

County of Santa Clara

Office of the County Executive

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Date: February 22, 2017

To: Honorable Board of Supervisors
Jeffrey V. Smith, County Executive

From: Miguel Márquez, Chief Operating Officer *M. M.*

Subject: Off-Agenda Report relating to Countywide Procurement and Contracting
(October 18, 2016 Board of Supervisors Meeting, Item No. 8)

At its October 18, 2016 meeting, the Board directed the Administration to provide an off-agenda report relating to the overall objectives of the County in developing a procurement strategy, guiding principles of a procurement strategy, the ideal process in developing such a strategy, and relevant information regarding peer institutions across the United States. This memo utilizes KPMG's Final Report presented at the October 18, 2016 meeting titled, "Countywide Procurement & Contracting Assessment Findings and Recommendations," as well as research compiled by KPMG consultants to address these topics.

Objectives of KPMG Review of Countywide Procurement and Contracting

In May 2016, as a result of a competitive bid process, KPMG was awarded a contract with the County to support a review of the County's procurement and contracting processes. The objectives of this review were determined to be the following:

- Knowledge of procurement and contracting leading practices relative to the County in terms of size and budget;
- Understanding of alternative procurement operating models as compared to the County's current model, including implementation considerations, benefits, and risks of each model;
- Exposure of the County's gaps across several key dimensions of procurement and contracting;
- Recommendations for changing the County's current operating model in pursuit of a clearly articulated procurement vision; and

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- Creation of an implementation roadmap that outlines the initiatives to be completed for interim and future states, including the interdependencies to achieve sustained changes in relation to the procurement and contracting function.¹

Countywide Procurement Vision, Mission and Guiding Principles

The guiding principles to shape the countywide procurement strategy are captured in the first of KPMG’s 18 recommendations in their Final Report. This recommendation calls for the County to “develop the procurement vision and mission with supporting guiding principles. This includes socializing the vision, mission, and guiding principles with the Procurement Steering Committee, and seeking feedback from key stakeholders to ensure buy-in. Once finalized, the vision and mission should be communicated countywide as part of the change management and communications program.”² The second recommendation is the establishment of the aforementioned Procurement Steering Committee, whose membership consists of the (future) Chief Procurement Officer and relevant County Agency/Department leaders, with the intention “to strengthen the governance around how countywide procurement decisions are made, and encourage collaboration between Procurement, Agencies, Departments, and related corporate functions, such as County Counsel and Finance.”³ Ultimately, the Procurement Steering Committee will be central in coordinating key procurement and contracting policy decisions and changes.

The Final Report asserts that the initial recommendation is the first step in designing the future state procurement target operating model, and that the procurement vision and mission statement usually outline what the procurement function signifies in an organization. The statement is often designed to focus on future growth, provides a source of inspiration, and guides procurement decision-making and behaviors. Additionally, procurement guiding principles provide parameters for decisions on scope of services and prioritization. It therefore creates direction for specific procurement services, defines the behaviors to promote, and establishes a baseline from which investments can be made.⁴ The Report further asserts that the vision and mission statement and guiding principles are the foundation of the procurement function countywide, and as explained earlier, the Procurement Steering Committee is the governance body that will provide input on this statement and guiding principles and thus help ensure countywide buy-in. The table below is an excerpt from KPMG’s Final Report⁵ and provides additional details on the

¹ “Countywide Procurement & Contracting Assessment Findings and Recommendations Final Report,” KPMG, October 14, 2016, Page 10.

² “Countywide Procurement & Contracting Assessment Findings and Recommendations Final Report,” KPMG, October 14, 2016, Page 72.

³ Ibid.

⁴ “Countywide Procurement & Contracting Assessment Findings and Recommendations Final Report,” KPMG, October 14, 2016, Page 46.

⁵ “Countywide Procurement & Contracting Assessment Findings and Recommendations Final Report,” KPMG, October 14, 2016, Page 47.

procurement vision and guiding principles to be vetted and finalized by the Procurement Steering Committee.

Procurement Vision	Guiding Principles
<ul style="list-style-type: none"> • Be a key contributor to County’s business strategy, competitive differentiation, and financial performance; • Ensure execution of a proactive, disciplined, and systematic strategic sourcing, contracting, and supplier management approach across all countywide spend; • Integrate Procurement and Contracting with other countywide supporting functions with clear interfaces and responsibility delineation; • Deploy an optimum number of professionals with leading sourcing competencies and agency/department domain knowledge to focus on high value activities; and • Apply technology enablers across County to strengthen core Procurement and Contracting processes, reduce transaction costs, improve decision making capabilities, and accelerate benefits realization. 	<ul style="list-style-type: none"> • Proactively ensure that the procurement function adds value to the business through cost leadership, innovation excellence, and market differentiation; • Exploit County’s full buying power through optimal aggregation, coordination, and specifications rationalization; • Focus on procurement as a cross-functional process, rather than a function, and develop a center-led structure with strong cross functional involvement in key processes; • Make procurement a talent draw and talent exporter – a function that shapes people’s careers; and • Measure organization with specific, actionable performance metrics, and utilize the technology to automate the performance reporting.

Procurement Organization Target Operating Model Secondary Research Findings

The fourth recommendation from the Final Report suggested that the County move away from its current hybrid procurement organization and create a center-led target operating model (TOM). With the guidance of the Administration, KPMG conducted additional research to identify a few other public organizations’ procurement operating models, with special focus on government entities within the State of California whose procurement organization is adopting various target operating models. There are at least three examples of other similarly sized public organizations operating under the center-led TOM model, most notably the City of Los Angeles, which serves approximately 3.9 million residents and had a budget of \$8.78 billion in fiscal year 2016-17. It is also interesting to note that five other sizable counties in California (San Diego, Riverside, Los Angeles, San Mateo and San Bernardino) are not too dissimilar from the center-led TOM by operating a centralized model. The table below provides additional details on these examples and

displays additional governmental organizations along the procurement operating model spectrum.

Procurement TOM	Organization	Researching Findings
Decentralized	State of Indiana	According to IC 5-22, within the State of Indiana there are multiple purchasing agencies which may have multiple purchasing agents. Examples of purchasing agencies include the Indiana Department of Administration, the Indiana Department of Transportation, courts within the Judicial Branch, the House of Representatives, as well as schools and political subdivisions. ⁶
	State of OH	Based on the interview with KPMG’s State of Ohio account team, we concluded that the State’s procurement operating model is decentralized
Collaborative	Orange County, CA	<p>The Orange County, California, procurement process, as outlined in the Orange County Grand Jury 201516 report entitled “Procurement – Big Budget, Low Priority,” is categorized as a collaborative model, with characteristics including:</p> <ul style="list-style-type: none"> Staffing Model 20 direct reports (to Procurement) and 220 reports to various agencies “A result of the Orange County’s de-centralized procurement structure is that most of the 240 Deputy Agents (DPAs) do not work for County Procurement. Instead, they work for, and report directly to, the “parent” agency – the agency that hires them.” <p><i>Procurement organization structure</i></p> <p>The Procurement Office is responsible for about 45% of total county purchasing (Performance Audit p.5). Contracting for Real Property, Human Services and Public Works has been delegated to some or all of other agencies who are expected to comply with the Contract Policy Manual and/or the Design & Construction Procurement Policy Manual.</p> <p>The Chief Procurement Officer has some specific administrative functions for all procurement, such as standardized policy, standardized training, and Regional Contract Agreements (Table 1).⁷</p>

⁶ <http://iga.in.gov/legislative/laws/2014/ic/titles/005/articles/022/chapters/004/>

⁷ [http://www.ocgrandjury.org/pdfs/2015_2016_GJreport/2016-06-30_Website_\(Procurement\).pdf](http://www.ocgrandjury.org/pdfs/2015_2016_GJreport/2016-06-30_Website_(Procurement).pdf)

	Commonwealth of Virginia	<p>The Department of General Services' central electronic procurement is required of any state public body. Local public bodies are encouraged to utilize the Department of General Services' central electronic procurement website to provide the public with centralized visibility and access to the Commonwealth's procurement opportunities. Exceptions exist for architectural and professional engineering term contracting which can be purchased by the Director of the Department of Rail and Public Transportation, among others.⁸</p> <p>Key agencies within the Commonwealth of Virginia (e.g., Alcoholic Beverage Control) have their own procurement teams and eProcurement system while maintaining collaboration with DGS.</p> <p><i>The Commonwealth of Virginia's procurement TOM was further validated through KPMG's experience working for VA's procurement function.</i></p>
	The State University of New York	<p>Purchases may be made directly by a campus or pursuant to any contract for commodities or services let by the Office of General Services, a consortium, or any other state or federal agency.⁹</p>
	University of Ohio	<p>The Board of Trustees grants the authority to purchase on behalf of the University to the Office of Business and Finance, which delegates that authority to the Purchasing Department, which is responsible for central purchasing functions.</p> <p>The authority to purchase goods and services on behalf of the University (not to exceed \$5,000) can be delegated to a designated buyer of a college or vice presidential area, by the director of purchasing, subject to certain responsibilities and restrictions.¹⁰</p>
Center-led	City of Los Angeles, CA	<p>The City of Los Angeles, CA procurement is structured as part of the Department of General Services (DGS) – Supply Services Division which is organized in a center-led structure comprised of five Commodity Groups (aligned with the center-led characteristic of employing specialized procurement teams) and three Support Groups (aligned with</p>

⁸ <http://law.lis.virginia.gov/vacodepopularnames/virginia-public-procurement-act/>

⁹ http://www.suny.edu/sunypp/documents.cfm?doc_id=428

¹⁰ http://busfin.osu.edu/FileStore/PDFs/221_Purchasing.pdf

		<p>the center-led characteristic of utilizing a shared services center).</p> <p>Commodity Groups – “The Commodity Groups are Construction and Maintenance; Public Safety; General Operations; Information Technology; Automotive; and Industrial. Commodity Groups are responsible for conducting the purchasing and competitive bidding activities in accordance with the City Charter, policies, ordinances and applicable laws.”¹¹</p> <p>Support Groups – “The Support Groups are Supplier and Customer Relations, Systems and Payment Services.”¹¹</p> <p><i>The City of LA’s procurement TOM was further validated through KPMG’s prior knowledge of the City of LA’s procurement function.</i></p>
	Commonwealth of Pennsylvania	<p>Purchasing for Executive Agencies are managed by DGS, while Services for Independent Agencies are procured by the agency.¹²</p> <p><i>The Commonwealth of PA’s center-led procurement TOM is further validated by the former-Chief Procurement Officer (CPO) of the State.</i></p>
	Metropolitan Transportation Authority (MTA)	<p>MTA is currently using a center-led procurement operating model to manage its indirect purchasing following a recent procurement transformation initiative.</p>
Centralized	County of San Diego, CA	<p>The Director of Purchasing and Contracting acts as the Purchasing Agent. Except in cases of emergency, the Purchasing Agent makes all purchases for the County and may make them only upon receipt of a requisition signed by an official authorized by the Board of Supervisors. Emergency purchases may be made by others authorized by the Board, but they shall be subsequently either approved by the Purchasing Agent or ratified by a four fifths vote of the Board. Purchases of property for the County are invalid unless made as specified. (Amended, effective 9-11-06)¹³</p>
	County of Los Angeles, CA	<p>The County of Los Angeles Purchasing and Contracting Services is self-described as a centralized agency. “Purchasing and Contract Services (PCS) provides centralized purchasing services for, and on behalf of, all</p>

¹¹ http://gsd.lacity.org/sms/general_bidding_information.htm

¹² http://www.dgs.pa.gov/State%20Government/Materials-and-Services-Procurement/Procurement-Handbook/Pages/default.aspx#.V_xeXtLn8uR

¹³ <http://www.sandiegocounty.gov/content/sdc/purchasing.html>

	<p>County departments, as well as contract and key administrative support services for ISD and other County departments.”¹⁴ Services Include:</p> <ul style="list-style-type: none"> Acquisition of goods and sundry services Master agreements for goods Purchasing and contract training and guidance Facility services master agreement Fleet maintenance and repair services Technical equipment maintenance services Oversight of the County's service contracting process Information technology services master agreement Living Wage and EEO Contract Compliance Parking services Messenger and mail services <p>Provide training support for County Departmental staff in the Purchasing and Procurement process on a monthly basis to ensure staff have the most up to date information.¹⁴</p> <p><i>The County of Los Angeles’s procurement TOM was further validated by KPMG’s prior team who has knowledge about the County’s procurement function.</i></p>
County of Riverside, CA	<p>Pursuant to Government Code Section 25502.5(a), the department of purchasing remains established and headed by the purchasing agent, who is also known as the director for purchasing and fleet services, and has the powers and duties prescribed by law for county purchasing agents, the purchasing ordinance, other ordinances, resolutions and orders of the Board of Supervisors.</p> <p>Except as otherwise ordered by the Board of Supervisors, the purchasing agent provides the services stated in the purchasing ordinance on behalf of all County departments, agencies, and districts.</p> <p><i>The County of Riverside’s procurement TOM was further validated through KPMG’s working knowledge.</i>¹⁵</p>

¹⁴ http://doingbusiness.lacounty.gov/about_purchasing.htm

¹⁵ https://www.municode.com/library/ca/riverside_county/codes/code_of_ordinances?nodeId=TIT2AD_CH2.92PUS_Y_ART1PUOPR_2.92.010PUAG

	County of San Mateo, CA	<p>The Procurement Division provides procurement services to all County departments and acts as a regulatory mechanism to help County departments obtain maximum value for each dollar spent while maintaining compliance with all relevant County, State and Federal, laws, ordinances and policies.</p> <p><i>The county of San Mateo's procurement TOM was further validated through KPMG's working knowledge.¹⁶</i></p>
	County of San Bernardino, CA	<p>According to County Procurement Policies 11-04, 11-04 SP1, 11-04 SP2, 11-04 SP3, 11-04 SP4, 11-05, 11-05 SP1, and 11-05 SP2, the authority and responsibility for purchasing goods, supplies and equipment rests with the Purchasing Department.¹⁷</p>

¹⁶ <http://hr.smcgov.org/procurement>

¹⁷ <http://www.sbcounty.gov/purchasing/home/Contact>