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DECEMBER/JANUARY 2018

SCANDAL

When scandal hits, local governments have to act with transparency and integrity to ensure the bond of trust shared with the community isn't forever broken

PLUS:

**NIGP Code
Negotiating Energy
Supply Arrangements
IT Investment
Making the Most of
a Solicitation**

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Season's Greetings



Wishing you a beautiful
holiday season and a new
year filled with peace, joy,
hope and happiness.



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ISSN 1078-0769

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LIST RENTALS: To rent circulation lists of *Government Procurement*, contact Justin Lyman, online marketing manager; 913-967-1377, justin.lyman@penton.com

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REPRINTS: For customized article reprints, contact: Wright's Media, phone: 877-652-5295; email: penton@wrightsmedia.com

PUBLISHED: *Government Procurement* (ISSN 1078-0769) is published bi-monthly by Penton Media Inc., 9800 Metcalf Ave., Overland Park, KS 66212-2216. Canadian Post Publications Mail agreement No. 40612608. Canada return address: IMEX Global Solutions, PO Box 25542, London, ON N6C 6B2. Canadian No. R126431964. Copyright© 2017 Penton

POSTMASTER: Send address changes to *Government Procurement*, PO Box 2100, Skokie, IL 60076-7800.

Periodicals postage paid at Kansas City, MO, and additional mailing offices.

SALES OFFICES ARE LISTED ON PAGE 2.

PROCUREMENT PONDERABLE

Boosting Sustainable Procurement Results

Stephen B. Gordon, PhD, FNIGP, CPPO

Having first become involved in what we now call “sustainable procurement” in the late 1970s, I am perplexed that the primary focus appears to remain on buying commercially-available green products and services. There is more to sustainability than the green leg of the three-legged sustainability stool, and there are many additional ways to optimize support for enterprise strategic goals for sustainability through strategic procurement. This is not to say that the environmental leg of the three-legged sustainability stool or purchases of commercially-available green products and services are inconsequential. It is to say, instead, that procurement officials can add high-impact “wins” by awarding contracts for high-risk, high-dollar projects in ways that achieve the optimal mix of technical, environmental, social, and economic results.

While working in the Metropolitan Government of Nashville and Davidson County, I was privileged to work with professionals in a variety of functional areas – procurement officials, engineers, project and program managers, consultants, and others -- who demonstrated repeatedly that it is possible to achieve the desired technical outcomes for an infrastructure procurement AND optimize the environmental, social, and economic results as well. They proved, for example, that it is possible to bring in a major sewer pipeline project on time and within budget while at the same time minimizing the impact of noise on nearby neighborhoods, the impact of the construction process on traffic flow, and the impact of where the pipeline had to cross a creek on the crayfish who lived in the water in the path of the project. In other instances, teams such as these were able to achieve dramatic cost avoidances and savings in addition to obtaining the “softer results”. The keys to success were unsurprising. They included a shared commitment to a big picture understanding of what could and should be accomplished and teamwork that involved total cooperation, free and open communication, and problem resolution at the lowest possible level. The most-frequently-used procurement strategy was performance-based, incentive-driven contracting that considered all relevant factors in the evaluation of proposals.

Think about what you can do to support your entity’s goals for sustainability in every way possible.

P.S. To learn more about NIGP’s early involvement in sustainable procurement, read Chapter 9, “Use Government Procurement to Spur Innovation” in the book, “The Seventeen Solutions: Bold Ideas for Our American Future.”

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PROOF THAT FOLLOWING THIS PROCUREMENT CODE IS THE KEY TO BETTER OUTCOMES

By Jean Clark

> Government and non-profit agencies are under immense pressure to maximize their procurement efficacy with minimal resources. At the same time, public sector budget cuts and political agendas have created the perfect storm of spending scrutiny, and aggressive calls for greater transparency have resulted in widespread reform initiatives from the top down. However, it's hard to affect change in procurement outcomes without re-engineering business processes in some capacity. That's why everyone from public schools to airports, as well as cities and states, have started drilling into the most fundamental aspects of their procurement function to evaluate the efficiency and effectiveness of every single system component – including their commodity and services code structure.

Procurement reform, spend prioritization and agency reprogramming are unrealistic goals if you don't have broad spend visibility. At the same time, it's impossible to extract greater value from your spend if you are unable to quickly analyze vendor performance and take the necessary actions to stimulate more competition. However, it's challenging to effectively audit any aspect of your procurement function, or adjust any process, if there's no consistency in how you document and track your purchases. That is why every public sector and non-profit agency stands to

benefit from the NIGP Commodity/Services Code.

Not only does this Code provide uniformity to your record-keeping system, it also makes it easy to track, and therefore analyze, every good and service your organization buys. And, that is what makes it possible to increase accountability, expand supplier diversity and improve procurement outcomes.

HOW THE NIGP COMMODITY/SERVICES CODE DIFFERS FROM OTHERS

As evidenced by a study conducted in early 2017, there are many ways to classify your vendors and manage categorical spend. There are other third-party Code options that you could consider, or you could choose to implement a homegrown system. But, as the study also indicates, not all coding structures are capable of delivering sufficient data, much less completely accurate data, to decision makers.

Only the NIGP Commodity/Services Code can really give you the means to easily pinpoint areas of waste and procurement risk and, subsequently, take fast corrective action. That is because the NIGP Code is exclusively capable of integrating into existing procurement technology systems, aggregating data from all connected sources, and “filing” the volumes of information into a single, easily comprehensible system. It brings the highest levels of order and efficiency to your overall procurement program.

ST. PETERSBURG, FLA.

St. Petersburg began with a federal classification system and replaced it with NIGP Code decades ago. Today, the NIGP Code is embedded into their purchasing system, allowing complete transparency and analysis of performance measures through improved RFP creation, vendor registration and inventory management. The NIGP Code has also established a tracking system for vendor complaints.

Vendors register with basic

NIGP Commodity Codes 5 digit		
Cat.	NIGP	
NIGP Name	Code	Code Detail Description
005 ABRASIVES		
	05	ABRASIVE EQUIPMENT AND TOOLS
	14	ABRASIVES, COATED: CLOTH, FIBER, SANDPAPER, ETC.
	21	ABRASIVES, SANDBLASTING, METAL
	28	ABRASIVES, SANDBLASTING (OTHER THAN METAL)
	42	ABRASIVES, SOLID: WHEELS, STONES, ETC.
	56	ABRASIVES, TUMBLING (WHEEL) GRINDING AND POLISHING COMPOUNDS: CARBORUNDUM, DIAMOND, ETC. (FOR VALVE GRINDING COMPOUNDS SEE CLASS 075)
	63	PUMICE STONE
	70	PUMICE STONE
	75	RECYCLED ABRASIVES PRODUCTS AND SUPPLIES
	84	STEEL WOOL, ALUMINUM WOOL, COPPER WOOL, AND LEAD WOOL
010- ACOUSTICAL TILE, INSULATING MATERIALS, AND SUPPLIES		
	05	ACOUSTICAL TILE, ALL TYPES (INCLUDING RECYCLED TYPES) ACOUSTICAL TILE ACCESSORIES: CHANNELS, GRIDS, MOUNTING HARDWARE, RODS, RUNNERS, SUSPENSION
	08	BRACKETS, TEES, WALL ANGLES, AND WIRES
	09	ACOUSTICAL TILE INSULATION
	11	ADHESIVES AND CEMENTS, ACOUSTICAL TILE
	14	ADHESIVES AND CEMENTS, INSULATION
	17	ALUMINUM FOIL, ETC.
	30	BANDS, CLIPS, AND WIRES (FOR PIPE INSULATION)
	38	CLIPS, PINS, ETC. (FOR DUCT INSULATION)

profile and commodity codes of interest. An NIGP commodity code is then used to create, select vendors and file electronically, which enables the City of Petersburg to later sort and find vendors by a commodity code. At the same time, all contracts are identified by commodity codes. This helps to ease ordering, and track historical data and contract spend. For example, the Code tracks products and sorts by categories to inform the City on the amount of inventory for water; sewer; police supplies, janitorial, fire supplies, uniforms, etc. The City of also classifies customer complaints by commodity code so they always know which vendors' services and/or products have experienced complaints. "The NIGP Code is our backbone and provides a standard protocol for the entire organization - assisting in the delivery of accurate and quality services," said Louis Moore, Director of Procurement and Supply Management in Petersburg, Fla.

BALTIMORE COUNTY PUBLIC SCHOOLS

The public-school district previously used the UNSPSC coding system, but quickly learned that it was lacking consistency. Today, they use the NIGP Code at the 5-digit level for all vendor registration and for requisitions in their ERP system to track purchases. They also have more than 70,000 items that are classified by the 7-digit level within their eProcurement platform's catalog, which provides greater detail for the product. When purchasing food products, the 11-digit level is used to identify an item such as string beans where they need more specificity, such as the can size, number of cans per case, etc.

"Unlike the UNSPSC, the 11-digit NIGP Code is very specific to the item we are referencing and purchasing," said Melvin E. Burley, Purchasing Agent, Baltimore County Public Schools. "The 11-digit NIGP Code provides all of the detail description information; such as color, size, packaging. However, we ultimately use all levels of the NIGP Code and will probably always remain a customer. Plus, we receive very timely response and support from the NIGP Code team on requests for new 11-digit commodity codes."

TAMPA, FLA., INTERNATIONAL AIRPORT

The busy Florida airport moved from NAICS to NIGP Code when expanding its eProcurement system to include supplier self-registration. Suppliers are now required to select an NIGP Code to have a registration completed. The Codes are then used to determine notifications to suppliers. This allows for improved reporting at Tampa International Airport, and enables procurement officials to search for – and report – information by supplier, PO number, PO description, PO amount, and commodity code.

"The NIGP Code helps Tampa International Airport streamline supplier registration and notifications – not to mention track our suppliers and spend better," said Connie Mundzak, Tampa International Airport / Sr. Manager, Procurement. "We're looking forward to expanding our

data analytics and reporting thru the Code to gain even more information on supplier registrations and spend."

FAIRFAX COUNTY,VA.

Fairfax County implemented the NIGP Code to gain spend data and analytics. Intrinsic to its ERP system, every GL account is linked to an NIGP code at the 5-digit. In addition, all of Fairfax County contract lines have an NIGP code – and use an appropriate GL account. This allows them to ensure use of funds as budgeted and to analyze spend. Fairfax County also uses the NIGP Code to improve its supplier registration, to send notification of solicitations, and to pull correct bidders list.

"NIGP Code brings purchasing and accounting closer together at Fairfax County. The NIGP Code has really helped us gain a better understanding of where we spend our money," said Cathy A. Muse, Director/Purchasing Agent at Fairfax County.

KNOX COUNTY,TENN

The County began use the NIGP Code in the early 2000's. The decision was based on the need for standardization of goods and services, clear and concise supplier data, and purchasing spend data to report to the citizens and public body. Another partial reason was the limited options available in the early 2000's with a comprehensive taxonomy.

The NIGP Code not only allows suppliers to register by commodity codes, but gives the County the ability to search by commodity codes and diversity codes to pull spend data on past purchases. The Code also supports the development of supplier lists for solicitation notifications and provides the ability to drill down with accuracy aids in targeted notices. Specifically, the 5-digit Code delivers fast, easy access to information on suppliers available to provide goods and services, which improves the County's customer service abilities. At the same time, the implementation of the NIGP Code into the County's procurement processes, enabled clerical positions to be reallocated to new, higher-level professional procurement duties, which increased overall functional productivity.

"It's hard to imagine doing business without the NIGP Code," said Hugh Holt, Purchasing Director/Deputy Director of Finance, Knox County. "It assists with business outreach when limited competition has been received, and the Code is the foundation that makes the big picture look better down the road. Plus, the NIGP Code casts a wider net in the sea of suppliers – rather than just the yellow pages. It truly supports best value procurement."

JEAN CLARK, FNIGP, CPPO, C.P.M, CPM is President of NIGP Code and Consulting Services at Periscope Holdings, Inc. She is an NIGP Past President and former State of Arizona Procurement Administrator.

The Procurement Professional's Guide To Negotiating Energy Supply Agreements

THE 5 KEY CLAUSES THAT MUST BE MASTERED

By Bob Wooten

> Part One

When procuring goods and services, you understand how important it is to thoroughly investigate all your options. Your budget – and the financial well-being of your organization – depends a lot on the decisions you make. But when it comes to the procurement of energy, the process of evaluating and selecting your supplier is only the first part of the story.

Once you have selected an energy supplier, you must then enter into contract with them. You can have the best deal or the lowest price just waiting for you, but if can't arrive at a mutually agreeable set of terms and conditions, you are just as far away as if you never started the procurement.

One thing to remember: You, as the purchaser, ARE entitled to a deal that works for you! So while the process is very important, you can – and should! – ultimately negotiate some, many, or all of the supply agreement terms with the chosen supplier to receive the potential benefits.

Through an ongoing series, we will explore the five key clauses that must be mastered in order to negotiate successful energy supply agreements:

- > Payment Terms
- > Termination Fees
- > Adding/Deleting Accounts
- > Energy Usage Bandwidth
- > Material Changes

Taken together, these five clauses will lead to getting the price you want from the supplier you want. Each of these should be viewed on a scale ranging from buyer-friendly to seller-friendly. Better yet, you should view each of these terms in relation to risk.

Risk is directly related to price from the seller's perspective. If the seller shoulders more of the risk in the supply agreement, then they will charge a higher price. Lowering a supplier's risk by shifting it to the buyer will yield a lower price. While getting the lowest price is always attractive, the trick is to avoid being sucked into an agreement that

requires you, the buyer, to shoulder a high amount of risk that results in extra fees and penalties. These "hidden" charges will ultimately result in you paying more than the attractively low price – perhaps much more than you ever imagined.

The first key we will investigate is payment terms. Taken at face value, this seems like a fairly simple term to consider. When and how do you want to pay your energy bills? In 16 days, net 30, automatic draft, or some other arrangement?

Beyond these "simple" questions, however, lies a very important concept. The reason your payment terms are considered key is that how you negotiate them has a very significant impact on the risk shared by both parties.

Following are a few points to think about when considering the payment terms of an energy contract.

WHO WANTS THE CASH?

Shorter payment terms are a risk to the buyer, while longer payment terms are a risk to the seller.

The job of an energy supplier is to buy the energy on the wholesale market and then sell to you as the retail buyer. The longer the gap between buying the energy wholesale and selling retail, the greater the financial risk to the supplier. Therefore, suppliers typically offer their best prices when the payment terms are the shortest. Conversely, most buyers want to hold onto their cash for as long as possible – so it is not unusual to see a supplier ask for 10 days to pay and a buyer to ask for 45 days.

Pure and simple, an energy supplier wants payment as soon as possible. Depending on the contract terms (and legality), a supplier may even try to "encourage" you to agree to pre-payments by offering a discount. If you are an educated buyer, you can avoid getting stuck with such terms that don't benefit your organization. As with most contract terms, there is typically a comfortable middle ground here that both parties can agree to.



HOW CAN WE AVOID LATE FEES?

Two things can happen when you agree to a very short timeframe to pay the bills. First, it becomes very likely that the bills are paid late. Second, with late payments come late fees and penalties. You can see very easily from this perspective that any benefits of getting a low energy price by virtue of agreeing to very short payment terms can easily be undone when you start adding in late fees.

Instead, negotiate for the payment deadline terms that you know your organization can meet. From this standpoint, you must consider the bill payment process of your organization – from the receipt of bills to the mailing of checks. If your organization tends to need a longer window to “cut checks,” then a short payment timeframe just isn’t going to work.

If you do insist on short payment terms to try and achieve a lower price, make sure you also read the fine print regarding how late fees are assessed. Then be sure to factor these fees into your overall energy budget to come up with a realistic cost estimate.

WHAT ARE THE BIGGER CREDIT ISSUES?

While late fees can cause immediate administrative headaches – from being a minor hassle to causing problems meeting your budget – the long-term and more damaging effects come from their impact on your credit.

As any credit agency will tell you, slow and late payments have a negative impact on the credit rating. One or two times can be forgivable, but an ongoing pattern of late payments can turn clean credit into something that most sellers want to stay away from.

The effects with procuring energy are also very predictable. One of the key factors that goes into how a supplier will price energy is the buyer’s credit rating. Typically, bad credit results in higher

prices, collateral, or performance assurance. In a worst-case scenario, credit is so bad that a supplier will not even enter into contract.

So, again, trying to achieve good up-front pricing by agreeing to short payment terms can have a bigger long-term effect if you end up being late paying your bills. The result will be higher prices in the future, compared to what you’d be paying if you just had better payment terms – and that’s the best outcome.

THE TAKE-AWAY? ALWAYS NEGOTIATE!

Before entering into an energy supply agreement, remember to negotiate! Be sure to enlist the help of a qualified energy advisor if you’re unsure of what or how to negotiate the best terms for your organization.

It may sound obvious, but you don’t need to blindly agree to the supplier’s payment terms. Make sure the terms are something your organization can live with and meet without penalties. Negotiating good payment terms will always be a strong key to getting the kind of energy supply agreement you want.

So, what happens when the ideal contract you negotiated is terminated early – perhaps due to you selling your building or moving locations? Find out in our next installment, where we will discuss “Termination Fees.”

BOB WOOTEN, C.P.M., CEP, is Director of National Accounts for Tradition Energy, and has over 20 years of experience managing commercial, industrial and governmental procurement programs for a wide variety of clients. Bob holds professional certifications from the Association of Energy Engineers and the Institute for Supply Management, as well as a B.A. from Texas A&M University, and a Masters in Public Administration from the University of Houston.

KAIZEN AND THE SOUND TRANSIT IT INVESTMENT PLAYBOOK

By Richard Pennington

➤ **M**et Doug Haffie, Contracts Supervisor in Sound Transit, Washington’s Procurement & Contracts (P&C) Division. He works with the Sound Transit IT department. Together with their internal customers, they conquered what they had called the “swirl,” the back-and-forth between P&C and IT when a scope of work was sent for rework over-and-over again. This story explains how they reduced the average time between project approval and RFP advertisement by 55 percent.

According to Haffie, the time to complete IT procurements had become unacceptably long. Some blamed the time it took P&C to procure. Others pointed to the poor upfront planning. Sound Transit’s response? A cross-collaboration, problem-solving tool called a kaizen event.

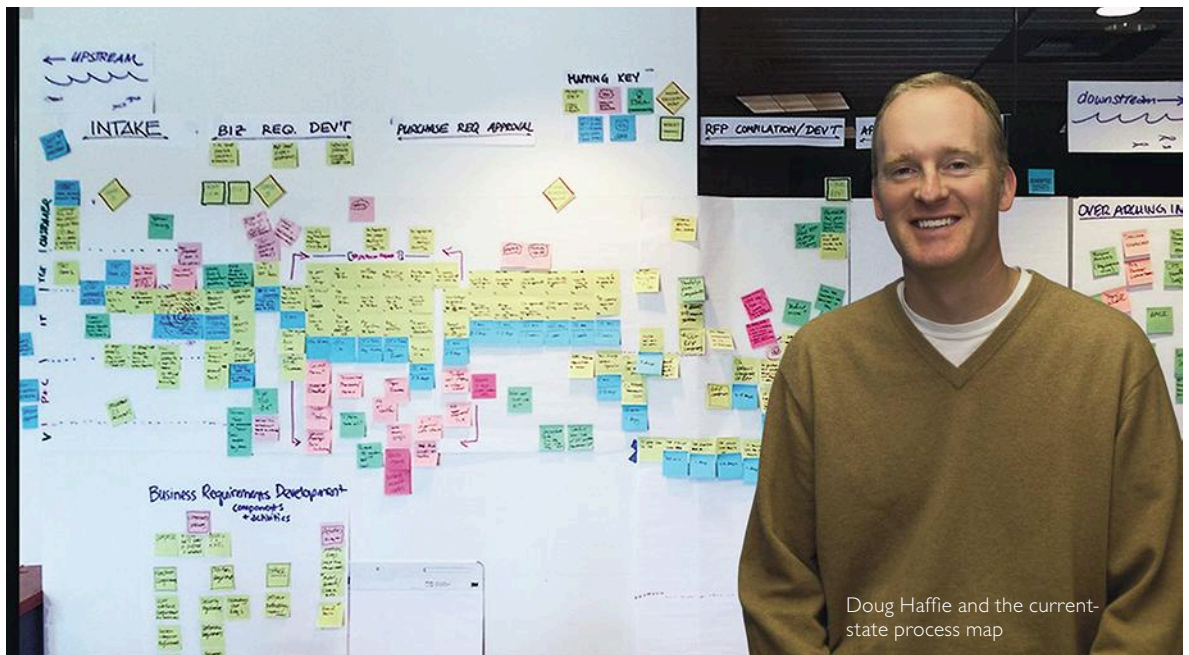
Kaizen is a continuous improvement philosophy and set of practices first used in Japan. The essential philosophy is that large transformations can occur from small, incremental improvements identified and implemented at all levels of the organization. Kaizen is as much a philosophy as a tool: a habit of continuous improvement that empowers (and expects) each employee to find ways to improve processes, key among them the elimination of muda (waste). The goal is to improve quality, cost, and

delivery. While often kaizen leads to an on-the-spot correction later solidified through changes in the process (standardization), sometimes short events are organized to assemble the stakeholders and focus their attention on a problem.

In Sound Transit’s case, the kaizen event was a week long. It included a facilitator, Haffie as team lead, the IT department, and end-user customer staff. The team set an audacious goal: reduce IT procurement time by 50 percent. There were other objectives key to improving the quality of IT procurement: clarify roles and responsibilities; document the process; and improve communications and understanding.

The week began with a sponsor kickoff that reviewed the charter and goals. Customers were interviewed, and the team started with what Haffie considers the most valuable exercise: mapping the current IT procurement process, the “current state map.” They identified lots of muda. They heard from customers that there was little clarity about what was required, inconsistency in perceptions of quality in documentation (too much over-processing), confusion over roles, and often no single point-of-contact.

The team eventually employed a concept central to kaizen: standardization. Customers want a simplified roadmap and templates, examples of what a good



Doug Haffie and the current-state process map

statement of work looks like. The IT Department now tries to use standard components to all their scopes of work, called “standard work” in the kaizen lexicon, so they and customers do not have to start from scratch every time they do an RFP. These include, for example, network diagrams, application interfaces, security requirements, and change management processes.

The IT Investment Playbook was born in the kaizen event. Its checklists guide the IT project manager through the pre-procurement planning process to identify all the things they need to consider as they draft their scope of work.

It uses a RACI tool for identifying roles and responsibilities; the responsible person (often the customer for some steps); the accountable person (the IT Project Manager for the statement of work); and those persons who must be consulted and others informed as decisions are made or actions taken. When the solicitation is issued, the contracts specialist becomes responsible and accountable, with IT and the customer moving into consultation roles.

The Playbook’s checklists highlight the need for assessment of the understanding of the business problem, information about the current business environment, regulatory impacts, and identification of other systems and stakeholders affected by the solutions. Statement of work checklists include business considerations like the deployment model

(e.g. hosted or cloud), process flows, functional requirements like reporting and interfaces, and use cases as contexts for the offerors to propose solutions. The Playbook embraces training requirements and acceptance criteria, IT architecture and infrastructure descriptions, integration requirements, and security needs. The Playbook also identifies the approvals and process handoffs between various offices.

The tools created by the kaizen team help project managers develop all the components of a good RFP. Along with the Playbook and RACI matrix, the tools include frequently-asked-questions guidelines for engaging vendors during market research, a procurement lead-time estimator, and an IT process map.

According to Haffie, “The Playbook has been a huge help in making our process much more efficient and has led to cutting the time from project approval to contract execution in half.” He adds, “Perceptions about the procurement process are changing. Complaints about procurements taking too long have dwindled.”

RICHARD PENNINGTON, J.D., LL.M., CPPO is general counsel to NASPO ValuePoint. He is the author of Seeing Excellence: Learning from Great Procurement Teams (www.seeingexcellence.com).

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THE THREE THINGS YOU MUST DO TO BE A PROCUREMENT SUPERSTAR

By Kevin Ebi

> There's never been a time when it has been so easy for cities large and small to buy technology and expertise. But for the investment to be a success, it's not just what they buy — it's how they buy it.

IBM conducts an annual procurement study, which finds a strong link between the quality of an organization's procurement strategy and its overall performance. Companies that used model procurement strategies ranked in the top 15 percent for profit growth and the top 20 percent for revenue growth.

While IBM's study looks at large enterprise businesses, there's truth for cities too. Cities that take procurement shortcuts can end up with costly projects that fail miserably and shake the public's confidence.

Here are the top three procurement traits that leading companies share:

I. FOCUS ON OVERALL SUCCESS

Breaking down silos that divide city departments is a key theme of most smart cities projects, but procurement superstars go even further: Procurement success is defined by the success of the overall project.

The idea is that the procurement process should find the solution that delivers the best return, and therefore should qualify suppliers to make sure they can deliver what they promise. It's obvious when this doesn't happen: Bungled photo tolling systems are frustrating commuters in the San Francisco Bay Area and have triggered a class-action lawsuit in Washington state. Those horror stories are prompting a lot of debate in Florida over its efforts to qualify suppliers for its tolling system upgrade.

Your procurement performance is the project's performance. They are one in the same.



“Cities that take procurement shortcuts can end up with costly projects that fail miserably and shake the public’s confidence!”

2. ENGAGE STAKEHOLDERS AND ANTICIPATE NEEDS

Just as the buying process isn’t the entire project, one person never has all of the answers. A smart procurement strategy brings in key stakeholders to truly understand their priorities and develop insight to identify and overcome potential project hurdles. IBM says companies that have model procurement practices try to learn as much as they can from suppliers; cities should look to a wide range of experts as well.

A project to revitalize Memphis neighborhoods hard hit by the foreclosure process provides an example of an effective use of this strategy. Memphis tried to plug-and-play affordable housing programs that had worked in other cities, but they never seemed to gain any traction there, so it gathered what it calls cross-sector stakeholders to craft a truly local solution.

Experts from government, business, foundations and other non-profits came together to combine their knowledge and resources. This approach resulted in more solid plans to transform three neighborhoods — plans that drew the attention not only of local charities, but national foundations and six banks.

3. EMBRACE PROGRESSIVE PROCUREMENT PRACTICES

While the first two steps — building relationships and consulting experts — are decidedly low tech, technology should play a key role too. IBM found that the top performers used technology to automate mundane elements of the procurement process, while using analytics to help people perform better in other areas.

Its study found a significant gap between companies. Nearly half the top performers used integrated, advanced analytics. Another 26 percent were able to do forecasting. By contrast, half of the lowest performers had only basic analytics or worse.

Procurement innovations worth noting California is overhauling its procurement process, focusing on automation and pooling resources. There’s already a statewide master vendor file for use by any level of government. It’s adding electronic bidding, online certification and online interaction to its new FISCAL system, which is going online now. Local government is already embracing this new

collaborative approach: 19 agencies in the Bay Area are issuing a joint request for proposal for solar power generation. Even though the panels will be installed over nearly 200 different locations, by working together on design and fabrication, they expect to spend 45 percent less than they would have by going it alone.

Others are using data and analytics to drive improvements. North Carolina, for example, discovered 84 IT projects were \$356 million over budget — nearly double the cost estimates — and more than a year late, prompting it to adopt a try-before-you-buy pilot project. This approach allows it to test the latest technology, see what works and share knowledge with the rest of the state government to avoid wasting precious funds.

Meanwhile, Franklin County, Ohio, replaced its procurement system with a web-based interface that lets anyone see where any purchase is in the process. This transparency builds accountability — something that was lacking before — and helps eliminate waste.

WATCH THE INCENTIVES

Despite your best intentions to overhaul your city’s procurement strategy, your efforts can be held back if staff are given the wrong incentives.

Mark Headd describes these disincentives in a blog post he wrote about his time at the Delaware Department of Technology and Information. The state’s revenue director allowed people to start filing their taxes online, giving the public more options, while cutting the amount of staff resources needed to process the returns. Sounds great, right? When asked to share his approach with other state leaders, this director refused. He was worried that if lawmakers found out how much money his initiative saved, his department’s budget would be reduced.

If those government employees have those fears, it can derail any effort to improve procurement, which takes us back to the first step: everything really should be about overall success.

KEVIN EBI is the managing editor of the Smart Cities Council, which helps cities become more livable, workable and sustainable. Learn about its events and free resources at <http://bit.ly/SmCities>



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MAKING THE MOST OF A SOLICITATION

By Theresa M. Chappell

> **E**valuations are the heart of the solicitation. They enable submittals received to be evaluated against the needs of the organization while allowing for innovation, best practices and addressing industry standards.

Becoming a partner with a vendor is mutually beneficial for the agency, as well as the community.

Work with Project Managers and assist them through the purchasing process. They are the experts in their field and know what they want to achieve and we are the experts in our field and want to help them acquire it.

At Arapahoe County, we review and edit their scope together to find how we can evaluate a vendor in order to find the right fit and solution to meet their requirements.

Experience in soliciting numerous types of projects allows you to learn what type of evaluation criteria work and how to assist the vendor in providing you information that can help the evaluation team make a vendor selection.

Once you know what is needed, the next step is to determine if an Invitation for Bid or a Request for Proposal is best suited to obtain the goods and/or services. Is price the deciding factor or is delivery schedule, product quality, timeline, experience, implementation, etc. more important than cost?

Evaluation criteria should be limited to five with price being less than 50 percent. More than five evaluation criteria can lead to weighted factors with little impact and detract from criteria with significance to the implementation.

In a proposal, evaluation criteria are evaluated first. Price can be negotiated with the top scored vendor.

If it is in the best interest, the Evaluation Committee may invite a limited number of Vendors who received the highest scores to provide a presentation. This additional step will include a second set of evaluation criteria. You will need to determine if evaluation scores will be added or if the top scored vendors will be treated equal and start fresh with evaluation scores. If you are combining the scores, you need to examine the natural break between vendors. It is not in the vendor's nor the organization's best interest to interview a vendor who must overcome a significant deficit of points.

After we have determined if any mandatory pass/fail criteria, (i.e., certifications, bond rating, local service, etc.), are required we look at how we want to

evaluate a vendor's recommended solution. Submittals not providing mandatory pass/fail documentation, at the time of submission, are returned as non-responsive and not sent to the evaluation committee.

The Evaluation Criteria is the deciding factor of a proposal. Look at the proposed evaluation criteria and have it work backward to assist you in uncovering the best suited vendor. You create the criteria based on your expected outcome, needs, requirements, etc.

List criteria with leading questions for the vendor to provide a response refraining from yes/no responses, for example: Describe in detail; Provide examples, drawings, reports; Provide information relating to, etc.

- > What is the vendor's experience?
- > Are the company years in business more beneficial than employee years of experience?
- > Have the vendor describe what needs to be done and how to get it done – refrain from telling them how to do the job; they are the industry expert after all
- > Have the vendor provide their expectations as well as what they expect from you
- > Have the vendor provide you a timeline with vendor performance benchmarks
- > What value added feature does the vendor bring?
- > What similar projects has the vendor done in the past?
- > Have the vendor describe what they did and how they did it
- > Limit the number of evaluation categories
- > You should always be able to determine what is most important in selecting a vendor
- > If you get too many evaluation criteria they can lose value
- > Group like items together to make the criteria stronger
- > Have the vendor describe their lessons learned
- > Past successes and failures
- > We should always be able to look back and find something we could improve on
- > Can the vendor provide sample reports?
- > Does the vendor provide customer service after the implementation?
- > And let's not forget about price
- > Can you use a Pricing Form with quantities?
- > Do you need the vendor to provide their pricing structure?
- > Whatever way – you need to try and receive apple-to-apple evaluations

Evaluations should be performed independently without bias to the vendor or without fear of repercussions from the organization. You want to have an odd number of evaluators, typically five, refraining from high level management.

Evaluation scores can be weighed against the number of evaluators or you can use a two-part weight, where one group of evaluators weigh 70 percent and the other 30 percent. i.e. functional users, subject matter experts, support team, etc.

You may receive a submittal from a vendor you have worked with in the past and experienced negative performance. Unless you have documented their negative performance and have a legal barring system, you need to evaluate the proposal based on what is provided. There may have been a change in management, management practices, etc.

You may need to recuse yourself as an evaluator if you would have or perceive to have a personal financial interest, direct or indirect.

It is important to provide both positive and negative feedback when evaluating proposals. This allows a vendor to improve for future solicitation participation.

It may be perceived by the vendor community to “why bother” if the organization has their favorite vendor they have always selected. The incumbent may become too complaisant, provide a lack luster submittal and refer to current performance instead of responding with fresh ideas. There may be an evaluator(s) who has never worked with them before. The award would be theirs to lose.

It is easier to edit than create. Put everything out there, then assess. Edit or massage to fit the scope, take out what isn't needed or doesn't add value.

Following these steps has led to successful purchasing contracts which have benefited vendors and Arapahoe County.

THERESA M. Chappell, CPPB is a Senior Purchasing Agent with the Arapahoe County Finance Department in Littleton, Colo.



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CONSISTENTLY LEADING THE WAY...

IN DEPTH [scandal]

Scandal



Scandal

When scandal hits, local governments have to act with transparency and integrity to ensure the bond of trust shared with the community isn't forever broken

By Derek Prall



In local government, its of the utmost to act with integrity and honesty. However, our governmental systems and the people who participate in them are fallible and mistakes are inevitable. Sometimes these mistakes are innocent but sometimes there are nefarious intentions behind lapses in moral and ethical judgment. When these scandals come to light, it's important that officials act decisively, transparently and authoritatively – taking appropriate action to right the ship. When handled properly, a besmirched administration can gain back the trust it lost through a scandal, but if handled poorly, trust in the community can be fundamentally broken, undermining the authority of the entire government.

It's a difficult line to walk, but one of the easiest ways to manage scandal is to prevent incidents from happening in the first place. That's why it's critically important that government agencies have a strong moral compass and a well-defined code of ethics.

ACTING ETHICALLY

First adopted in 1924, the International City/County Management Association's (ICMA) code of ethics sought to put an end to the corruption that was rampant at the turn of the 20th century when machine politics and pay-to-play arrangements were the norm.

“The code of ethics describes what our responsibilities are to the community we serve, what our responsibilities

IN DEPTH [scandal]

are to the elected officials we serve, and what our responsibilities are to each other as a profession,” says Martha Perego, ICMA’s director of ethics.

She goes on to explain that at the time, one of the key values of the code of ethics was the concept of political neutrality. This idea is just as important today as it was back then. “The dysfunction that happened in local government before the reform movement was that it was pay-to-play. You got your job based on who you were connected with and you weren’t necessarily qualified,” Perego says. ICMA’s code of ethics states those who work or serve in government won’t work to get others elected.

Today this type of corruption is, thankfully, less widespread in government, Perego says. “For the most part if you think about local government now, the vast majority of them have regular audits, they are hiring professional people at all stages of the operation, a lot of these people are required to pass certifications and be credentialed in their own field,” Perego says. As the occupation has become more professional, the big cases of theft and embezzlement have become fewer.

In the modern age, however, ethical quandaries have more to do with personal and professional conflicts of interest. “A lot of these are appearance issues,” Perego says. “It’s not that someone is corrupt, it’s not that someone is trying to gain personally. They may be doing something that they aren’t aware of or they have a relationship or are entering into a relationship that will somehow create a conflict of interest for them, and they don’t manage it properly.” Generally speaking,

there is a potential for a conflict of interest any time an individual’s personal life intersects with their professional life.

More often than not, Perego says, ethical dilemmas are created when these conflicts of interest aren’t recognized. When the facts of the supposed conflict are released, it creates the appearance of wrongdoing, even if no wrongdoing ever took place. Compounding the issue is the idea that ethics and legality are two different things. Just because something is legal, Perego explains, doesn’t mean it’s ethical. This is why it’s crucial for ethical issues to be taken seriously, and for public servants and employees to understand them intimately.

Ethical action starts with the individual, Perego says. It’s important to personally understand where obligations lie, and

If you really want to change the culture of your organization, and you really want to minimize the opportunity for someone to do something that’s going to cause you embarrassment, then you need a multi-pronged strategy



in the public sector, those obligations are to the community being served. Second, it's important to understand organizational values. It's incumbent upon the government as a whole and each agency to define what those values are and communicate what they look like, Perego says. Third, these values should be reinforced through training. This training should demonstrate the importance of the organization's ethical standards and how they are demonstrated in the day to day. "You do training," she says. "You talk about your code, you talk about your values on a regular basis. Your code of ethics isn't just something that's hanging on your wall, it's something you're talking about all the time."

One way to start this conversation is by performing an ethics audit, Perego says. Ask if individuals feel encouraged to raise ethical concerns and, if they have concerns, do they know where to take them. Ask if they feel confident that their supervisors or directors are making ethical decisions. This cultural assessment can paint a clear picture of where an organization stands ethically, and expose risks for unethical behaviors.

However, if an organization is to be held to a high ethical standard, leadership buy-in is absolutely critical. "If people at the leadership level don't care about ethics, the likelihood that [those leaders] are going to influence

the behavior of people in the organization is very small," Perego says. "If I see my boss doing things that are unethical, or if that's the culture – you cheat, you get ahead – then how would I be encouraged to do the right thing?"

Organizational ethics is not a static concept, Perego says. It should be active and evolving. "If you really want to change the culture of your organization, and you really want to minimize the opportunity for someone to do something that's going to cause you embarrassment, then you need a multi-pronged strategy," she says.

Unfortunately, even with a robust ethics posture in place, failure can still occur. Regardless of intention, ethical and legal problems are likely to arise, which is why it's important to have a plan for managing scandal.

MANAGING SCANDAL

Stephanie York, vice president of Hennes Communications, is no stranger to handling scandals. Her firm works with the private, public and non-profit sectors to help prepare for and manage crisis. Additionally, York served as the director of communications for Akron, Ohio, during a particularly turbulent time in that city's history. "I worked for three mayors in two weeks," she laughs. "After working 23 years with the city of Akron, that's what people know me for."

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York says there are three scenarios in scandal management. The first, and best possible situation, is full preparation.

Scandals may seem unpredictable, but there are archetypes, York says, that have been occurring throughout history. Sex scandals and financial mismanagement are two of the most common.

York adds there are also vices that usually accompany these scandals, such as drinking or drug use that can be red flags. Additionally, an individual's temperament can be indicative of their potential to create a scandal. Hot tempers and propensities for outbursts are clear warning signs.

"Before any scandal happens, you can do what's called a vulnerability audit," York says. By taking account of all potential risk factors, "you can create a crisis plan for any one of these scandals that could possibly happen." This plan should include what will be communicated, who will be communicating, and who they will be communicating with, both internally and externally. When scandal hits, no time will be wasted organizing a strategy. Unfortunately, this type of preparation is rare, York says. Most organizations don't start planning until they are mired in scandal.

The second scenario is that an organization knows about an issue before the public. In this situation, it's important to own the story and communicate the organization's message clearly and authoritatively. "In this case, you break the news, you say 'Here's what happened, and here's what we're going to do so it doesn't happen again,'" York says. The temptation often is to fix the problem internally and not address it publicly; however, this is a dangerous line to walk. Should the story get out, the cover-up could become more salacious than the initial incident. If something happens, York says, it's best to confess, but quickly pivot the message to the solution that was applied.

The third, and worst-case scenario is that scandal breaks and it's been reported. "In this case, we tell our clients to tell the truth, tell it all and tell it first," York says. "You get that out there in the first news story, you respond – never say no comment – tell everything that you're morally, legally and ethically able to tell."

York's perspective is unique, in that these principles were learned from the governmental side. The lessons she learned managing scandals in Akron she applies to her clients today. One of the most critical principles she learned, she says, was getting the city's message out first. In one particular case, she says, the city waited much too long and was unable to control the message. "We had a good story, we had a truthful story," she says, "but we just didn't get it out quickly enough – we didn't control the message. I learned a lot from that experience."

Taking from that experience, York was able to handle the next crisis more appropriately. An issue occurred involving the mayor, and the day the story broke, York coordinated a press conference. In front of the community and his colleagues, the mayor showed true contrition over what had transpired. Although the incident ultimately resulted in

the mayor's resignation, by reacting quickly and sincerely, the scandal was neutralized. "After he had some time to reflect, he decided to step down," York says, "but I think he could have gone on to lead the city after that because he had come out and been completely honest and truthful."

It's not the act itself that's damning, York adds, it's what you do after the act that determines your legacy.

THE TRUST BANK

Scandal can hit at any time, and come from a multitude of avenues. That's why it's important to have a plan in place and to be able to respond to any number of potential problems. Gwinnett County, Ga., recently had to put their scandal management plan to the test when Commissioner Tommy Hunter took to social media with some personal opinions to which many of his constituents took offense. The media ran with the story, which became national news.

Gwinnett County Board of Commissioners Chairman Charlotte Nash says that the county has had an ethics policy in place for decades, and it was most recently put to the test with the Hunter incident. She explains that an ethics panel of independent community stakeholders is put in place for every complaint that necessitates review, as was the case with Hunter. While the ethics panel investigated, though, Nash says her primary focus was rebuilding trust in the community.

Trust is like a savings account, and the withdrawal, Nash says, is a lot quicker than the deposit. "You have to constantly be putting something in that savings account," so when a scandal breaks, you'll be able to draw on the community's respect and support. This trust was rebuilt, she says, through a series of hearings where the public was invited to have their concerns heard, as well as clear communication through media channels about what was being done about the issue.

Throughout the scandal with Hunter and his social media posts, Nash says the county and the community learned several lessons. The most apparent was to be more clear about the limitations of the ethics policy. In matters that are not criminal, the harshest penalty for a county official is a public reprimand. Many in the community were not satisfied with this, and felt that the board should move to remove Hunter from his position – a dangerous territory, Nash says. Open communication about what the board could and couldn't do from the start would have saved a lot of frustration.

Additionally, compounding the confusion surrounding the issue, Hunter didn't directly violate any concrete policy in his actions. Nash says the ethics policy, as it is written, has more to do with serious financial violations and corruption, not decorum and decency. "This was really about the line between personal and professional, and the good of the county."

Ethics often exists in the gray areas, and it's up to government leadership to take decisive action when problems arise. The board of commissioners voted unanimously to reprimand Hunter in late June. The Commissioner respectfully declined to participate in this story.

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It all adds up

> **O**ver the years I have seen cost savings calculated in a number of different ways. Since it is often a measurement of how well procurement is doing, the amount of dollars saved is looked at closely by leading agencies around the country.

A couple of great examples are the City of Naperville, Illinois and Rockland County, New York. Both have publicly shared their cost savings, with the latter actually posting a profit-loss (P/L) for its procurement department. While these efforts are admirable, there is really no single method that public procurement uses to calculate cost savings.

Is it the lowest bid compared to the highest? The budgeted amount vs. the actual contract award? Or possibly how this year's purchase price stacks up against last year's? After spending the last two years in the University of California's procurement world, I would like to share the UC methodology.

For the past 5 years, all ten UC campuses and the Office of the President have diligently tracked cost savings. This was part of an initiative called Procurement-200 that looked to achieve \$200 million in documented cost savings annually. By the way, UC exceeded the goal a year early. Here are the categories that UC uses:

Cost Reduction – Achieved when a procurement action results in a reduced cost for a good or service as compared to a baseline cost. Example: Buyer negotiates a deeper discount with a supplier for computer hardware, as compared to their original quotation.

Cost Avoidance – Achieved when a procurement action results in avoidance of additional costs to the campus, such as a price increase that is lower than what is allowed by contract. Example: Elevator maintenance contract allows for a 3 percent increase annually; buyer initiates a negotiation with the contractor and the parties agree to a 1.5 percent increase.

Incentives – Achieved when a procurement action results in some type of financial incentive, often on an annual basis. Example: An RFP for a bank card program establishes a new agreement that provides an annual rebate based upon procurement volume.

Revenue – Achieved when a procurement action results in creation of a new revenue stream for the institution. Example: Buyer leads an RFP process that results in contract for student laundry services and school receives a percentage of the monthly revenue.

All campuses utilize a system called Benefit Bank to track their benefit achievements as they work toward a common goal. The system was developed specifically for this purpose. Erin Riley, UC's director of systems and analytics, stresses "to ensure accuracy and wide-spread acceptance, it was critical that we create a robust, comprehensive and consistent benefit validation process across the system."

Building on the success of P200, UC is taking its benefits program to the next level in a new initiative called Supply Chain 500. As the name implies, the program

will seek to achieve \$500 million in annual savings within five years.

The UC procurement system and its cost savings methodology were recognized at the World Procurement Awards in 2016 and 2017. Additional recognition has come in the form of imitation (the greatest form of flattery), as several other higher education institutions have adopted the "UC way". It is also the recommended cost savings methodology by the Educational and Institutional (E&I) Cooperative. More recently, the Dutch government expressed interest in the methodology after seeing my presentation at the International Research Study on Public Procurement.



DARIN MATTHEWS, FNIGP, CPPO, CPSM, is the director of procurement for the University of California, Santa Cruz. He has extensive management experience, speaks throughout the world on procurement issues, and has published several books and articles on supply chain management. Contact Matthews at darin@ucsc.edu



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