 90% to 80%
6	OTTR is < 80% to 70%
3	OTTR is < 70% to 60%
0	OTTR is < 60%

$$\frac{\text{\# of Units Received On-time}}{\text{Total \# of Units Received}} \times 100$$

2. Lead Time Scoring (LT)

Lead Time is the agreed-to number of days the Supplier will require to deliver product to the County when a purchase order is received. The lead time score is based on the average weighted (by spend dollars) lead time for all items received in that month. **This score is not affected by the actual delivery dates.**

Points Lead Time Record (LT)

20	LT is 5 days or less
17	LT is 6 to 10 days
9	LT is 11 to 15 days
6	LT is 16 to 20 days
3	LT is 21 to 25 days
0	LT is 26 days or more

$$\frac{\text{Sum of (Spend x Lead-time) per receipt}}{\text{Total Spend}}$$

1. Quality Scoring

Points

20	PPM is 0 to 100
16	PPM is 101 to 500
12	PPM is 501 to 1000
8	PPM is 1001 to 5000
4	PPM is 5001 to 10000
0	PPM is greater than 10000

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Appendix 3: Example - Vendor Scorecard Components

$\frac{\text{\# of Units Rejected}}{\text{Total \# of Units Received}} \times 1,000,000$

4. Productivity Savings Scoring (PPV)

Cost Savings is measured by the year-over-year **part price variance (PPV)**. A baseline price is established at the end of the previous year for each item. All deliveries in the New Year are compared to the baseline price. In order to receive points, the Commodity Manager must have a Cost Savings goal (in dollars) entered into the Annual Operating Plan for the Supplier, and the savings due to part price variance will be totaled and compared against the goal.

Points	Productivity Savings
20	98 to 100% of AOP goal
17	95 to 97% of AOP goal
15	90 to 94% of AOP goal
9	80 to 89% of AOP goal
6	70 to 79% of AOP goal
3	60 to 69% of AOP goal
0	Less than 60% of AOP goal

5. Payment Term Scoring

Suppliers that meet or exceed Honeywell's expected Payment Terms will receive 20 points. Suppliers that fail to meet the expected Payment Terms will receive 0 points.

Supplier Performance Levels

Each supplier is ranked based upon their on-going performance.

Level 1 - A supplier that has achieved an ongoing level of **71 pts. or above** is a preferred world class supplier that we will reward with New Product Development involvement and additional business.

Level 2 - A supplier that has achieved an ongoing level of **51 pts. to 70** is performing at an acceptable level. However, the Commodity Management Team should work with these suppliers to help them get to level 1 performance.

Level 3 - A supplier that has achieved an ongoing level of **31pts. to 50** has a conditional level of performance. The Commodity Management Team must work with these suppliers to get them to level 2 or develop alternative sources who can achieve level 2 or level 1 status.

Level 4 - A supplier that has achieved an ongoing level of **30 pts. or below** is a restricted supplier. We will avoid using these suppliers in any new designs, and will seek to exit these suppliers in favor of alternate sources.

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Appendix 4 – Example of Vendor Scorecard

http://www.computerworld.com/common/images/site/features/05292006/management_scorecard_lg.gif - Microsoft Internet Explorer

SUPPLIER PERFORMANCE MANAGEMENT SCORECARD							
SUPPLIER XYZ CORP. 2nd Quarter: April - June 2006 Respondent's Name: John Doe		RATE SUPPLIER REQUIREMENT					Score
Weighting (%)	1 Does not meet	2 Barely meets	3 Meets some	4 Meets most	5 Fully meets		
Account Management Responsiveness 35%							
	Supplier understands company's requirements				4		4
	Supplier contact is knowledgeable on products/services				4		4
	Supplier communicates all relevant information efficiently	1					1
	Company can easily find right supplier contact when needed				4		4
	Supplier provides information on "best in class" practices				4		4
CUMULATIVE SCORE							17
TOTAL BASED ON WEIGHTING %							6
Customer Service, Quality and Delivery 25%							
	Deliveries are prompt, complete and free of defects				4		4
	Delivery documentation is detailed and correct			3			3
	Products and/or service meet expectations				4		4
	Supplier provides proper support				4		4
	Supplier handles concerns/issues appropriately		2				2
	Supplier meets service/support commitments					5	5
CUMULATIVE SCORE							22
TOTAL BASED ON WEIGHTING %							5.5
Financial 20%							
	Value of supplier's products/technologies/services is high		2				2
	Proposals/invoices are accurate and timely			3			3
	Supplier's pricing is competitive	1					1
	Reports are prepared on a monthly and ad hoc basis			3			3
CUMULATIVE SCORE							9
TOTAL BASED ON WEIGHTING %							1.8
Relationship 20%							
	The working relationship with supplier contacts is strong					5	5
	Overall, the relationship with supplier is good				4		4
	We would renew contract(s) with supplier				4		4
CUMULATIVE SCORE							13
TOTAL BASED ON WEIGHTING %							2.6
SOURCE: ADAPTED FROM THE ALLSTATE CORP., NORTHBROOK, ILL.							
TOTAL SCORE							15.9

**San Mateo County Purchasing
Operational Review**

Appendix 5 – Food Vendors with Expired Vendor Agreements

Table 4 - Food Vendors				
Vendor Name *	2007 Expired VA Number *	Schedule Type *	2008 Payment Amount **	Potential Savings
Facciola Meat Company	B200034 B20031	Fresh Meat - Schedule D Prepared Frozen Foods - Schedule C	\$ 255,605.00	\$ 47,542.53
Piranha Produce, Inc.	B808038	Fresh Produce	NA	
Columbus Distributing Inc.	B202068	Frozen Meals	NA	
Naked Juice	B707019	Juices	\$ 12,441.43	\$ 2,314.11
Pacific Precut	B200130	Pre-Cut Fresh Produce	NA	
A-1 Sandwich Co	B707020	Pre-Made Sandwiches	\$ 15,038.48	\$ 2,797.16
Good Source	B707021	Pre-Sweetened Beverages, Misc Froz. Food	\$ 310,971.50	\$ 57,840.70
Missed Savings at 18.6%***				<u>\$110,494.49</u>
* Source: AVAS ** Source: IFAS OH *** Source: FY2008-FY2009 Adopted Budget				

San Mateo County Purchasing Operational Review

Appendix 6 – VAs in AVAS that are not Used

Vendor	Agreement Number	Expire Date	Commodity
Automotive Environmental Service Corp.	B707052	12/31/2007	Antifreeze & Oil Filter Service
The T Party	B202047	1/30/2007	Athletic Wear
Classic Care Collision Repair	B707024	9/7/2007	Automotive Repair
Irving Jachens	B202044	1/30/2007	Badges
Lasky Trade Press	B707011	1/31/2007	Bindery Services
INTERSTATE BRANDS WEST CORP. (Wonder Breads & Hostess Cakes)	B200085	7/29/2007	Breads
United Rotary Brush Corp	B606057	3/28/2007	Brooms for Sweeper
H.M.B Building Garden Supplies	B606055	5/2/2007	Building Materials
Lasky Trade Press	B707022	1/31/2007	Business Cards
AUTO CLEAN, INC.	B707003	5/17/2007	Car Wash
Chevron Car Wash Station	B606054	5/11/2007	Car Wash
Collins and Aikman	B404032	9/30/2007	Carpet
C.E.I. Floor Covering	B404033	10/1/2007	Carpet Installation and Repairs
Floortrends Inc.	B404034	10/1/2007	Carpet Installation and Repairs
County Print	B707012	1/31/2007	Chemical Carbon (NCR) Sets
Coca Cola Bottling Company	B707018	9/30/2007	Coca Cola Products
Air Liquide Healthcare America Corporation	B404019	5/31/2007	Compressed Gasses, Medical Bulk Oxygen
Cardinal Health, Medical Products and Services	B201058	1/31/2005	Custom Angiography/Procedure Trays
B F Printing	B707013	1/31/2007	Cut Sheet Printing
BiRite Foodservices Distribution	B505020	11/1/2007	Dishwasher Chemicals
BiRite Foodservices Distribution	B200120	4/30/2007	Dry Goods Groceries - Schedule A
Arrowhead Forensics Products	B202034	12/31/2005	Evidence Collection Kits/Supplies
L.N. Curtis Sons	B505046	7/1/2007	Fire Turnouts
Acme Pacific Repairs, Inc.	B202056	12/30/2007	Food Service Equipment Parts and Repairs
Facciola Meat Company	B200034	7/31/2007	Fresh Meat - Schedule D
Piranha Produce, Inc.	B808038	4/23/2008	Fresh Produce
Columbus Distributing Inc.	B202068	10/29/2007	Frozen Meals
Waldo Graphics	B707014	1/31/2007	Graphic Design/Typesetting Services
Darling International	B404042	11/30/2007	Grease Pickup (222 W 39th Ave. SM)
Controlco Automation Dist. Inc.	B404012	11/12/2007	HVAC Controls
Pacific Computer	B505001	7/30/2007	Ink Jet Printer Cartridges
J.C. Paper Co.	B606061	9/1/2006	Janitorial Paper
Naked Juice	B707019	9/30/2007	Juices
VWR International	B202078	4/30/2005	Laboratory Supplies, Misc
ESA Inc.	B404018	12/31/2005	Lead Test Kits/Supplies
Becton Dickenson	B900003	7/31/2005	Media Reagents
Hillyard	B404051	6/25/2007	Mop Heads/Floor Polish
Able Industries	B707001	12/13/2007	Personal Care Items
A.S.P Film	B505038	12/31/2005	Photo Film
Pacific Precut	B200130	4/14/2006	Pre-Cut Fresh Produce
A-1 Sandwich Co	B707020	9/30/2007	Pre-Made Sandwiches
Facciola Meat Company	B200031	7/30/2007	Prepared Frozen Foods - Schedule C
Good Source	B707021	9/30/2007	Pre-Sweetened Beverages, Misc Froz. Food
County Print	B707015	1/31/2007	Printed Envelopes
Calibre Printing	B505010	8/1/2007	Printed Hospital Forms
Pride Paint Co.	B707023	5/15/2007	Protective Coatings
Roche Diagnostic Corp	B606025	4/30/2008	Reagents/Consumables

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Appendix 6 – VAs in AVAS that are not Used

Vendor	Agreement Number	Expire Date	Commodity
Arista, Inc.	B505003	7/31/2007	Remanufactured Laser Printer Toner Cartridges
Howards Repair Inc.	B606051	4/30/2007	Repairs, Small Equipment
M.R. Holleran	B202046	6/30/2007	Rubber Stamps, Self-Inking Stamps and Repairs
AAA Fire Protection	B707041	2/26/2008	Service, Automatic Fire Extinguishing System
Adamson Police Products	B606010	8/29/2006	Sheriff Deputy Uniform Equipment
Action Sign Systems, Inc.	B505039	12/31/2006	Signage
Ethan Allen Travel	B202083	6/30/2007	Travel Agent
American Bio Medica Corporation	B202011	7/31/2006	Urine Testing Kits
Safeway Stores Inc.	B202059	12/31/2007	Various Food Items/Supplies
Safeway Stores Inc.	B202057	12/31/2007	Various Food Items/Supplies
Safeway Stores Inc.	B202058	12/31/2007	Various Food Items/Supplies
Safeway Stores Inc.	B202060	12/31/2007	Various Food Items/Supplies
Safeway Stores Inc.	B202061	12/31/2007	Various Food Items/Supplies
Wesco	B606060	6/3/2007	Welding Supplies
Unisource	B200118	6/30/2005	Xerographic Paper

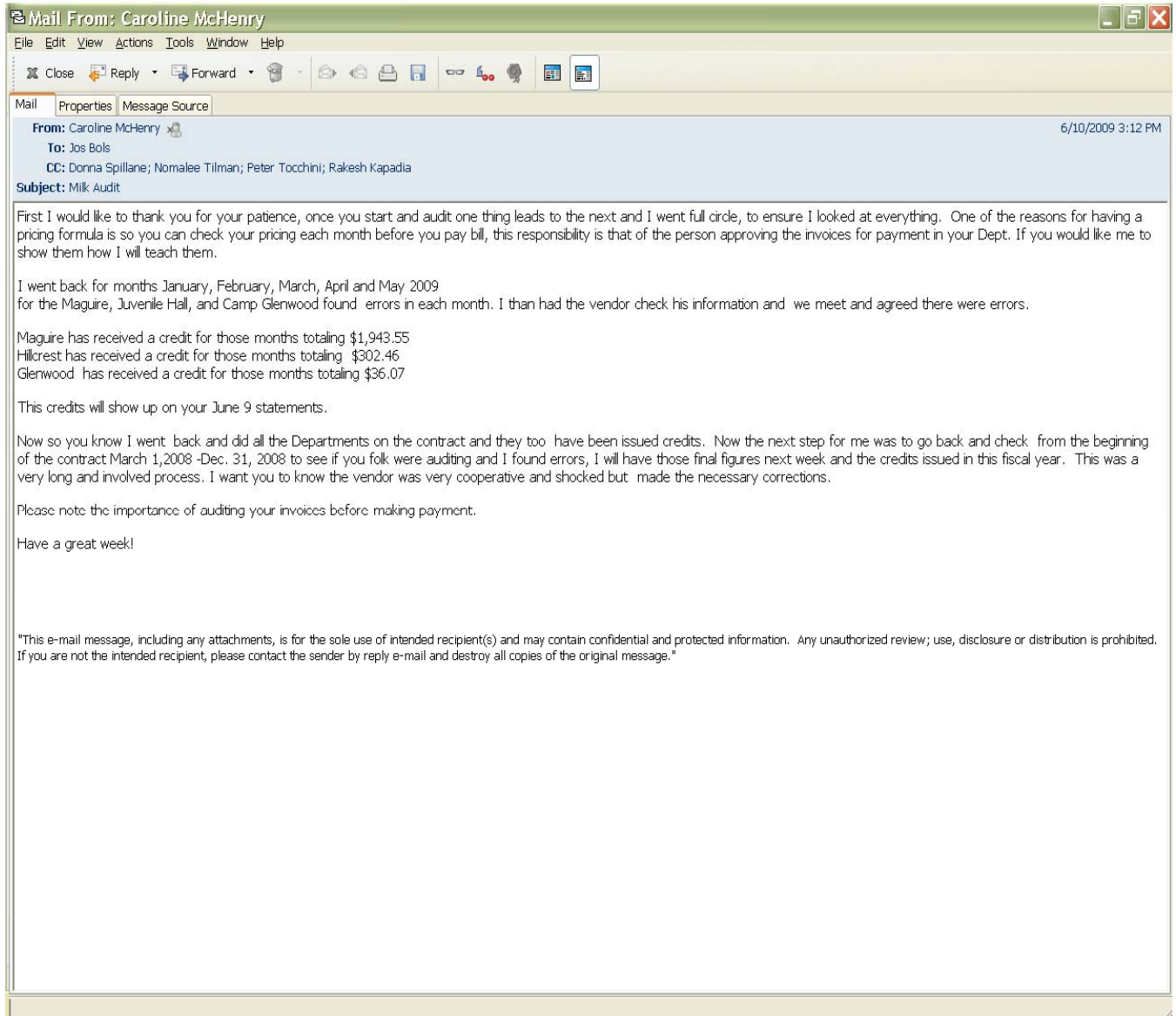
San Mateo County Purchasing Operational Review

Appendix 7 – Expired VAs by Buyer

#	Vendor	Agreement Number	Expire Date	Commodity	Contract Status Active in AVAS?	AVAS Expire Date Match	Buyer
1	BAYSHORE INTERNATIONAL TRUCKS	B606021	11/11/08	Automotive Repair, Parts	N	Y	CD
2	MIKE HARVEY HONDA	B707027	08/26/08	Automotive Repair, Parts	N	Y	CD
5	SUNNYVALE FORD	B808007	07/26/08	Automotive Repair, Parts	N	Y	CD
6	SPECIALTY ALINEMENT & BRAKE SERVICE	B707035	01/22/09	Automotive Repair, Suspension	N	Y	CD
9	KAMPS PROPANE	B404016	04/30/08	LPG	N	Y	CD
10	VALLEY OIL	B505017	10/26/08	Oil and Petroleum Products	N	Y	CD
11	SNAP-ON TOOLS	B606059	04/30/08	Shop Tools	N	Y	CD
12	J.C. CARPET & UPHOLSTERY CLEANING SPECIALISTS	B404035	05/20/08	Carpet, Panels, and Upholstery Cleaning	N	Y	CM
16	CLARCOR AIR FILTRATION PRODUCTS	B808011	01/08/09	Air Filter	N	Y	CD
17	INDEPENDENT ELECTRIC SUPPLY	B707026	08/31/08	Electrical Supplies	N	Y	CD
18	INDUSTRIAL HARDWARE	B707053	02/13/09	Hardware, Small Tools & Building Supplies	N	Y	CD
20	ORCHARD SUPPLY HARDWARE	B707036	02/26/09	Hardware, Small Tools & Building Supplies	N	4/1/2009	CD
21	STATE PLUMBING AND HEATING	B606009	08/22/08	Plumbing Supplies	N	Y	CD
22	POM INCORPORATED	B707037	12/19/08	Repair Parts, Parking Meters	N	Y	CD
23	GERBOTH FIRE EXTINGUISHER CO.	B707042	12/10/08	Service, Fire Extinguisher	N	Y	CD
24	GARRATT CALLAHAN	B707063	12/31/08	Water Treatment Chemicals	N	Y	CD
25	BPS REPROGRAPHIC SERVICES	B606030	06/30/08	Blueline Supplies/Engineering	N	Y	CD
27	PACIFIC SNAPPLE DISTRIBUTORS	B606053	06/30/08	Bottled and Canned Beverages	N	Y	CM
28	SIERRA SPRINGS WATER	B404003	10/31/08	Bottled Water, Dispensers/Stands	N	Y	CM
29	SYSO-SAN FRANCISCO	B808049	03/31/09	Dietary Prime Vendor-Food items only	N	Y	CM
33	BERKELEY FARMS	B505044	05/01/08	Milk & Dairy Products	N	Y	CM
35	NOVARTIS MEDICAL NUTRITION	B606052	06/30/08	Nutritional Supplements & Related Products	N	Y	CM
36	BIRITE FOODSERVICE DISTRIBUTORS	B808055	2/28/2009	Biodegradable, Compostable/Recyclable Foodware	N	Y	CM
38	POLETTI ASSOCIATES	B606013	09/12/08	Pleion Lineal Open Office Panel & Furniture Systems	N	Y	CM
42	JC NELSON SUPPLY CO	B808032	09/24/08	Cleaners and Degreasers	N	Y	CD
44	BLUE RIBBON SUPPLY CO.	B606029	10/31/08	Fab Laundry Soap/Individual Pkg.	N	Y	CD
46	GILLIS & LANE	B808050	04/15/09	Packing Materials	N	Y	CD
49	IMMUCOR, INC.	B808028	12/31/08	Blood Bank Products	N	Y	CB
	GEN-PROBE, INC.	B404009	10/31/08	Reagents/Equipment Use Program	N		
65						Y	CB
84	SMITH & NEPHEW, INC.	B707049	04/30/09	Orthopedic Prosthesis	N	Y	CB
85	SYNTHESES	B606047	09/30/08	Orthopedic Prosthesis/Implants	N	Y	CB
102	TRANS UNION	B606011	09/25/08	Credit Information Services	N	Y	CB
108	BAY REPROGRAPHICS	B808045	03/26/09	Sign Shop Supplies	N	Y	TS
117	LANGLEY HILL QUARRY	B808016	09/24/08	Aggregate, Fill Material	N	Y	CD
118	WEST COAST AGGREGATES, INC.	B808010	06/30/08	Aggregate, Fill Material	N	Y	CD
119	GRANITE ROCK	B707062	08/14/08	Asphaltic Concrete	N	Y	CD
120	SMITH AND HAWKEN	B808023	02/28/09	Composting Bins	N	Y	CD
121	WILLBUR ELLIS COMPANY	B707025	07/31/08	Herbicides	N	Y	CD
124	PETERSON TRACTOR	B808005	05/29/08	Repair Parts, Heavy Equipment	N	Y	CD
125	JAVELCO EQUIPMENT	B808006	05/07/08	Repairs, Small Engine	N	Y	CD

San Mateo County Purchasing Operational Review

Appendix 8: Credit for Berkeley Farms



San Mateo County Purchasing Operational Review

Appendix 9: Credit for Grainger

>>> "Friels, Reshell" <Reshell.Friels@grainger.com> 4/16/2009 11:15 AM >>>

Hello Romila,

The items that are ordered by the Sheriffs dept; 4te16, 1mm38, and 2u228 are not items that are on the Market Basket of the WSCA contract.

However, due to the volume in which you order these items we have been able to negotiate deeper discounts for you with this vendor. The problem is that there are expiration dates on the pricing; most often we try and make sure it runs concurrent with the WSCA contract; sometimes it does not.

In the case of 2u228 price discrepancies was due to the expiration of the pricing; but we were able to go back and ask for the pricing again. **Because we were able to get the same pricing we will credit and rebill these invoice immediately. By my calculations the credit is approximately \$1700.**

After reviewing the Market basket there is tissue there; which is a 4te17, 2 ply 80 case ct @ \$53.93.

The difference between the two are the ply and price; 4te16 is a 1 ply @ 38.24.

I hope this was helpful. Should we fax the corrected invoices to?

I will speak with you later on the other questions from our meeting.

Thank you and have a wonderful day.

Reshell Friels

Government Acct. Mgr.

Reshell.Friels@grainger.com

cell(510)435-9348

fax (650)591-2794

-----Original Message-----

From: Romila B Singh [<mailto:RoSingh@co.sanmateo.ca.us>]

Sent: Wednesday, April 08, 2009 11:47 AM

To: Friels, Reshell

Cc: Charlie Davenport; Frances Chu

Subject: Pricing differences

Hi Reshell:

It was a pleasure meeting you today.

Attached are the invoices with the pricing discrepancies mentioned during our meeting today. Any help you could provide to us regarding the differences would be greatly appreciated.

Thanks so much!

--Romila

650-599-1163

Save Paper.

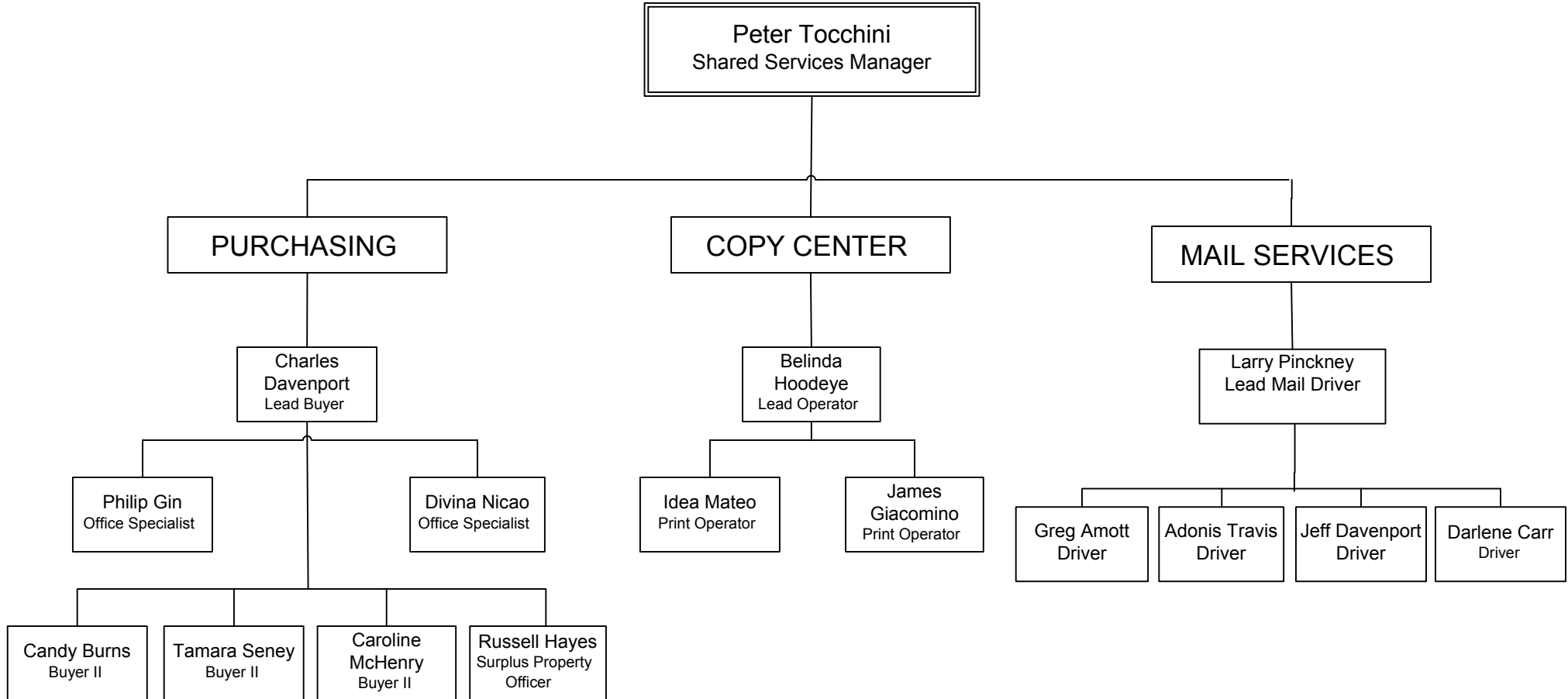
Think before you print.

San Mateo County Purchasing Operational Review

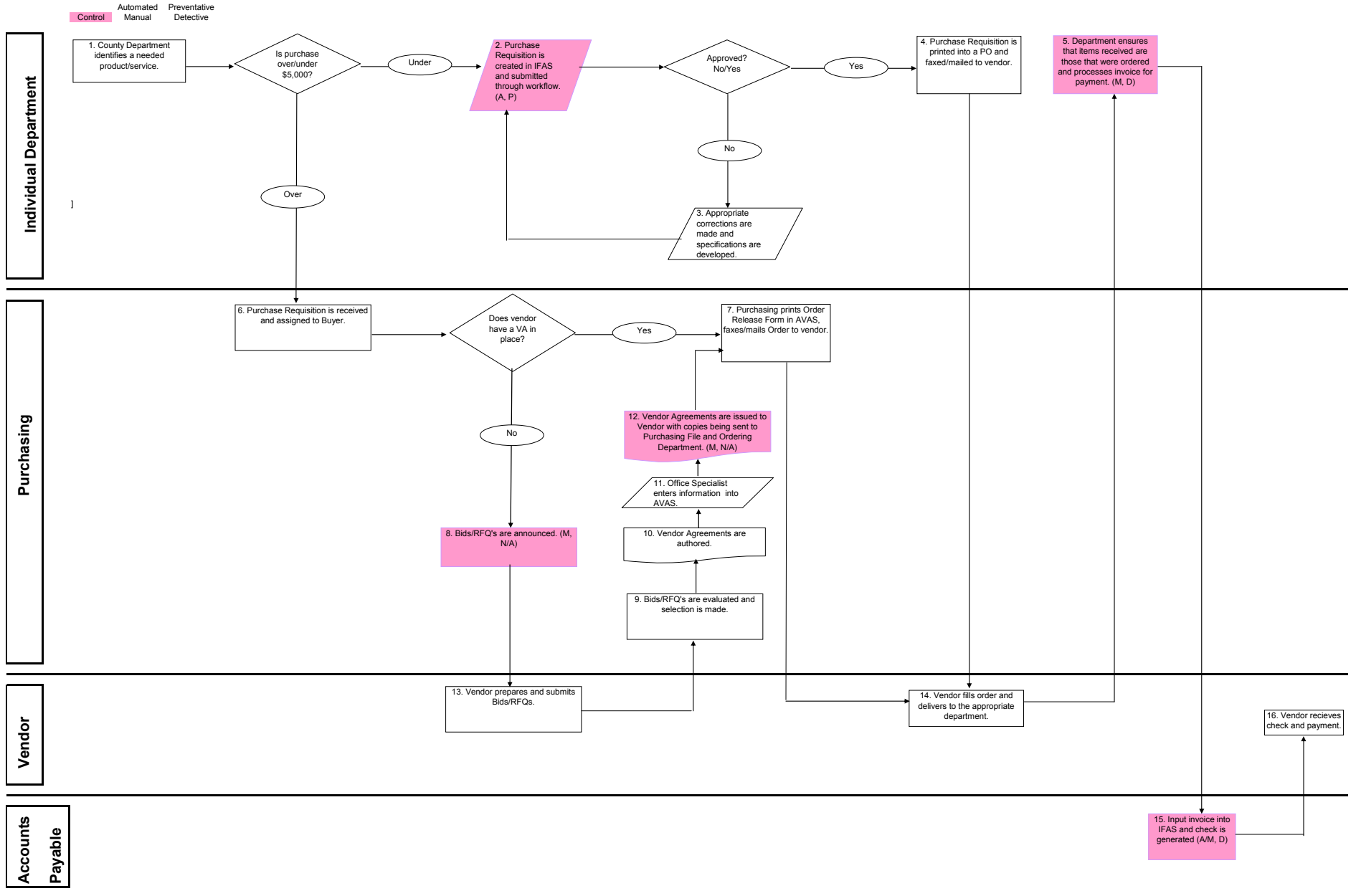
Appendix 10: Preferred characteristics (“Wish List”) of an e-procurement system would include:

- Vendor Catalogs: Provides the capability for County to create and maintain on-line catalogs, eliminating the need to search paper-based catalogs, or visit multiple vendor specific websites to place orders on-line.
- Paperless Archiving: Eliminates need for manual retrieval of hard-copy Purchase Orders and/or Bids.
- Functions to support procurement best practices: Provides the infrastructure for contract and vendor performance monitoring and management.
- Flexible Access: Provides access to all agencies that are a part of the procurement community via internet.
- Easily identifies vendors using a variety of search criteria such as by commodity, location, business type, minority status, etc
- Web Requisitioning and Document Tracking: Supports releases from blanket PO’s, releases from term contracts, and Inventory orders.
- Navigational Tools: Advanced Search, Digital Dashboard, Online help
- Informal quotes and tabulation.
- Approvals: Multi-level electronic approvals by document, department, dollar amount, commodity and account segments.
- Account code validation and budget verification.
- Pre-encumbrance / encumbrance management.

San Mateo County Purchasing
Operational Review
SHARED SERVICES



San Mateo County Purchasing Operational Review



San Mateo County Purchasing Operational Review

Date: February 23, 2010

From: Peter Tocchini

Subject: Response to Draft of Operational Review of County Purchasing

Your report has been reviewed by Reyna Farrales, Charlie Davenport and me and I want to say thank you for the time and effort you put in to your analysis. The presentation of the issues and your recommendations which are clearly articulated will be a challenge for some time to come.

I essentially agree with your analysis and recommendations with the following comments:

*Purchasing will build upon the current training with the use of the Purchasing Customer Guide and Supervisor training but for maximum effectiveness it will have to be supported and coordinated with IFAS training and accounts payable training. AVAS training has taken place in 61 County locations and will continue to be available, as we are made aware of untrained people. I feel strongly this ongoing training must be made mandatory for everyone involved in purchasing products and processing payments. When the intranet is available all purchasing materials and guide will reside on the Purchasing web site.

*To maximize savings through the use of vendor agreements Purchasing will develop a detailed process for buyers to use when creating or renewing vendor agreements. We will review web options, state and local contracts, competitively bid organizational contracts, and the RFP and Invitation to Bid process. The web options will have to contain adequate controls and safeguards.

*I agree the County purchasing process would be greatly enhanced through the greater use of automation and the tools it offers. Purchasing welcomes the offer of Internal Audit to provide support by using data extraction and analysis tools not available to the Purchasing Division. We will work closely with Internal Audit to develop a means to utilize available information to increase savings through the use of vendor agreements. In addition, Purchasing would like to partner with and work closely with the Controllers office to enhance IFAS so it will provide accurate data to support the purchasing process when Internal Audit support is no longer available.

Without the ability to verify the cost savings detailed in your report, I will accept the numbers you identify, The \$1.8 million savings is a goal that I know can be achieved with the cooperation of departments and focused time and effort by the buyers.

I look forward to working with you to prioritize and move towards implementing your recommendations. Thanks for all of your hard work.