

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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City Council Agenda Date: October 9, 2006

Item Number: 150

Item: Review of Contracts Business Process Reengineering (BPR)

OVERVIEW

The Contracts BPR is the first of several such processes that the Mayor's organization has worked on for the past several months to identify operational efficiencies; increase effectiveness; streamline processes; reduce costs; implement performance standards; and develop consistent policies, procedures and practices to apply throughout the City organization.

This particular BPR addresses the City's complex and voluminous purchasing and contracting activities. The results focus on ultimately achieving a coordinated, centralized and consistent approach; and, therefore, enhancing services to customers including vendors, contractors, subcontractors and other City departments.

OUTCOMES TO DATE

Identifiable outcomes to date of this Contracts BPR include:

- Creation of a new centralized Purchasing and Contracts Department;
- The consolidation of Central Stores Warehouses from four to two;
- Expansion of the P-Card program.

New Purchasing and Contracts Department

The Purchasing and Contracts Department was created by consolidating Equal Opportunity Contracting; the Purchasing Division (formerly part of Financial Management); and the Contract Processing and Awards Section (formerly part of Engineering and Capital Projects). In addition, contracts administration staff from several City departments were transferred into this new department. Through consolidation and centralization, eleven positions were identified for elimination for an estimated savings of \$907,000 in FY 2007. Of this amount, it is estimated that \$320,000 is attributable to the General Fund. (See Attachment A - Summary of Position Changes.)

This new Department resides within the Business and Support Services area of the Mayor's Office and is overseen by Rick Reynolds, Assistant Chief Operating Officer. The Department is made up of three divisions: Procurement, Construction Contracting and Support Services. This latter division will oversee service level agreements; the managed competition process, if approved by the voters; and equal opportunity contracting, including the expansion of outreach efforts to small and disadvantaged firms. (See Attachment B - Purchasing and Contracts Department Organization Chart.)

Warehouse Consolidation

The consolidation of Central Stores warehouses from four down to two, was implemented at the end of FY 2006 resulting in the elimination of 5.5 positions and estimated savings in FY 2007 of \$1.1 million, \$200,000 of which is attributable to the General Fund. This improvement was identified outside of the official BPR process and is, therefore, not highlighted in the Contracts BPR report.

P-Card Expansion

The P-Card Program, which allows City staff to make select purchases utilizing a US Bank credit card, was started as a pilot program in the Water Department and MWWD in 1999. It was found to be effective in reducing paperwork and saving processing time and costs, and according to the staff, no problems were identified. As a result, it was recommended for expansion City-wide as part of the Contracts BPR process.

The key to the P-Card's success and avoiding abuses is exercising tight controls regarding their use and implementing a strong monitoring and auditing component. The Mayor's Office has indicated that the P-Card Program utilizes prudent safeguards and internal controls to include: Authorization Control (cards electronically coded restricting use to authorized personnel for authorized purchases), Payment Control (procedures established to ensure that procurement cards are only used as authorized) and Administrative Control (P-Card Program staff monitor participants for compliance and analyze card utilization to make recommendations for continued program improvement). Routine audits are critical to ensure that the program is being utilized appropriately and within the guidelines that have been established.

Staff initially estimated a "cost avoidance" of \$3.8 million in FY 2007 as a result of expanding this program together with implementing other procurement enhancements. In reality, it will take many years to see such results and will be equally difficult to verify. Over the long run, the City's procurement dollars will go further as a result of these process improvements.

POSSIBLE FUTURE POLICY IMPLICATIONS

In identifying other possible areas for efficiencies and process improvements, the BPR team considered changes to a wide range of existing policies and practices relative to procurement. These items are listed in Attachment 1 of the staff report. Many of these proposed changes (e.g. approving a grant application, accepting the funds and appropriating and expending the funds in one Council action) should be seriously considered and will return to Council prior to implementation. However, our office can not support several other recommendations that were being considered (e.g. increasing the threshold for requiring Council expenditure approval from \$250,000 to \$1.0 million). We expressed strong concern regarding increasing these and other expenditure control thresholds to the BPR team as they moved through their process, and we are pleased to see that the Mayor does not support bringing these recommendations forward at this time.

RECOMMENDATION

Section 3 of the BPR Ordinance states the following:

“That any projected or actual savings from any BPR reorganization be placed in the Unappropriated Reserve Account within the respective Fund. These funds shall not be expended for any purpose other than as originally intended without the recommendation of the Mayor and approval of the City Council.”

The IBA recommends acceptance and approval of the Contracts BPR report, including the proposed organizational changes and related budgetary actions, and further recommends that Council request the CFO to confirm the reported savings resulting from the Contracts BPR, and as part of the FY 2007 First Quarter Budget Report, identify the amount of funding from savings that can be placed into the Unappropriated Reserve.

[SIGNED]

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Attachments A-B