

COUNTY OF SAN MATEO

INTERDEPARTMENTAL CORRESPONDENCE

DATE: August 10, 2010

TO: Reyna Farrales, Deputy County Manager

FROM: Tom Huening, Controller

SUBJECT: **Follow-up on Countywide Purchasing Operational Review Report**

Attached is our follow-up report relating to the Countywide Purchasing Operational Review Report dated June 2009.

The audit team worked closely with Purchasing staff and is grateful for their participation during the follow-up review. We look forward to working with them and providing further assistance in implementing the recommendations.

Attachment: San Mateo Countywide Purchasing - Follow-up on
Operational Review Report of June 2009

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
Charlene Kresevich, Administrative Assistant, Superior Court (Grand Jury)

San Mateo County Purchasing
Follow-up on Operational Review
Report of June 2009



Controller's Office
Audit Division

**San Mateo County Purchasing
Follow-Up on Operational Review Report of June 2009**

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San Mateo County Purchasing
Follow-up on Operational Review Report of June 2009
Executive Summary

We conducted an operational review of countywide purchasing at the request of the Deputy County Manager – Administrative Services. The primary objective of the review was to assist management in identifying areas for improvement in the procurement process that would yield the greatest benefit to the County. Our report dated June 2009 included 12 recommendations for improvement. The operational review report is available online at: <http://www.co.sanmateo.ca.us/Attachments/controller/Files/AuditReports/CountywidePurchasing.pdf>. The primary objective of this follow-up review is to determine the status of the recommendations.

Background Information

- Our original review was based on fiscal year (FY) 2007-08 data. The County spent \$56.5 million on commodities in that fiscal year. In FY 2009-10, the County spent \$49.6 million on commodities, a decrease of about \$7 million. Most of this decrease is due to the current budgetary constraints; a portion is due to the changes being implemented by the Purchasing Unit and the Controller’s AP section in response to the audit recommendations.
- Currently, departments can purchase goods and supplies valued at less than \$5,000 on their own under delegated purchasing authority. The authority for purchases of \$5,000 and above is delegated to a Central Purchasing Unit (Purchasing). Purchasing is under the Shared Services Program of the County Manager’s Office. The Shared Services Manager performs the duties of the County Purchasing Agent and reports to the Deputy County Manager – Administrative Services. Purchasing staff include 4 buyers, a Surplus Property Manager and two Office Specialists.
- Departments manage their own purchasing needs and obtain Purchasing’s help only when required – mainly for purchases exceeding established Vendor Agreement (VA) thresholds made from a vendor who does not have a current VA. Current VA thresholds are \$5,000 or 12 purchases, annually. Individual purchases of \$100,000 and above are subject to a formal bidding process.
- A Vendor Agreement (VA) is the primary tool the County uses to leverage its buying power and maximize cost savings. VAs are competitively-bid agreements for commonly purchased items. VAs are also utilized when the County participates in cooperative or multi-agency agreements. Current policy requires County units to utilize VAs for their purchases and refer to Purchasing any purchases exceeding VA thresholds from a vendor who does not have a current VA. Purchasing obtains competitive quotes/bids and considers such purchases for long term VAs.
- Our original review indicated that the County could realize annual cost savings of at least \$1.8 million by maximizing VA usage. Our analysis of the more recent FY 2009-10 data indicates estimated annual savings of \$1.2 million. Countywide purchases have to be proactively managed to maximize VA usage. As discussed below, systems and other improvements will be needed to facilitate such proactive management.
- As shown in the table above the total potential savings are higher than as mentioned above. We lowered the savings estimates by 2/3 to allow for potential overstatement due to limitations in the available VA and other purchasing related data utilized in our analysis. Deficiencies in manual data entry procedures and limitations in system capabilities result in a lack of complete and accurate commodities purchasing data and readily available reports needed for analyzing countywide purchases. These issues are addressed in our report.

	2009-10	2007-08
Estimated Annual Commodities Purchases	\$49.6m	\$ 56.5 m
No. of Buyers in Purchasing	4	4
No. of Current VAs*	76	85
Estimated Purchases without VA Usage	\$19.6m	\$ 28.5 m
Savings Rate from VA Usage	18.60%	
<i>Cost Savings Opportunity by Increasing VA Usage:</i>		
- Max. Estimated Savings	\$3.7m	\$ 5.3 m
- Min. Estimated Savings @ 1/3	\$1.2m	\$ 1.8 m
Savings Realized as of 6/30/10	\$517,000	
* Vendor Agreements		

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Findings

- The County needs an effective overall purchasing strategy. It is not clear from the current governance model how the responsibility is assigned or shared for the systems and the processes that would ensure that countywide purchases are proactively managed and the related policies are up to date and followed to maximize savings and compliance. While Purchasing believes individual departments should establish and enforce controls that maximize compliance with policy and savings, the departments assume Purchasing is responsible for monitoring purchases and/or providing necessary oversight/ enforcement. For the Controller's Information Systems to address information needs, responsibilities have to be clearly defined
- The VAs are maintained in AVAS, a system that is not integrated into IFAS. Most of the VA related fields in IFAS are not mandatory or system validated and so can be manually entered or overwritten, resulting in inaccurate or incomplete data. We noted a significant number of instances where IFAS users entered current VA numbers for vendors who do not have VAs or entered expired or made-up VA numbers. The current systems do not provide complete data or readily available reports needed for proactive management of countywide purchases.
- 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 non-compliance with policy and lost savings.
- 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, i.e. purchases by several departments from one vendor, can exceed the VA threshold of \$5,000 but not be considered for a VA.
 - Since it is not necessary to use AVAS to initiate or complete a purchase or payment transaction in IFAS, users are able to ignore the VAs in AVAS as a resource when making purchases as well as ignore AVAS related VA number and other input fields in IFAS. Though Purchasing offers AVAS training classes, our survey results indicated that 70% of the department buyers do not have access to AVAS and the remaining do not use it on a consistent basis.
 - As of the date of our original review, we had noted that 41 out of 126 VAs for current vendors had expired. During the follow-up review we noted that there were 57 expired VAs.
 - Established VAs may not include all the major purchases from the VA vendor. Our test-work in this area had shown 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.

Recommendations

We anticipate that it will take some time to fully implement the recommended changes as further studies may be required to determine the nature and timing of the needed system and personnel changes identified in this report. Internal Audit (IA) is providing assistance for a limited time, where needed in the interim, so that the County can start the processes that can immediately begin to realize the significant cost savings identified in this report. IA has the data analysis software and expertise needed to work around the current lack of systems capabilities. Details are provided in the Recommendations section of the report. A summary of recommendations, our interim actions where applicable, statuses of implementation and management responses is given below.

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- To effectively leverage the County's buying power management should ensure that responsibilities for an overall procurement strategy is clearly defined. A central unit should proactively monitor and manage countywide purchasing to maximize cost savings.
- The current systems do not aggregate all the information or generate the standard reports needed for proactive management of countywide 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 a central and other units to effectively manage countywide purchasing and maximize cost saving opportunities
- Since Purchasing has expert buyers who understand countywide purchases it is logical that it take responsibility for proactive management of countywide purchases and an overall procurement strategy. However, the current structure relies on departments developing their own strategies with Purchasing facilitating purchase of items needed by the departments in a competitive and timely manner. To enable Purchasing to effectively undertake the increased responsibility for an overall procurement strategy and proactive management of countywide purchases would require changes or a clarification of roles and responsibilities and making available the requisite resources.
- The following actions are needed to ensure compliance with policy and maximization of savings:
 - Management should instruct department heads to fully comply with the current policies and procedures designed to maximize savings opportunities, such as those relating to VA usage, input of complete and accurate data in IFAS and checking invoice prices to agreed upon prices per VAs.
 - A large number of VAs has expired and not been renewed. Purchasing should review the current and likely purchases relating to these VAs for cost savings opportunities through VA renewals or new VAs.
 - To provide quick and easy access to its guides and manuals, Purchasing should post such documents on its County intranet website.
 - Some large vendors currently provide VA pricing through their websites via a secured login. Since the use of AVAS is limited due to access and other issues, and it does not appear that a viable solution will be made available in the short term, Purchasing should take steps to make the web buying option available to department buyers, where appropriate, with adequate internal control safeguards.
 - To ensure that the County takes full advantage of discounted prices per the 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.
 - 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.
- Purchasing should ensure a formal documented process for selecting vendors for a VA and for their periodic evaluation. 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. Evaluation of VA vendors should be performed at least once every 3 years and each time a VA is considered for renewal or extension.
- 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 original report provides some generic examples of such measures.

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Status

The following recommendation was implemented:

- Management should instruct department heads to fully comply with the current policies and procedures designed to maximize savings opportunities.

The Deputy County Manager presented a memo in an Executive Council meeting on January 25th, 2010. Interim actions will gauge effect.

None of the other recommendations were fully implemented. As noted previously, it will take some time to fully implement the recommended changes as further studies may be required to determine the nature and timing of the needed system and personnel changes identified in this report. Most of the effort so far focused on Interim Actions (see below). Some progress has been made towards implementing these recommendations:

- To effectively leverage the County's buying power management should ensure that responsibilities for an overall procurement strategy is clearly defined. A central unit should proactively monitor and manage countywide purchasing to maximize cost savings.

Purchasing has begun to undertake the responsibility for an overall procurement strategy. Purchasing's work in this area will be hampered by the lack of available countywide purchasing information.

- To ensure that the County takes full advantage of discounted prices per the 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.

Purchasing has communicated to its staff that all vendor agreements are to include order release forms with item prices or stated discounts which can be verified by data on invoices.

Interim Actions

Internal Audit (IA) has provided reports to Purchasing as follows:

- Reports to monitor compliance with current policies and procedures -
These included reports showing purchases made without valid VAs, instances where VA numbers were not entered for purchases from vendors with current VAs, purchases made with expired VAs and major commodity purchases with no VA references.
- Reports to identify major vendors -
 - Commodity vendors with purchases totaling \$27.6m who did not have a VA number in IFAS. Purchasing determined that VAs are appropriate for 11 of these vendors. Of the 11 vendors, VAs have been established for 2 and 3 are in progress.
 - Top 10 vendors with VAs for the purposes of performing competitive analysis.
IA has contacted 5 food vendors, three of which returned our request for information. IA will follow-up and perform a competitive analysis in collaboration with Purchasing.

We have also discussed with Controller's Information Systems (CIS) the possibility of generating appropriate reports from IFAS. A quote has been requested from the IFAS vendor for the cost of developing some of the reports. Reports relating to IFAS validation of VA numbers are not feasible due to system limitations. Appendix 4 provides more details regarding CIS and its plans to address recommendations relating to information needs.

Based on our analysis the extent of non-compliance with VA usage policy has decreased from that noted in the original report. County saved about \$517,000 from the increase use of VAs. Our analysis also indicates that there is potential for significant additional savings as the recommended changes are implemented.

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Detailed information on each recommendation with appendices, where applicable, is presented below. Management responses regarding the implementation status are also included. Our follow-up work was performed through July 20, 2010. Management responses were received on July 26, 2010. We will follow-up on management responses in due course.

Recommendation 1

Management should instruct department heads to fully comply with the current policies and procedures designed to maximize savings opportunities.

Status

The Deputy County Manager presented an appropriate memo to the Executive Council on January 25th, 2010. See Appendix 1.

Interim actions will gauge effect.

Interim Actions

IA provided appropriate reports to Purchasing, which would enable it to monitor compliance with current policies and procedures. The most recent reports as of June 30, 2010 show the following:

- Purchases made without valid VAs:	39 IFAS UserIDs totaling \$8.2m
- No VA number entered for purchases from vendors with current VAs:	81 IFAS UserIDs totaling \$7.6m
- Major commodity vendors with no VA	34 vendors totaling \$19.6m <i>(Original audit: FY2007-08 data - 106 vendors totaling \$28.5m)</i>
- Purchases made with expired VAs:	\$2.7m
- Expired VAs	57
<u>Result</u>	
The extent of non-compliance has decreased from that noted in the original report; even after taking into account the overall reductions due to budgetary constraints. For example purchases from major commodity vendors with no VA decreased by \$8.9 m - \$3.5m due to budgetary constraints; \$5.4m due to increase in VA usage. VAs generally yield 18.6% in savings. Our analysis indicates the County saved about \$517,000 from the increase use of VAs. However, the numbers noted above indicate there is still opportunity for significant savings by maximizing VA usage.	

Appendix 2 shows excerpts from some reports that were provided to Purchasing and an example of our follow-up work.

Issues relating to the data presented in above table are discussed later in the report under applicable recommendations.

Management Response

- 1) All department Purchasing and Fiscal representatives have been notified and have been given a sample illustration of the AP screen.
- 2) Correct entry of VA numbers in IFAS now a part of IFAS AP training. Subject will be a part of all future Purchasing training.
- 3) Purchasing updates vendor agreements as quickly as time allows. The process is ongoing.

Recommendation 2

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.

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Status

Not implemented.

Purchasing has established some in-house processes. However, a professional development plan is still needed to provide department buyers ongoing training. A lack of understanding of basic procedures by departmental buyers leads to errors and omissions and consequent lost savings.

Management Response

- 1) A process for renewal of expired vendor agreements and to identify possible new vendor agreements has been established.
- 2) Monthly buyer review has been established.
- 3) Standard purchasing process will be followed.

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.

Status

In progress.

Traditionally, Purchasing relied on departments to develop their own strategies and facilitated the purchases of items needed by the departments in a competitive and timely manner. To enable a Central Purchasing Unit to effectively undertake the increased responsibility for an overall procurement strategy would require changes or a clarification of roles and responsibilities and making available the requisite resources.

Purchasing has begun to undertake the responsibility for an overall procurement strategy. Purchasing's work in this area is hampered by the lack of available countywide purchasing information. See Interim Actions.

Interim Actions

IA provided appropriate reports to Purchasing to identify major vendors. The reports showed the following:

- 45 major commodity vendors with purchases totaling \$27.6m who did not have a VA number in IFAS. As noted under Management Response, Purchasing has determined that VAs are appropriate for 11 of these vendors. Purchasing was unable to provide support for the process or basis used for their determination. See Recommendation 8. Of the 11 vendors identified by Purchasing, 3 are in progress and VAs have been established for 2 of them as a result of our follow-up. Estimated savings from these 2 vendors total \$150,000.
- Top 10 vendors with VAs for the purposes of performing competitive analysis. IA has contacted 5 food vendors, three of which returned our request for information. IA will follow-up and perform a competitive analysis in collaboration with Purchasing.

Management Response

- 1) Of the 45 vendors/commodities on the list only 11 are appropriate for vendor agreements. Of the 11, 5 of the vendors or commodities are currently active vendor agreements.
- 2) The balance will be addressed.

Recommendation 4

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 AVAS is limited due to access and other issues, and it does not

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appear that a viable solution will be made available in the short term, Purchasing should take steps to make the web buying option available to department buyers, where appropriate, with adequate internal control safeguards.

Status

Not implemented.

Appendix 3 gives an example of the process IA performed to ascertain vendors with potential web buying option. The process identified 5 such vendors with annual purchases totaling \$2.7m. The list was provided to Purchasing.

Management Response

Purchasing solicits vendor agreements using competitive pricing or through the use of state and local government competitively bid contracts. If vendors have web purchasing available with required restrictions and approvals then it will be used. Web buying is not a requirement.

Recommendation 5

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.

Status

In progress.

Interim Actions

IA provided Purchasing with reports mentioned under Interim Actions for Recommendations 1 and 3. In addition, IA provided expired VAs lists to Purchasing that show 41 expired agreements per our original review report and 57 expired agreements as of June 30, 2010.

We have discussed with Controller's Information Systems (CIS) the possibility of generating the abovementioned reports from IFAS. CIS is going through staffing changes but has a plan to address the issue of generating the required reports. See Appendix 4 for more details. At the time of writing this report the Controller's Office has requested a quote from Bi-Tech for the cost of developing the following reports:

- Commodity purchases in excess of \$5,000 and 12 transactions
The purpose of this report is to provide Purchasing with a list of commodity vendors who could potentially be eligible for VA.
- Potential Order Splitting by buyers
The purpose of this report is to ensure that departments are not circumventing controls related to notifying Purchasing of commodity transactions over \$5,000.
- VA Transactions
Currently IFAS can not validate VA numbers so as a workaround Purchasing needs a report of all purchases made using VA numbers. Purchasing will then have to perform a manually intensive review of the VA numbers to identify invalid VAs and follow-up with the applicable users/departments.
- Top VA vendors
This report will contribute towards developing an overall procurement strategy, performing competitive analysis, etc.

Purchasing will also need the reports listed below to efficiently manage countywide Purchasing. However, based on prior discussions with CIS we understand that creating the above reports is not feasible until a system table with appropriate fields is created and maintained.

- Transactions for vendors who have VAs but with no VA numbers in 'OH_CONTRACT' field (blank),

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- Transactions utilizing invalid VA numbers, and
- Transactions utilizing expired VA numbers.

Management Response

See Recommendation 3.

Recommendation 6

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

Status

Not implemented.

Interim Actions

As noted above IA has provided Purchasing with reports showing purchases made with expired VAs. Our review of available information indicates that the number of expired VA has increased over time:

- 41 expired VAs: June 2009 Review Report
- 52 expired VAs: January 2010
- 57 expired VAs: June 2010 – See Appendix 6

Appendix 5 shows an example of higher price being charged by a vendor whose VA had expired.

During the original review, we noted that there were several food vendors whose VAs expired in 2007. Another issue we noted was that a VA for a food vendor covered non-food items but not the major food purchases. We were informed the VAs would be established/ renewed once Santa Clara County completed conducting bids for food vendors. IA had identified four food vendors that had expired agreements and could be eligible for VAs. Total annual purchases from these vendors was \$594,000, with potential savings of \$36,000

To avoid buying without current VAs, IA has recommended that Purchasing perform its own analysis to determine whether the County can leverage pricing from State Food Contracts for additional savings.

Santa Clara County renewed its food VA as of April 1, 2010. We understand that San Mateo County's VA went into effect on August 1, 2010.

Management Response

- 1) All expired vendor agreements, current vendor agreements, and possible new vendor agreements are reviewed with each buyer monthly. Purchasing updates expired vendor agreements as buyer time allows.
- 2) Purchasing has responded to the list provided by IA.
- 3) Buyers notes, communication, and vendor price offerings are maintained in the vendor agreement file.

Regarding the food vendor VA -

A new vendor agreement for groceries and meat will be issued the week of 7/26/10.

Recommendation 7

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.

Status

Not implemented.

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Best practices prescribe an adequate evaluation process when selecting and/or renewing VAs. Lack of a documented evaluation process undermines Purchasing's publicized objectives of compliance with laws and promoting fair and open competition.

Management Response

A formal process has not been addressed. Purchasing does not agree that failure of having a formal evaluation process of all vendors undermines our ability to comply with laws and to have fair and open competition.

Recommendation 8

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 should be maintained in accordance with formal retention requirements.

Status

Not implemented.

Appendix 7 shows an example of lack of documentation of the basis used for selecting vendors for VAs.

Management Response

A formal process has not been addressed. Purchasing does not agree that failure of having a formal evaluation process of all vendors undermines our ability to comply with laws and to have fair and open competition.

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.

Status

In progress.

Purchasing Manager has communicated to his staff that invoices should have sufficient detail to facilitate price checking (see Appendix 8).

Specific cases with pricing issues:

During the original review, for one of the vendors sampled, Poletti & Associates, we noted the VA bid form specifies hourly charges for installation at \$65 per hour and design services at \$55 per hour. However, Poletti's invoices in the sample did not itemize details of installation and design costs. As a result, it is not possible to validate whether the County was charged the correct rates. The total paid to the vendor in fiscal year reviewed was \$3.7 million. The issue has not been resolved and will be followed up.

Appendix 9 shows another example of pricing discrepancies.

Management Response

Purchasing includes prices for vendor agreements depending on what makes sense: order release forms in AVAS such as the Grainger VA, web site contract prices such as Office Depot VA, formula pricing such as Berkeley Farms and Valley Oil, and retail prices such as Orchard Supply and Fry's.

Regarding Poletti & Associates:

- 1) Vendor agreements for chairs have been updated.
- 2) The invoice issue has been addressed with the vendor.

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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.

Status

Not implemented.

Management Response

Development is pending.

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.

Status

Not implemented.

Management Response

Intranet not currently available.

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

Status

Not implemented.

Currently, purchasing data needed for managing countywide purchases resides in IFAS, the County's main accounting system. IFAS is managed by the Controller's Information Systems (CIS) division. CIS is going through staffing changes but has a plan to address IFAS related recommendations such as those relating to generating standard reports with information needed for managing countywide purchases. See Appendix 4 for more details.

Management Response

3rd party software has not been explored. Purchasing advocates the development of the IFAS Purchasing module to streamline the process. 3rd party software is costly and lacks the interface with IFAS for encumbrances and reporting. If IFAS is not a logical choice for future use the RFP process should be used to find a solution. Purchasing will include the Controller and ISD in the development and evaluation of any RFP.

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Appendix 1: CMO Memorandum to Departments



COUNTY OF SAN MATEO
Inter-Departmental Correspondence
County Manager/Clerk of the Board



MEETING DATE: January 25, 2010

TO: Executive Council

FROM: Reyna Farrales, Deputy County Manager

SUBJECT: **Purchasing Review Recommendations – Executive Summary**

One of the multi-departmental strategies in our five-year budget deficit elimination plan is to review County administrative and support functions for efficiencies and ongoing savings opportunities. At the request of our office, the Controller's Internal Audit Division has completed an operational review of County Purchasing, which is a unit within the Shared Services division of the County Manager's Office. Shared Services, under the leadership of Peter Tocchini, includes the following internal services that are provided primarily to County departments: Purchasing, Copy Center, Mail Services (U.S. and Pony Mail), and Surplus Property. The results of the review have been discussed with our office, and Peter and his staff are now working on a response and plan to prioritize and implement recommendations.

Major Findings and Recommendations

The Executive Summary of the Purchasing Review report is attached. One of the major findings is that the County could achieve at least \$1.8 million in annual savings by being more proactive in managing its purchases, and using blanket purchase agreements called Vendor Agreements (VAs), and other cost savings strategies to pay lower prices. The review found that buyers in operating departments (1) do not consistently use or are not aware of existing VAs that have been prepared by County Purchasing through a competitive bid process and (2) purchase items that are not included in the VAs, resulting in the County paying higher prices. Some of the recommendations affecting departments include:

- 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 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.
- 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, Internal Audit (IA) can create customized reports for Purchasing's use utilizing data analysis tools, as an interim solution.

Next Steps - Please share the attached Executive Summary with your staff who are responsible for managing your department's purchases. Some of these issues could be a result of staff turnover, so raising awareness now should result in immediate action toward working with Purchasing to access Vendor Agreements and sign up for training. We will work with departments and the Controller's Office over the next few months to prioritize and implement recommendations from the Purchasing Review.

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Appendix 2: VA Numbers – Invalids, Non-Utilization, and Potential Vendors

Departmental users making purchases without valid VA

OH_PREP_ID	OH_PE_NAME	OH_CONTRACT	OH_PR_NO	Total
BARNESA	OWENS AND MINOR			39,028.38
			B210011	2,235.26
			B808019	4,266.46
			B909019	836,833.51
		B0909019		40.82
		B909010		60.65
		B909019		2,030,995.41
		B909019		2,574.56
		B909019\		86.59
		B999019		184.62
BARNESA Total				2,916,306.26
CHAOP	OWENS AND MINOR			121.61
			B707048	224.78
			B909019	3,933.51
		909019		1,044.75
		B909019		20,221.55
CHAOP Total				25,546.20
KUOM	OWENS AND MINOR			116.78
			B909019	50,323.07
KUOM Total				149,415.19
Grand Total				3,141,707.50

Internal Audit followed up with the individual who had the highest occurrences of invalid VA's. In April 2010, the individual informed Purchasing that her internal department system generated their own VA numbers outside of IFAS, causing the input of invalid VAs. When Purchasing informed IA of this communication, IA followed up with the departmental Director and we were told that their system did not generate VA numbers. Rather, the department uses VA numbers as Purchase Order numbers. However, IA had identified a specific user within this department that utilized a) correct VA numbers for incorrect vendors or b) non-existent VA numbers. IA presented this information to the Director and we have not received a response. As of this update, Purchasing has not created a professional development plan for departmental buyers and performed no further follow up with this department since their initial communication in April. As a result, IA communicated with the departmental Director (July, 2010) and informed him of the following: a) Appropriate field to input VA numbers, b) VA Index Update (with correct VA numbers), and c) screen shots for appropriate input.

Departmental users making purchases from vendors with VAs without a VA number

Sum of OH_DIST_AMT	OH_CONTRACT
BARNESA	5,100,633.47
CHAOP	687,806.64
GUEVARAZ	381,505.12
KUOM	1,618,558.15
LAMV	2,069.27
RYANP	950.00
VALLEROA	8,971.73
Grand Total	7,800,494.38

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Appendix 3: VA Vendors Potentially Suited for E-Procurement

Vendor Number	Vendor Name	Total Distribution	Eligibility
A043903	CARDINAL HEALTH INC	\$ 7,018,895.92	Amerinet
A004561	GRANITE ROCK	\$ 3,878,625.81	Sole Source - NA
A003326	OWENS AND MINOR INC	\$ 3,266,991.31	Amerinet
A014757	SIEMENS MEDICAL SOLUTIONS DIAGNOSTICS	\$ 1,470,794.34	Amerinet
A028775	ALLIED WASTE SERVICES	\$ 1,462,827.75	Sole Source - NA
A010248	OFFICE DEPOT	\$ 1,425,788.45	Current
A008707	VALLEY OIL	\$ 1,023,377.56	Petroleum-NA
A013642	BIRITE FOODSERVICE DISTRIBUTORS	\$ 1,002,393.60	Current
A003867	GRAINGER INDUSTRIAL SUPPLY	\$ 959,098.48	Current
A027284	POLETTI ASSOCIATES	\$ 885,449.63	Eligible
A029072	SYSCO SAN FRANCISCO	\$ 874,025.33	Eligible
A011336	FISHER HEALTHCARE	\$ 356,357.78	Amerinet
A018226	BELLA FRESCA (GATEWAY)	\$ 329,646.12	Eligible
A031441	COUNTY PRINT	\$ 327,992.25	Eligible
A000362	BERKELEY FARMS DAIRY	\$ 296,728.05	Eligible
A023282	GE HEALTHCARE	\$ 291,414.76	Amerinet

Total VA Distribution	\$	30,001,633.50
Distribution of Vendors over \$200K	\$	24,870,407.14
Distribution of Vendors over \$200K (non Amerinet)	\$	11,040,164.58
Distribution of Eligible Vendors	\$	2,713,841.38

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Appendix 4: Controller's Office CIS

- **Over view and Addressing Issues in the Report**
- **Email Requesting Quote from Bi-Tech**

As background the Controller's Information Systems (CIS) division has undergone significant changes recently with the retirement of its long-time manager. The succession has been well managed as evidenced by the successful move to the more cost efficient relocation of the system and successful year-end closing of the books. The new manager is building the division to meet the County's accounting system (IFAS) needs. As part of that effort, the long-vacant FSM I position in the CIS division has been filled by the person who previously filled the Management Analyst position in that Division. This now-vacant MA position is currently in the process of being filled by mid-August.

The newly occupied FSM I position will be the lead in the Controller's Office for initially preparing a gap analysis of the recommendations of the Purchasing Audit Report. The deliverable of this analysis is to define what recommendations can be implemented in IFAS in its current configuration, which items will require more effort in the form of customization of re-configuration of the IFAS system, and which items are not able to be performed because of limitations of the IFAS system.

The first category, recommendations that can be implemented in IFAS in its current configuration, will be managed by the Controller's CIS division. A project team will be established and a project time table and deliverables will be defined and executed. This will have to begin after the CIS Management Analyst position is filled and trained to perform the duties that are now performed, in the interim, by the CIS FSM I position. The duties to be performed by the MA include IFAS Training, IFAS Help Desk Management, trouble-shooting of complex Help Desk issues, maintenance of the Controller's Intra and Internet site, assisting the FSM I and II as needed on project tasks and managing other CIS staff. Given a smooth hiring process, we expect to begin the project addressing the Purchasing Audit Report recommendations in mid-October, 2010. Addressing this report's recommendations in this manner will fit within the Controller's key performance measure of delivering additional IFAS functionality to the user community each year.

>>>> Bob Adler 7/27/2010 3:15 PM >>>>

Hi Todd,

Thanks very much for your help. Looking forward to getting a quote from you. Please consider this email as my authorization to prepare a quote. Let me know if you think that this phase (preparing the quote) will exceed \$1,000.

Thanks again,

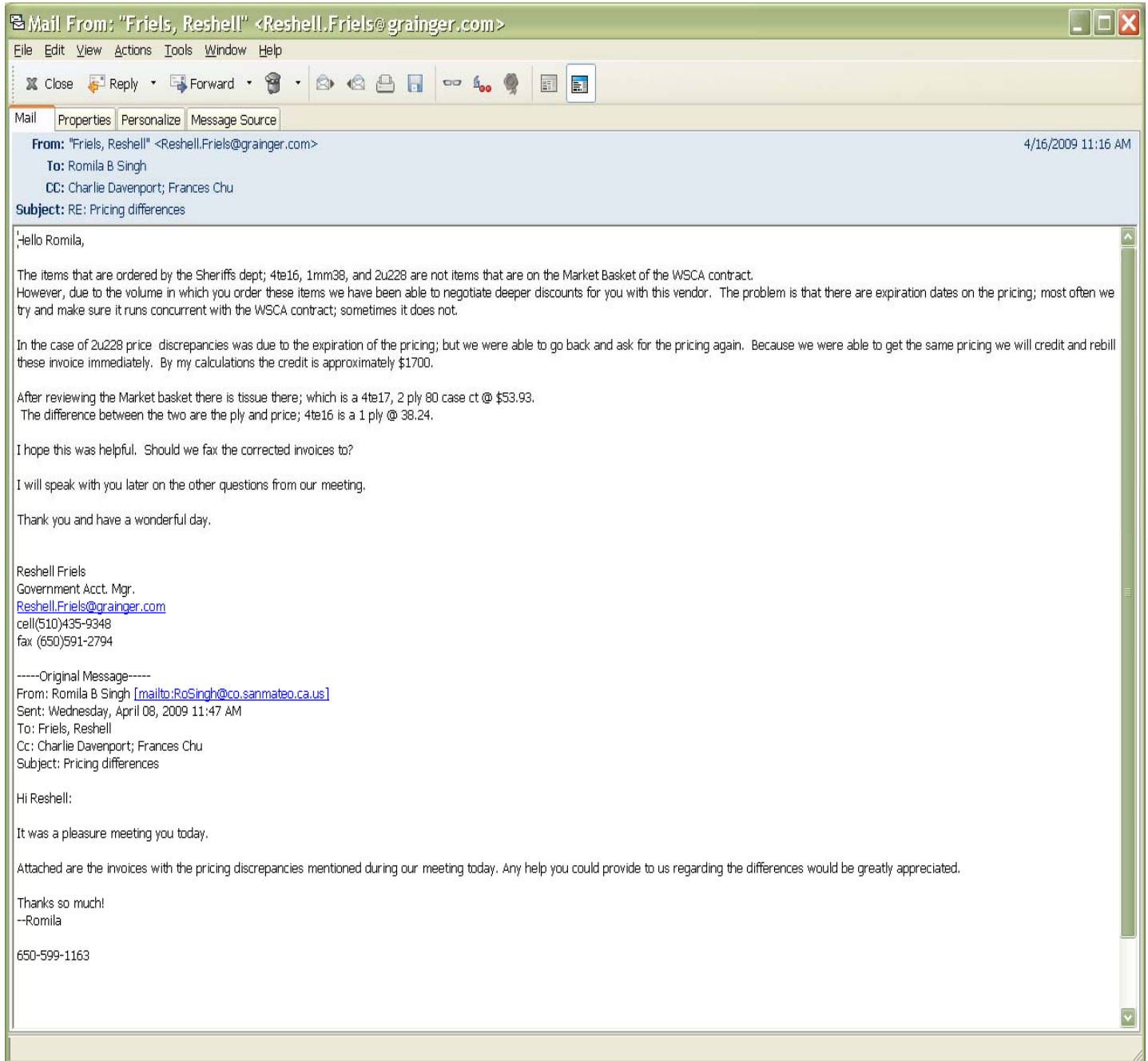
Bob

Bob Adler, Assistant Controller
Controller's Office
County of San Mateo

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Appendix 5: VA Expiration and Pricing Inconsistency

During the course of the initial review, IA looked at invoices for two months and noted inconsistencies between invoice and VA price for a specific vendor. Because the VA had expired, the invoice reflected a price of \$48.38 as opposed to \$19.33, as per the VA. We contacted the vendor and were reimbursed \$1,743.



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Appendix 6: Expired VAs

As per FY09-10 data, the average number of days a VA has been expired is 390, or approximately 13 months. Utilizing a baseline of 12 months and possible "lost" savings of \$1,743 (using the example cited in Appendix 5), it can be extrapolated that expired VA's could cost the County approximately \$10,000 per vendor. With a total of 57 expired VAs, the County's estimated lost savings can be quite substantial.

Buyer Responsible	Number of Expired VA's	Total VA's	% Expired Vas of Total
CB	18	64	28.1%
CD	32	43	74.4%
CM	5	18	27.8%
TS	2	8	25.0%
Total VA's	57	133	42.9%
Buyer Responsible	Expired VA \$'s		% of Expired \$'s
CB	\$ 242,900.07		9.1%
CD	\$ 484,241.98		18.1%
CM	\$ 1,933,392.24		72.2%
TS	\$ 17,832.95		0.7%
Total VA's	\$ 2,678,367.24		100.0%

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Appendix 7: Identification of New Commodity Vendors

Purchasing does not have formal guidelines for selecting vendors with a VA, bid and other vendor selection documentation. In order to identify additional vendors that could be potentially eligible for VAs, IA created a list of commodity vendors (Columns 1 – 6) and asked Purchasing to complete information in the “Reason for No” and “VA Status” columns in December 2009. The following spreadsheet was scanned and sent to IA by Purchasing on July 21, 2010.

No.	Vendor Name	Distribution	Average Transaction	No. of Transactions	Potentially Qualified for a VA? (Y/N)	Reason for "NO"	VA Status
1	COMPUCOM Total	\$5,740,904.66	\$3,638.09	1,578	N	BID ITEMS	
2	DELL Total	\$2,839,588.25	\$2,781.18	1,021	N	LEASE + COMPUTERS	
3	ALLIED WASTE SERVICES Total	\$1,708,428.86	\$5,024.79	340	N	PUBLIC WORKS CONTRACT	
4	JOHNSON CONTROLS INC Total	\$1,704,523.28	\$7,609.48	224	N	CAPITAL PROJECTS	
5	SIEMENS MEDICAL SOLUTIONS USA Total	\$1,591,596.08	\$19,894.58	80	Y	CURRENT VA	
6	IBM CORPORATION Total	\$1,279,779.22	\$2,012.23	636	N	SOFTWARE SUPPORT	
7	DOWNTOWN FORD Total	\$1,172,821.24	\$17,247.37	68	N	STATE CONTRACT	
8	KEEFE SUPPLY COMPANY Total	\$1,056,943.24	\$2,143.61	494	Y	IN PROGRESS	
9	A T AND T DATACOMM Total	\$895,410.36	\$16,280.19	55	N	CELL PHONE	
10	GOOD SOURCE INC Total	\$745,704.68	\$1,497.40	498	Y	CURRENT VA	
11	VISALIA HONDA Total	\$700,683.80	\$8,341.47	84	N	STATE CONTRACT	
12	ANGELICA TEXTILE SERVICES Total	\$542,087.10	\$3,188.75	170	N	CURRENT SERVICE CONTRACT	
13	ALONZO PRINTING CO INC Total	\$534,826.10	\$31,460.36	17	N	ELECTIONS PRINTING	
14	CALIBRE PRINTING CO Total	\$517,053.10	\$1,231.08	420	Y	CURRENT VA	
15	COLUMBIA ULTIMATE BUSINESS SYS Total	\$477,914.90	\$1,603.74	298	N	SOFTWARE SUPPORT	
16	CALIFORNIA, STATE OF Total	\$461,668.00	\$11,541.70	40	N	UNKNOWN EXPENDITURE	
17	STRYKER ORTHOPAEDICS Total	\$448,475.52	\$1,607.44	279	Y	IN NEGOTIATION	
18	COUNTY PRINT Total	\$428,095.37	\$495.48	864	Y	CURRENT VA	
19	MOTOROLA INC Total	\$397,433.96	\$3,205.11	124	N	CUSTOMIZED RADIOS	
20	NETVERSANT SAN FRANCISCO INC Total	\$298,974.58	\$2,354.13	127	N	TELEPHONE MAINT. CONTRACT	
21	SPRINT NEXTEL Total	\$244,486.66	\$814.96	300	N	CELL PHONE	
22	AMERICAN EXPRESS Total	\$243,505.11	\$224.43	1,085	N	BUSINESS ACCONT ONLY	
23	JC PAPER Total	\$223,038.42	\$1,082.71	206	Y	IN PROGRESS	
24	ACCURATE MAILINGS INC Total	\$215,830.33	\$3,221.35	67	N	ELECTIONS MAIL	
25	HARRIS STRATEX NETWORKS Total	\$212,223.08	\$6,241.86	34	N	COMMUNICATIONS BID	
26	VERIZON WIRELESS Total	\$196,975.37	\$698.49	282	N	CELL PHONE	
27	SIZEWISE Total	\$193,508.08	\$507.90	381	N	MED. CENTER CONTRACT	
28	ELK GROVE AUTO AUTO GROUP Total	\$188,929.98	\$6,997.41	27	N	STATE CONTRACT	
29	ROCHE DIAGNOSTIC CORP Total	\$185,079.33	\$3,304.99	56	Y	CURRENT VA	
30	XEROX CORPORATION Total	\$178,516.62	\$1,075.40	166	N	LEASE & MAINTENANCE	
31	ALLEN SYSTEMS GROUP INC Total	\$175,336.94	\$10,958.56	16	N	CONSULTING CONTRACT	
32	VISALIA TOYOTA Total	\$164,519.70	\$9,139.98	18	N	STATE CONTRACT	
33	FLOORTRENDS INC Total	\$162,420.58	\$3,691.38	44	N	CAPITAL PROJECTS	
34	IV ASSIST INC Total	\$157,580.90	\$1,750.90	90	N	MED. CENTER CONTRACT	
35	HI TECH EMERGENCY VEHICLE SERV Total	\$150,226.40	\$1,073.05	140	N	FIRE TRUCK REPAIR	
36	MILLS PENINSULA HEALTH SERVICE Total	\$136,223.82	\$4,540.79	30	N	HEALTH SERVICES CONTRACT	
37	LASKY TRADE PRINTING Total	\$123,536.87	\$409.06	302	Y	CURRENT VA	
38	SENTINEL OFFENDER SERVICES LLC Total	\$122,078.98	\$3,130.23	39	N	SHERIFF/PROB. CONTRACT	
39	AMERICAN BIO MEDICA CORPORATIO Total	\$112,144.11	\$3,030.92	37	Y		
40	SOFTWARE HOUSE INTERNATIONAL Total	\$110,583.51	\$453.21	244	N	BID ITEMS	
41	BOB BARKER COMPANY INC Total	\$106,902.88	\$545.42	196	Y		
42	DAILY JOURNAL CORPORATION Total	\$106,570.41	\$641.99	166	N	NEWSPAPER ADVERTISING	
43	COMPUTER XTRAS XPRESS Total	\$106,217.45	\$378.00	281	N		

IA requested Purchasing to e-mail as a spreadsheet in order to sort by “Reason for No” and received the following response:

>>> Peter Tocchini 7/22/2010 1:48 PM >>>
 Sorry Frances....I did not save it (by accident).
 Peter
 Peter
 650-363-4408
 ptochini@co.sanmateo.ca.us

Tocchini

Not utilizing a specific methodology for the vendor selection, the bidding process as well as not retaining documentation on a consistent basis results in a lack of audit trail necessary to show that Purchasing’s publicized objectives are being met.

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Appendix 8: Shared Services Manager Communication with Purchasing Buyers

>>> Peter Tocchini 5/18/2010 4:23 PM >>>

This email is to confirm discussions regarding vendor agreements in our recent meeting:

*Buyer will review monthly vendor agreement index to identify expired and about to expire vendor agreements which should be renewed. In addition buyers will identify commodities where new vendor agreements should be created and consider requests from departments.

*Buyers will meet with me monthly to review status and discuss issues related to vendor agreements. Meeting schedule is at the end of this email

*Buyers will prioritize vendor agreements to be renewed or created. Use of transaction reports will always be required. Identify why specific vendor agreements will not be renewed.

*During the renewal/creation process identify purchasing process to be used (quotes, ITB, RFP) and always review other competitively bid co-op contracts which can be used to save time (US Communities, National IPA, WSCA, State, etc.r). Do not use contracts with a short life span.

* All standard purchasing requirements must be used in the vendor agreement process.

*All vendor agreements will include order release forms with item prices or stated discounts which can be verified by data on invoices (**Recommendation 9**).

Schedule of meeting in my office:

Tamara: 4:00 PM on 6/16/10, 7/14/10, 8/18/10, 9/15/10. 10/13/10, 11/17/10, 12/15/10

Candy: 2:00 PM on 6/15/10, 7/13/10, 8/17/10. 9/14/10, 10/12/10, 11/16/10, 12/14/10

Caroline: 2:00 PM on 6/21/10, 7/19/10, 8/16/10/ 9/20/10. 10/18/10, 11/22/10, 12/20/10

Charlie: 2:00 PM on 6/14/10, 7/12/10, 8/9/10, 9/13,10, 11/15/10, 12/13/10
10:00 AM on 10/12/10

Philip: Review all cover letter pages for departments and non-profits with me prior to distribution.

We will adjust the schedule when vacations and other time off is requested.

Thanks for the effort in improving the vendor agreement process.

Peter

Peter Tocchini
650-363-4408
ptocchini@co.sanmateo.ca.us

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Appendix 9: Unavailability of VAs in AVAS

During the follow-up review, IA conducted a brief review of Berkeley Farms pricing, as this was identified as an issue in the Purchasing Review (VA could not be retrieved in AVAS and therefore, pricing information was not available). We reviewed invoices from Jan-June 2010 and noted variances between invoice prices and prices calculated per the formula specified on the VA. When extrapolated for a one year period, the potential loss for one item from one vendor could be \$1,130. IA reported this to the Director of Food and Nutritional Services of Correctional Health and was told that contact with Berkeley Farms representative would be made for further analysis.

Calculation of Invoice & VA Discrepancy					
BF Invoice Pricing	Conversion Cost (Per VA)	Invoice Price	CDFA Price *	Calculated Price** CDFA + Conversion	Difference
Jan	0.1057	0.1979	0.091	0.1967	0.0012
Feb		0.1906	0.083	0.1887	0.0019
March		0.1906	0.082	0.1877	0.0029
Apr		0.172	0.067	0.1727	(0.0007)
May		0.1776	0.072	0.1777	(0.0001)
June		0.1776	0.072	0.1777	(0.0001)
Monthly Average Quantity (as per 2008 data)	110,816.67				
Loss (Diff / Average Quantity)					
Jan Loss	\$ 132.980				
Feb Loss	\$ 210.552				
Mar Loss	\$ 321.368				
April	\$ (77.572)				
May	\$ (11.082)				
June	\$ (11.082)				
Net	\$ 565.1650				
Average Monthly Loss	\$ 94.194				
Average Loss * 12	\$ 1,130.330				
* CDFA Minimum Cost is retrieved http://www.cdfa.ca.gov/dairy/uploader/postings/milkpricing/Default.aspx					
CDFA Minimum Cost refers to month prior; reflected Jan 2010 invoice price would be obtained from Dec 2009					
CDFA Newsletter					
** Calculated Price is Conversion Cost + CDFA Minimum Cost					

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Appendix 10: Sample Buyer Metrics

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.