

Advancing Palo Alto Procurement

Prepared by the Leadership ICMA Team, Class of 2011 - Project SPEED
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Executive Summary:

From February to June, 2011, a Leadership ICMA team reviewed the City of Palo Alto's procurement processes, policies, technologies, and personnel. This review highlighted that while aspects of the overall procurement system work, there is room for improvement. In this document the team offers recommendations for improving Palo Alto procurement. These recommendations include: (1) the implementation of a **more decentralized purchasing environment**; (2) the development and usage of a robust set of **procurement benchmarks**; (3) ensuring open, **cross-department procurement-related communications** and the **sharing of best practices**; and (4) investing in **employee training and new capabilities of the existing procurement technology solution**.

The information and recommendations found throughout this document are offered at a high level to help inform the Palo Alto leadership and staff as they consider innovative approaches for improving the Palo Alto procurement system and decide on the specific, tactical steps necessary to make the process work more efficiently and effectively.

Section I – Introduction

Background

The City of Palo Alto implemented Design Teams in 2010. These Design Teams identified some projects worthwhile of further exploration and action. The Design Team for Organizational Efficiency came up with Project SPEED, which relates to the improvement of the City's procurement policies and procedures. In fact, as part of the design team process, these policies and procedures were identified as the number one issue needing attention within the organization.

During this process, the City identified the advantage of bringing in an outside perspective to the table to provide recommendations for the Design Team to use. The City of Palo Alto solicited the Leadership ICMA members for assistance as part of their capstone project.

Objectives

The Design Team came up with the following objectives for Project Speed (taken from the SPEED project objectives as defined/determined by the Design Team for Organizational Efficiency as provided in the Palo Alto proposal to Leadership ICMA):

Side note: Purchasing processes vary and pose challenges for many local governments...

For purchasing offices in jurisdictions 25,000-100,000 in population a median average of 52.3% have 'excellent' internal customer satisfaction regarding quality of service; 36.6% have 'good'; 7.1% have 'fair'; and 0% have 'poor'

48.8% have 'excellent' internal customer satisfaction regarding timeliness of service; 40.7% have 'good'; 7% have 'fair'; and 0% have 'poor'

Source: ICMA Comparative Performance Measurement: FY 2009 Data Report (icma.org/performance)

Full Procurement Process Engineering and Recommendation Modification

- ◆ Change in governance
- ◆ Decentralization of authority

Faster & Easier Procurement Processing

- ◆ Enabling agreements
- ◆ Standardization of contracts
- ◆ Expanded preapproved vendor
- ◆ Better utilization of Stores

Develops and Recommend Best Practices

- ◆ Networking

Communication Tool Between Departments

Create Benchmarking and Metrics

- ◆ User Satisfaction Survey
 - Balanced Scorecard

Stakeholder Buy-In and Voting

Team Not a Review or Oversight Committee

Process

Upon Palo Alto's acceptance of the Leadership ICMA Team's proposal, work began on gathering information for the report. This included the research of best practices nationally, analyzing Palo Alto's current policies and procedures and a 3-day site visit in which interviews of various City staff were conducted. The ICMA team used the information gathered from these efforts, combined with a reflection of their own experiences within local government and other organizations, to produce this final report and a related presentation. It is intended that the Design Team, City leadership, and other staff use the following recommendations to implement change to procurement policies and processes as they see fit.

Section II - Purchasing in 2011:

The purchasing structure for the City of Palo Alto is regulated by the City Charter and the Municipal Code, which establish purchasing authorities and bidding provisions. Information regarding the purchasing process is relayed to employees of the City through the Purchasing Manual. The Purchasing Department is comprised of eight employees that work with each department, as needed, to ensure compliance with regulations. As a full service City, Palo Alto contracts for a range of professional services and purchases a great variety of goods and commodities, including utilities.

The City uses SAP as its technology platform for the purchasing process. The acquisition of SAP was a significant investment for the City, however many of the specialized modules of this software that would possibly streamline and add efficiency to the purchasing process are either not being utilized/supported or the City did not acquire them during the initial software purchase. Training on the use of SAP and the purchasing process is generally the responsibility of individual departments when new staff is hired. The lack of training is cited as the source for the deficit of organizational understanding and buy-in of the overall purchasing process and perception of lack of consistency in managing purchases.

The following are general provisions that guide purchasing within the City:

Sole Source Exemptions: When a City Department requires a specific product or service over \$5,000 that can only be furnished by a sole provider. Employee must submit written justification for purchase and authorization requires Department Head, Purchasing Manager, and City Manager approval.

Goods and General Service Purchases: Covers repeated purchases from the same vendor on regular basis for standard items or routine services.

- ◆ Goods Under \$5,000: The City encourages the use of the Procurement Card for these purchases (processing timeline is 5-7 working days).
- ◆ \$5,001 - \$25,000: The City requires an informal solicitation process whereby the Purchasing Department obtains bids by mail, fax, or email (processing timeline is 3-6 weeks).
- ◆ \$25,000 and Over: Formal process undertaken by the Purchasing Department requiring legal advertising and sealed bids (processing timeline is 6-12 weeks).
- ◆ Blanket orders for general services over \$85,000 and goods over \$250,000 require City Council approval.

In the current state of purchasing for the City, the Purchasing Department handles the majority of the process paperwork, specification development, interaction with vendors, establishment of appropriate timelines and schedules, etc. During the process, a liaison from the Purchasing Department will communicate progress with the Department requesting the purchase.

Professional Service Contracts

- ◆ \$0-25,000: No solicitation process required (processing timeline is 5-7 working days).
- ◆ \$25,001-65,000: The City requires an informal Request for Proposal process whereby the Purchasing Department obtains bids by mail, fax, or email (processing timeline is 3-6 weeks).
- ◆ \$65,001 and Over: Formal Request for Proposal process undertaken by the Purchasing Department requiring legal advertising and sealed bids (processing timeline is 6-12 weeks).
- ◆ City Council approval of contracts over \$85,000 is required.

Side note: Governments approach the use of purchase cards differently...

In jurisdictions with 25,000-100,000 population, the standard maximum dollar limit for an individual purchase care transactions ranges from \$500-\$10,000, with \$1000 being the median average.

Source: ICMA Comparative Performance Measurement: FY 2009 Data Report (icma.org/performance)

End-User Perceptions

- ◆ Process is heavily centralized and overly cumbersome
- ◆ Purchasing process trigger points could be increased to allow for enhanced purchasing empowerment
- ◆ Involvement of non-Department staff (i.e.: Purchasing Staff) in creation of bid specs, contracts, etc. makes process more difficult
- ◆ Contract review by Legal Department could be reduced
- ◆ Insurance requirements and indemnification levels should be evaluated
- ◆ Expansion of sole source purchasing option should be explored
- ◆ SAP system is not fully utilized, lack of technological innovation
- ◆ Lack of training regarding purchasing process and use of SAP is a problem

- ◆ Feedback on project status from Purchasing Department needs improvement

Purchasing Staff Perceptions

- ◆ End-Users need to view purchasing process holistically and more effectively communicate needs, desired outcomes, timelines, etc.
- ◆ “Touch points” in process could be reduced

Section III - Purchasing beyond 2011:

There are many possible areas of improvement of the City’s procurement policies and procedures. This section will **introduce and provide context** for potential changes that can be made to procurement processes, information needs and requirements, personnel roles and responsibilities, and the usage of information and communication technologies. These recommendations can be considered and implemented as a set or as individual components as the city looks to update its procurement policies and procedures in 2011 and beyond.

Side note: A robust purchase process can play a key role in ensuring fair and effective transactions that limit exposure to protests...

I. What could the purchasing process to look like?

Many aspects of the current purchasing process, for the range of purchases, work. For small purchases Cal-Card usage can be effective and timely. For larger purchases, the approval process and associated timeline provide a level of review that limits the City’s exposure to bid protests, fraud, waste, and abuse.

In jurisdictions with 25,000-100,000 population, the median average number of bid protests filed is 1 (mean is 2.6). The median average number of bid protests sustained is 0 (mean is 0).

Source: ICMA Comparative Performance Measurement: FY 2009 Data Report (icma.org/performance)

With this noted, there are several opportunities for improvement. Regarding Cal-Card, the city should be taking advantage of purchasing data and analytics provided by the Cal-Card vendor to look for areas where bulk and planned, strategic purchasing could be used to acquire products for the city at lower rates.

Also, the purchasing process for larger priced products and services is not understood by many of the city’s employees. There could be a greater effort to communicate the steps of the process along with rationale of why these steps are needed.

The City should consider moving towards decentralizing as much of the purchasing process as feasible. This could be coupled with raising the signing limits for units for various types of purchases, reducing the need for upper management or City Council approval and process delays. Under decentralization, units would be responsible for the process from start to finish, with the purchasing department becoming a resource for questions and ensuring legal requirements are met. With this change in roles and responsibilities, the individual units as subject matter experts have the best understanding of what needs to be purchased, why, and how. This move towards decentralization also allows the purchasing staff to shift to a more strategic posture where they can analyze purchasing data, develop purchasing forecasts, and

look for areas where City purchasing can attain better prices for goods and services in appropriate, manageable timeframes.

Also, it had been reported to the team that \$130 of overall staff time is required process a typical purchase, from start to finish, using a purchase request. For each type of purchase it should be determined how many people are formally required to sign off on a particular type of purchase and, as noted earlier, signing limits should be increased. For personnel involved in the process, that are not formally required to be, units and purchasing staff should reassess whether current sign-off practices should continue.

II. What is a more ideal way of managing information requirements and personnel during the purchasing process?

Continued staff turnover and a reduction in staff training opportunities have lead to confusion about the overall purchasing process and how to use the related IT resources (SAP). The City should implement a series of ongoing staff training briefing sessions for employees to walk them through the procurement process, types (PO vs. invoices, etc.), timelines, and reasons for the various process steps. These briefings can be supplemented with flyers or fact sheets offered as handouts and/or electronically. Related staff trainings should also cover how to properly write bid specifications and other procurement specialty topics.

Few employees know the appropriate way to use the existing SAP technologies. The City has made a significant investment in its SAP system. It is a system that will continue to be used well into the foreseeable future for reasons that range from financial to general organizational history. There needs to be ongoing, hands-on, training that walks staff how to properly use the existing systems. This would help both with normal procurement process transactions and also with standardizing data regarding the purchase transactions that can be used by procurement staff for planning, forecasting, bulk purchasing, and other business intelligence needs.

Aside from training and existing reference documents, web-browser tools, offered via the intranet, that are scenario-based should be employed as a first-line resource for staff to refer to when faced with a process or technology question. This would free up procurement staff time, much of which is currently spent answering basic process questions.

III. How can the City’s purchasing process be informed by the actions of its peers?

The Project Speed team was asked by the City of Palo Alto to look into some of the best procurement practices from peer cities. Specifically, the team was asked to look at

Side note:
In jurisdictions with 25,000-100,000 population, the median average of number of **new** transactions per Central Purchasing Office FTE is 589.

Source: ICMA Comparative Performance Measurement: FY 2009 Data Report

In jurisdictions with 25,000-100,000 population, the median average dollar amount of central purchasing office (CPO) purchases per CPO FTE is \$8,000,000. For only non-construction purchases this number is also \$8,000,000.

Source: ICMA Comparative Performance Measurement: FY 2009 Data Report (icma.org/performance)

procurement practices with the City of Mountain View, City of San Jose and City of San Francisco. In addition, practices from other cities are included as well.

There are some of the similarities and differences that exist among the purchasing processes of Palo Alto's peers...					
City	Structure	Card program	Thresholds	ERP	Vendor
San Francisco	Centralized	Yes	Set by policy		
San Jose	Centralized	Yes	Set by policy		
Mountain View	Centralized	Yes	Set by policy	IFAS	Sungard
Phoenix	Centralized	Yes	Set by policy	SAP	SAP
Santa Clarita	Centralized	Yes	Set by policy	FinPlus	Sungard

The City of Palo Alto is not alone in dealing with the complexities of automated technologies for purchasing and procurement. In discussions with these cities most, if not all of them, are dealing with making improvements to the technology that drives their purchasing and procurement programs. Almost all of them reported that customized report generation has been a challenge. Each reported, however, that they are working with their current vendors to automate the report generation process and help write the report generators needed most.

As can be seen from the table above, all of the cities structures are based on a centralized purchasing/procurement program. However, through interviews, the team has learned of one city has progressed beyond the centralized approach – The City of Mountain View. Mountain View, though operating in a centralized fashion, has developed and created a purchasing department that recognizes its role in driving the success of the City. In addition, it recognizes its role in empowering front line employees and vendors (or potential vendors) to play an active role in the purchasing and procurement processes.

Under the leadership of their Purchasing & Services Manager, the purchasing division has implemented some strong programs that go a long way in empowering employees, vendors and end users to play almost daily active roles in the purchasing and procurement process.

From a technology perspective an end user who starts procurement or submits a purchase order request can follow that request, on-line from their desk computer, from start to end. There is never any guessing exactly where that request is and who might be holding the purchase up. This did appear to be a concern expressed by end users in Palo Alto; City staff during interviews said “all we want to know is where our purchase is.”

The other program Mountain View has in place is one that reinforces the call for decentralization. It is a card program that empowers just about every employee in the City. It is managed by, and in partnership with, the Bank of America. The unique feature about this program is that threshold levels for the cards themselves are very generous and can be used for just about everything. Bank of America plays a very active role in generating reports for the City and in helping the City manage the program. That said, Mountain View is currently looking into the Cal Card program to see if it offers comparable benefits at less cost to the City.

The following table shows what these card purchase threshold levels are:		
Lowest level	\$1,000 monthly	User Auth. by Dept. Head
Middle Level	\$1,000 - \$3,000 monthly	User Auth. by Dept. Head
Highest Level	\$10,000 to \$15,000 monthly	User Auth. by Executives

This program has been extremely successful and employees feel they are trusted and empowered to help make the City run better.

Another area which was a hot topic in Palo Alto had to deal with indemnity clauses in contracts. Mountain View deals with this issue upfront and before it becomes a concern. The unique aspect of this is that the Risk Manager in collaboration with the City’s Attorney, determines the level of risk the City is willing to take on bending the rules for contract purchases and procurements. However, it is the Risk Manager, not the City Attorney who has the last call in this area. The process, however, for bidders is spelled out at the front end of the procurement. If a potential bidder has a concern about any of the indemnity clauses, they must put their concerns in writing at the very start of the procurement and in most cases right after the pre-bid meetings. From there the Risk Manager, in collaboration with the City Attorney, determines if it’s a valid concern and will adjust the procurement rules if warranted. They have found that many small disadvantaged businesses have a hard time meeting some of the constraints. The City works to make the competitive bidding process fair to all.

What is impressive about the City of Mountain View’s purchasing department was the level of training and support the purchasing department gives to other departments. Monthly, the purchasing director herself would go directly to the various City departments or divisions and meet with them to discuss any concerns or outstanding procurement projects being undertaken. Procurement staff is also required to go out and meet at the various City departments to stay informed on any outstanding procurement concerns that exist. Procurement staff sits in on department level staff meetings and procurement concerns are a regular part of that department’s monthly agenda meeting. Procurement training for all department levels employees is conducted annually and pay-to-procure card training is conducted bi-annually as a condition of keeping your card activated.

Municipal Code Best Practices

Because none of the peer cities operate in decentralized purchasing fashion, Municipal Codes were not available to reflect the decentralized language the City of Palo Alto was looking to obtain.

However there is a report which can be used to answer many questions regarding best practice municipal procurement code language, it is **the Model Procurement Code Revision Project**. The project is a joint effort to improve state and local procurement that is sponsored by The American Bar Association’s Section of Public Contract Law and Section of State and Local Government Law in cooperation with several other organizations focused on the issue. That document can be found at www.acec.org/advocacy/committees/doc/mpcfinal.doc

Section IV – Transitioning Beyond 2011

I. Implement Elements of Decentralization

Currently, Palo Alto exists in a highly centralized purchasing environment.

Recommendation: Take steps towards higher levels of decentralization for several reasons:

- **Empower and motivates employees**
- **Improve efficiencies**
- **Improve accountability**
- **Increase ability to meet desired outcomes**

It should be noted that taking steps toward or implementing elements of decentralization does not necessarily mean complete decentralization. Purchasing is on a spectrum, with complete centralization on one end and complete decentralization on the other. Organizations can be anywhere along that spectrum based on their needs, desired outcomes, etc. We are certainly recommending Palo Alto take steps to implement principles of decentralization whenever and wherever possible. However as we point out in the following pages, there are certainly areas in which at least some level of centralization makes sense.

- **Empower and Motivate Employees**

A highly centralized purchasing process takes away leadership opportunities from employees. According to HPO (*HPO, High-Performance Organizations*, Commonwealth Center for High-Performance Organizations, Inc), such a model of centralized decision-making authority is based similarly to organizational structures in the 1900's during the industrial phase. This is a factory, assembly line model based on notion that employees need to have the decisions made for them and need constant supervision and negligible, if any, discretion.

The individual workers (in Palo Alto's case, department staff) can become disengaged as they have not been given the authority and opportunity to make their own decisions relative to purchasing goods. Such an absence of empowerment seems contrary to the notion of design teams that Palo Alto is working to promote. When individuals within an organization are empowered, it fights against disengagement and spurs innovation and innovative practices.

Daniel Pink, in his recent book, *Drive*, which addresses what motivates people, discusses the importance of a sense of autonomy. According to Pink, this even takes a step beyond empowerment, and defines autonomy as the next level of employee freedom in making decisions regarding their work. He cites two studies conducted in the workplace. They found that those employees with the highest level of autonomy found greater job satisfaction and higher job

performance. The studies even showed lower employee turnover in organizations that allowed higher employee autonomy (Pink, *Drive*, page 91).

- **Improve Efficiencies**

Implementing some degree of decentralization will provide more ability for individuals to influence the purchasing process. This will enable some degree of process customization, based on that individual's experience and knowledge about the best and most efficient way possible to purchase a product. This does not mean that the organization cannot centrally set some guidelines and hold individuals accountable to following them, it simply recognizes the extreme diversity of goods Palo Alto purchases and allows for some flexibility to promote more efficient processes within departments. This holds true particularly for professional services. The City of Phoenix, for example, is essentially completely decentralized for professional services and the Purchasing Department has no role in the process.

Recommendation: Decentralize professional services procurement as much as possible, getting as close to complete decentralization in this area as possible.

Under Palo Alto's current system, goods for as little as \$5,000 go through a process that is estimated to take up to six weeks. While this does seem to track with the average timeframe for formal bids, it is much longer than informal bids. For dollar amounts in this range, based on a review of other cities, it appears Palo Alto's limits are lower than average. Particularly for what is described as an informal bid, six weeks is too long.

A sampling of cities across the country yielded the following results regarding approval limits:

Town of Superior, Colorado

Three quotes up to \$15,000 (informal process with department head approval).

City of Gunnison, Colorado

Informal purchase up to \$10,000, three informal written bids, department head approval.

City of Golden, Colorado

Informal process up to \$50,000, three written quotes, department heads approval up to \$10,000 (can be oral quotes up to \$10,000)

City of Phoenix, Arizona

Commodities/non-professional services:

Purchasing Department handles all purchases over \$1,000. Quotes are very informal and may be verbal up to \$5,000. Formal process initiated above \$5,000 and \$50,000.

Side Note:
For **Informal Bids**, the median average requisition to purchase order time for jurisdictions 25,000-100,000 in population is **3.5 calendar days**

For **Formal Bids**, the median average requisition to purchase order time for jurisdictions 25,000-100,000 in population is **32 calendar days** (30 for construction and 27 for non-construction)

Source: ICMA Comparative Performance Measurement: FY 2009 Data Report (icma.org/performance)

Professional services: the Purchasing Department is not involved in any way. It is a process involving the departments and City Manager's Office only (and potentially City Council approval). This is an informal bid process below \$50,000. Above \$50,000 is a formal bid process, but again, the Purchasing Department is not involved.

City of Rock Hill, South Carolina

Commodities: Informal process below \$10,000 handled by the department. Purchasing Agent is involved above \$10,000.

Professional Services: Informal process below \$10,000. Formal process above \$10,000 using a Project Committee appointed by the City Manager/designee. Purchasing Agent is not involved in this process.

- **Improve Accountability**

When an individual has the autonomy to make a decision, they take ownership of the decision made. By allowing for leeway and choice in a process such as procurement, that employee (or team) is invested in the process and not only take ownership of the decision made, but can more easily be held accountable for that decision.

It is important, however, that the organization have such accountability assurances in place. Managers must hold employees accountable for decisions, and there must be action taken against abusive practices. The new, more decentralized, Purchasing Department can assist in this effort (with coordination and assistance from the City Auditor) by serving as an oversight role.

- **Increase Ability to Meet Desired Outcomes**

General outcomes such as purchasing the most efficient product for the best value can likely be applied to most every commodity purchased. Specific outcomes can exist, however, for some products that do not exist for others. The priority those outcomes take can also vary between items.

Pens, for example, would likely carry price and functionality as the top two desired outcomes. Large economies of scale can be accomplished by buying these in bulk or from a single vendor. Vehicle tires, on the other hand, might have the same desired outcomes of price and functionality, but also very high (perhaps even first) on that list would be safety.

Different goods have different desired outcomes. Decentralization better recognizes this fact and allows for the individual user of the product to take ownership in ensuring those outcomes are most effectively taken into account in the purchasing process.

II. Measure Success

A crucial part of any process, particularly one of instituting change, is measuring success. We recommend Palo Alto, under leadership from the Design Team, undertake an exercise to first determine what the mission/intent of the Purchasing Department and the overall procurement process is. After all, success cannot be measured until it is defined.

Recommendation: Determine the mission/intent of the Purchasing Department and the overall procurement process. Once that is determined, develop benchmarks to ensure success.

Once these are determined, benchmarks must be developed and tracked to ensure that mission is being accomplished. Dr. Howard Frank of Florida International University summarizes the thoughts of Sherri Greenberg, in her book, *Beyond the Bid: An Evaluation of State and Local Government Procurement Practices*, in which he states the following:

“Benchmarks for success and practice. Those in charge of the procurement process need to know what “good” procurement is. Is “good” procurement based on cost? On quality? On maximizing participation of women and minorities? How long should procurement take? These are but a few of the questions that should be addressed on an ongoing basis if one is to determine the success or failure of the procurement function.”

III. Guard Against Negatives

There are certainly negatives to a decentralized approach. Two factors in particular have been identified and will need to be mitigated. The good news is that with recognition and the appropriate steps taken, mitigation can occur.

- **Loss of Economies of Scale**

Certainly one of the most (if not the most) important advantages to centralization is putting the full buying power of the organization behind vendor negotiations/agreements. It goes without saying that if you buy 1,000 pens from a vendor the per-unit cost will nearly always be less than if you were to buy 100 pens. The savings over time can be quite significant.

Palo Alto will need to identify those items which are used across multiple departments/functions. Office supplies are a perfect example. A clear economy of scale opportunity exists with such goods. These goods should remain centralized, at least to some degree, to ensure that costs do not increase as a result of decentralization.

Many goods, however, may only be used by one department or function, and in this case, decentralization certainly makes sense. Natural gas or vehicle parts, presumably only used by a single function (Utilities and Fleet Management, respectively) are examples of purchases that should be decentralized. In an excerpt from his book, *The Future of Work*, Thomas Malone makes the following statement about economies of scale, “Many times, people assume that just because there are economies of scale in one part of a process, the whole process has to be centralized. But you can often get the benefits of both bigness and smallness by centralizing only those decisions involving important economies of scale and decentralizing everything else.” He goes on to cite Intel as an example of a corporation that has centralized some of their business functions while decentralizing others, depending on whether or not economies of scale can be realized.

Another observation in Dr. Frank’s book review, this time regarding finding that balance between centralized and decentralized (Frank, *Book Review*) states:

“Finding the proper balance between over- and under-centralization: A centralized procurement function fosters economies of scale in purchasing, eases enforcement of procurement rules, and makes for a more transparent process to vendors. However, a hyper-centralized function may be too slow and unresponsive to unique needs of organizational sub-divisions. Effective procurement finds the happy medium between the two extremes;”

- **Operating in Silos**

Under complete decentralization, city departments may begin to purchase in silos. Best practices and efficiencies achieved within individual departments may not have many opportunities to be shared between departments and across the organization. Decentralization will spur more of these innovations to occur as individuals are in greater control of their processes and it will be important that the rest of the organization can learn from these experiences. Malone, in an excerpt from his book, encourages information sharing in these decentralized settings (Malone, *Making the Decision to Decentralize*).

The new Purchasing Department should identify ways in which to facilitate this sharing of information. These can be incorporated into training sessions, newsletters (through an intranet page), and emails as some examples.

Recommendation: For decentralized processes, the Purchasing Department needs to guard against silos by ensuring departments communicate with one another and share best practices.

IV. Strengthen Utilization of SAP System (Employee Training and Use of SAP)

Palo Alto made a significant investment in SAP several years ago and continues to utilize the software today. The majority of purchase processing and financial tracking is done via the SAP platform. The issue most commonly identified by staff as related to the use of this software was the lack of individual training and the lack of institutional knowledge of the software. It was evident in the course of discussion that many employees were unaware of the full functionality of the software, were not properly trained in using the system, and were largely unaware where to obtain such knowledge or training within the organization.

Identifying key employees to serve as SAP trainers within each Department and developing standardized training for all new employees would be very beneficial to the improved use of this software. Additionally, ongoing training on the software would be helpful to all users. These efforts could be coordinated by the Purchasing Department through increased capacity realized through the decentralization of various procurements (professional services being foremost among them with many other types possible).

It was suggested by a few members of the staff that there may be additional SAP modules that could be purchased and used to enhance the existing functionality of this software. Due to the significant

investment made in SAP technology it would be worthwhile to identify a list of key functional items that are desired within the SAP platform and annually review the current status of the system. These could be reviewed annually within the regular Capital Planning process to determine what, if any, system upgrades can and should be made.

Recommendation: Take steps towards helping employees more effectively work with the existing procurement technology solution:

- **Enhance and offer ongoing training for employees using system**
- **IT staff should explore purchase of additional modules/develop long-range plan that may enhance utilization of SAP**

Concluding Remarks

The ICMA Team appreciates the opportunity to work with Palo Alto on their purchasing process by providing an outside perspective and recommendations on how to move forward. With purchasing policies there are a multitude of options and directions to head, with each local government having a different approach for various reasons. The Team was unable to find a single policy (or even a collection of policies) that are viewed by the industry as the best practice or role model. In fact, much of the literature reviewed in this paper suggests each organization must make those decisions for itself.

Having said that, Palo Alto can make great strides by using the recommendations found in this report to help set a strategic direction and decide on related, tactical next steps. This can be accomplished through the general principle of balancing an increased level of purchasing decentralization with interdepartmental communication and training (facilitated by the Purchasing Department).

The attached action steps table is intended to assist Palo Alto by providing a suggested process in which to accomplish that objective. These steps are intended to be more general in nature, with broad discretion built into each. The team felt it was important that Palo Alto go through this process and come up with its own answers at the various decision points. The excellent thing about that approach is that Palo Alto already has the infrastructure in place, through the Project Speed Design Team, to accomplish this. The organization simply needs to make certain that this team is empowered to accomplish this.

In going through this process, should Palo Alto have any questions or wish to draw further on the ICMA team's own experiences in regards to purchasing, we are certainly available. Thank you again for this opportunity.

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Action Steps Process: Transition Process - Issues to Work Through

<i>Issue</i>	<i>Action Item</i>	<i>Supporting Actions</i>
The executive management of Palo Alto needs to empower the Project Speed Design Team to execute and oversee the process of change.	Executive Leadership Team should provide only high-level desired outcomes and goals and avoid managing the transition process or being too specific.	
	The Executive Leadership Team must trust and support the process the Design Team, with involvement from employees, constructs and executes.	

Identify how decentralization should look.	Identify what the "new", more decentralized Purchasing Department looks like.	Identify the mission/vision of that department.	
		Use experiences in this report from other cities.	
	Identify how training can be increased and improved.	Assess current knowledge gap among SAP users.	
	Identify ways in which the purchasing practices with one another; encourage interdepartmental communication.		
	Identify specific ways the Purchasing Department serve as a resource to other departments.		
	Identify the specific goods that should remain centralized due to reasons such as economies of scale.		
	Identify opportunities for cooperative purchasing (including partnering with other jurisdictions, to further take advantage of economies of scale.		
		Determine how technology can assist in this new role	Utilize the recommendations put forth in Section III of the report.
			Establish higher limits for Cal Card purchases. Work with Cal-Card to receive and analyze data and analytics on use.
	Raise the approval limits in all categories.	Examine the professional services categories for raising approval limits. Complete decentralization is recommended in this area.	
	Identify resources needed to accomplish the mission/intent of the department.		Identify the role of other departments, such as Law.
			Identify efficiencies that can be implemented.
			Streamline the contract review process.

	Identify the balance of resources needed under a move towards greater decentralization.	Identify if a shift of existing resources needs to be shifted.
		Identify any resources that are now unnecessary.
	Map out any new processes	Map out what the purchasing processes now look like within line departments.
		Map out what the purchasing processes now look like within the Purchasing Department.

Design Team needs to systematically identify and remove the barriers to employee empowerment within the purchasing process.	Construct guidelines and organization-wide frameworks, but allow for significant customization within the departments to achieve their procurement goals with minimal interference.	Assess risk comfort-level and determine purchasing dollar limits commensurate with this level.
		Identify the internal laws/policies impacting purchasing.
		Identify the external laws/policies that impact purchasing.
	Identify checks and balances to be put in place to ensure accountability and compliance with laws and policies.	
	Keep any revised policies general and avoid too much specifics except in instances of legal, grant or other requirements. Maximize employee discretion while ensuring accountability and compliance.	

Develop Metrics to Measure Success	Determine what is success for procurement. This comes from the mission/intent of the department exercise already completed.	
	Determine that benchmarks that can be established to measure success.	Costs of procurement service delivery.

Set process timelines	Set firm timelines/deadlines for this process.	
	Make sure all tasks are accountable to an individual to ensure completion.	
	Recognize this transition will take time and constant monitoring to ensure continuous improvement.	