City of Burlington
Vermont

OFFICE OF THE CLERK/TREASURER

City of Burlington
City Hall, Room 20, 149 Church Street, Burlington, VT 05401
Voice (802) 865-7000
Fax (802) 865-7014
TTY (802) 865-7142

TO: City Council
FROM: Bob Rusten, Chief Administrative Officer
DATE: December 6, 2013
RE: Report on Central Purchasing as Specified in Resolution 14.0 adopted on June 24, 2013

The City Council, through Resolution 14.0 adopted on June24, 2013 requested that the City Administration investigate the creation of a centralized purchasing system for all contracts of goods and services, identify procedures that would minimize the risk for fraud and misconduct for such a system and, if appropriate, propose how it would create a centralized purchasing system to greater maximize purchasing dollars and have tighter controls on how purchasing and contracting for services are conducted in City government.

Currently the City's purchasing is decentralized where services and commodities are purchased by all departments independently to fulfill their individual needs. A move to a central purchasing model would concentrate the control of purchasing of services and commodities required by City departments in a single department.

Advantages:

- Economies of scale – eliminates duplication of effort required to purchase items common to some or all departments. For example, instead of having an employee from each department obtaining pricing proposals for a commodity, one purchasing agent would solicit the pricing proposals for all use by all departments.
- Improve spending power – Added buying power is created by combining the needs of various departments together. Purchasing in volume and using standards provides opportunities for discounts not normally afforded to low volume purchases.
- Open up opportunities for partnerships with other Vermont public entities, including the League of Cities and Towns and the Burlington School District, to further strengthen purchasing power, and economies of scale, as well as private companies that provide software systems designed to utilize creative purchasing methods, such as reverse auctions, to further reduce overall spending.
- Enhance operational efficiencies through standardization. - It allows for better control of supply and equipment items as well as technological objectives, while reducing standing inventory levels.
- Better monitoring of transactions to ensure regulatory and internal policy compliance.
- Enhancing relationships with suppliers - Purchasing staff can build good relationships with the buyers that enable the supplier to understand the business need and suggest other products that may be more suitable and cost effective. Suppliers know where and whom to contact which makes supplier contact much easier.
- Improves management of Contracts for Services. - oversight of expiring contracts and the need to conduct a timely process to re-test the marketplace. Managing contracts for goods and services is often a "loose end" in a decentralized system.

The City of Burlington does not discriminate on the basis of political or religious affiliation, race, color, national origin, age, sex, sexual orientation, marital status, veteran status or disability. Persons with disabilities who require assistance or special arrangements to participate in programs and activities of the Clerk Treasurer's Office are encouraged to contact us at 865-7000 or 865-7142 (TTY) at least 72 hours in advance so that proper arrangements can be made.

Disadvantages:

- The specific requirements or quality of the individual items procured for use by all City departments may not be comparable to that currently procured departmentally.
- Departments are used to obtaining services or commodities quickly or in some instances, immediately. A centralized structure may result in delays in receiving the services or commodities.
- There will be instances where the centralized buying staff will not be as knowledgeable in buying varied types of items.
- Centralized structures can result in higher incidences of unapproved spending, process circumvention, and uneven performance.
- Consolidated purchases of commodities may result in the reduction in the use of local vendors. Some local vendors currently being used may not be able to compete with regional or national vendors.

Recommendation:

It is recommended that, instead of initially creating a completely centralized purchasing system, the City adopt a center-led model. A center-led purchasing model, in essence, creates a centralized office that focuses on strategic commodities and services shared by several or all of the City's Departments while preserving the individual department's ability to purchase commodities and services specific to their department's needs. This model provides the best of both worlds--the advantages of the centralized and decentralized models with fewer disadvantages. In essence, this model allows for control over the City's service, commodity and technology strategies and strategic commodities while promoting best practices and knowledge sharing. Operational efficiencies are increased and overall procurement costs are decreased and the organization maintains the ability to react quickly to unexpected changes in supply or demand. Partnerships with other public entities can be better accommodated to further drive down procurement costs. Best practices can be shared easily throughout the enterprise, unauthorized or buying in violation of City policies can be significantly reduced, and performance maintained at consistent level. It is further recommended that the implementation of this model be done in a phased approach, with review and modification after one year.

Phase 1.

It is proposed that a central purchasing office be created within the Clerk/Treasurer's Office as part of the adoption of the Fiscal Year 2015 Budget. This office would be staffed by a purchasing agent supervised by the Chief Administrative Officer or his designee and be responsible for acquiring strategic goods and services identified by the Clerk/Treasurer's Office, such as paper, toner, copy machines, etc., drafting Requests for Proposals and giving advice to departments on specifications and assisting departments in drafting Requests for Proposals/Bids to obtain more favorable responses. The position would also be charged with establishing relationships between other public entities for cooperative purchasing, as well as private companies to expand the use of creative purchasing opportunities such as reverse auctions. In preparation for the creation and implementation, the Clerk/Treasurer's Office will continue to examine its purchasing trends and develop a list of the strategic commodities that would be managed by the Purchasing Office. This list will be modified as the year progresses to capture more commodities to include. Measurable goals should be created so as to assess the effectiveness and cost reductions of such a system.

Phase 2.

After one year, it is recommended that the Clerk/Treasurer's Office evaluate the progress toward the goals established in phase 1and the effectiveness of the Purchasing Office and the Center-led structure to determine what, if any, changes should be made to the structure to further improve the purchasing process, including full centralization and, if not, whether to expand the number and types of strategic commodities managed by the Office.

Procedures to Minimize Fraud and Misconduct:

It is recommended that the City's Purchasing Manual, last revised in 2000, be re-crafted and ultimately adopted by the City Council. The purchasing manual is an important means of managing the purchasing function efficiently and effectively. Ideally, it outlines the policies and procedures to be followed by the purchasing personnel and departments and should clearly define the purchasing authorities, clarify the relationship between departments (offices), and set procedural and dollar limits for verbal, written and formal proposals.

In addition, it is recommended that the Purchasing Office not be the final level of approval for purchases of the strategic commodities. Approval from either of the two Assistant Chief Administrative Officers or the Chief Administrative Officer should be required. This will minimize the opportunity for one purchasing agent to commit fraud or misconduct. Is should also be pointed out that the activities of the Office wound naturally be part of the annual fiscal audit conducted by the City's contracted Independent Audit Firm.

One other consideration to note is that, ultimately, the success of this system will be contingent on the departments actively supporting the change in culture of the organization and authority of executive management to mandate a policy, process and cultural change. Mandating and enforcing compliance enhances supply chain effectiveness. Without the culture of mandates, a centralized or center-led supply chain's policy enforcement role may become contentious and ineffective.

The City of Burlington does not discriminate on the basis of political or religious affiliation, race, color, national origin, age, sex, sexual orientation, marital status, veteran status or disability. Persons with disabilities who require assistance or special arrangements to participate in programs and activities of the Clerk Treasurer's Office are encouraged to contact us at 865-7000 or 865-7142 (TTY) at least 72 hours in advance so that proper arrangements can be made.