



## *Office of the Performance Audit Director*

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333 W. Santa Ana Blvd., Santa Ana, CA 92701

June 17, 2014

Honorable Board of Supervisors:

Transmitted herewith is the performance audit report of Countywide Purchasing. The main objective of this audit was to evaluate the operational performance of the County Procurement Office (CPO) to determine whether management and staff are effective and efficient in accomplishing their business objectives.

Brian Rayburn, the lead auditor of this project, has spent several months reviewing policies and procedures, interviewing staff, analyzing data, as well as benchmarking and researching best practices to identify improvement opportunities for the County's purchasing function.

Our overall conclusion is that under the leadership of the new County Purchasing Agent, who was appointed in 2013, the CPO is making progress towards achieving operational effectiveness and efficiency. This audit report contains thirty (30) recommendations that will allow the CPO to continue this progress in the areas of staff training, contract management, standardization of procurement procedures, data analysis, and coordination of countywide purchasing.

My office will schedule a formal follow-up to this audit in 2015. We would like to acknowledge and thank the management and staff for their cooperation during the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Philip Cheng".

Philip Cheng  
Performance Audit Director

cc: Mike Giancola, County Executive Officer  
Frank Kim, Chief Financial Officer

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## **Performance Audit of Countywide Purchasing**

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**Final Report (#131404)**

June 17, 2014

Office of the Performance Audit Director  
County of Orange, California

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## I. Executive Summary

The Office of the Performance Audit Director completed an audit of countywide purchasing, which was part of the Work Plan approved by the Board of Supervisors. The main objective of this audit was to evaluate the operational performance of the County Procurement Office (CPO) to determine whether management and staff are effective and efficient in accomplishing their business objectives.

The audit team conducted a detailed review and analysis of the County's purchasing activities with an emphasis on the CPO's role in developing and implementing countywide procurement policies and procedures and ensuring that County agencies/departments are in compliance with these guidelines. The audit team performed the following audit procedures:

- Reviewed County policies and procedures, contracts, invoices, and Agenda Staff Reports (ASRs);
- Interviewed County staff involved in purchasing activities and other key stakeholders;
- Surveyed County agencies/departments;
- Researched procurement best practices and benchmarking data; and
- Analyzed transaction data from CAPS+, County vendors, and other sources.

Our overall conclusion is that the CPO is making progress towards achieving operational effectiveness and efficiency of countywide purchasing. The report contains thirty (30) audit recommendations that will allow the CPO to continue this progress in the areas of staff training, contract management, standardization of procurement procedures, data analysis, and coordination of countywide purchasing. These recommendations include:

- Updating the Contract Policy Manual (CPM) every two years;
- Developing a comprehensive Procurement Procedures Manual;
- Improving enforcement of certification requirements for Deputy Purchasing Agents (DPAs);
- Developing and tracking Key Performance Indicators;
- Taking steps to increase utilization of the Cal-Card Program;
- Actively monitoring utilization of Regional Cooperative Agreements;
- Identifying strategic sourcing opportunities; and
- Coordinating implementation of procurement-related IT systems.

The complete list of recommendations can be found on pages 34-38.

The audit team would like to thank the CPO staff for their cooperation throughout this process. We would also like to express our appreciation to agency/department staff for their valuable feedback.

## II. Introduction

### A. Audit Objectives

This audit of countywide purchasing was part of the Work Plan for the Office of the Performance Audit Director approved by the Board of Supervisors.

The main objective of this audit was to evaluate the operational performance of the County Procurement Office to determine whether management and staff are effective and efficient in accomplishing their business objectives.

### B. Scope of Work

The scope of this audit included the key activities of the County Procurement Office (CPO). The CPO is the primary entity tasked with developing and implementing countywide procurement policies and procedures and ensuring that County agencies/departments are in compliance with these guidelines. As such, significant value could be gained from a thorough review of the CPO's operations.

This audit did not attempt to answer the question of whether decentralized or centralized procurement is the better approach. Rather, our focus was to determine whether existing policies and practices allow the CPO to effectively meet its stated mission:

*To provide leadership in procurement through effective teamwork, communication, training and oversight to ensure a procurement process that is fair, cost effective and efficient and in accordance with Board policy and state and local laws.<sup>1</sup>*

### C. Audit Methodology

We conducted this audit in accordance with generally accepted government auditing standards, which require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained in this audit provides a reasonable basis for our findings and conclusions.

To achieve the audit objectives, we performed the following audit procedures:

- Reviewed County policies and procedures, contracts, invoices, and ASRs;
- Interviewed County staff involved in purchasing activities and other key stakeholders;
- Surveyed County agencies/departments;
- Researched procurement best practices and benchmarking data; and
- Analyzed transaction data from CAPS+, County vendors, and other sources.

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<sup>1</sup> 2013 Operational Plan. CPO.

## III. Background

### A. Overview of County's Procurement Practices

At the County of Orange, agencies and departments are primarily responsible for meeting their own purchasing needs. Countywide purchasing activities, which were centralized within the General Services Agency (GSA)<sup>2</sup>, were largely decentralized in the 1990s.

By California statute, the Board of Supervisors has the authority to delegate certain purchasing-related duties. The Contract Policy Manual (CPM) is the primary document that governs the policies and procedures related to this delegated authority. It outlines the general responsibilities of the County Purchasing Agent (CPA), procurement-related rules and procedures, details on types of contracts, and applicable methods of solicitation.

The CPA, with the support of the County Procurement Office (CPO), provides oversight to agencies/departments in the areas of policy compliance and training of approximately 250 certified Deputy Purchasing Agents (DPAs).<sup>3</sup> Agency/department employees who receive specialized training from the CPO and are deputized as DPAs by the CPA are the only employees authorized to execute certain types of contracts on behalf of the County. According to the CPM, the Board has designated the authority to execute all contracts for goods and services to the CPA with the exception of Real Property Contracts, Human Service Contracts, and Public Works Contracts. Authority to execute these three contract types has been delegated to the respective agencies/departments.<sup>4</sup>

### B. Purchasing Spend and Statistics

Based on data provided by the CPO, the County spent approximately \$3.4 billion between FY 2011 and FY 2013 for various goods and services.<sup>5</sup> Human Service Contracts, Service Contracts, and Public Works Contracts made up over 80% of all contract spend over this period.

Purchasing Contract Type	FY 2011	FY 2012	FY 2013	Total (\$)	Total (%)
HUMAN SERVICE	\$306,218,344	\$374,295,765	\$448,041,867	<b>\$1,128,555,976</b>	<b>33.1%</b>
SERVICE	317,790,105	385,184,935	365,988,738	<b>1,068,963,779</b>	<b>31.4%</b>
PUBLIC WORKS	201,770,793	147,172,578	229,186,752	<b>578,130,123</b>	<b>17.0%</b>
COMMODITY	61,518,960	73,549,743	81,997,991	<b>217,066,694</b>	<b>6.4%</b>
LEASE	47,349,913	59,397,006	63,875,787	<b>170,622,706</b>	<b>5.0%</b>
ARCHITECT-ENGINEER	37,840,608	38,735,762	50,433,754	<b>127,010,125</b>	<b>3.7%</b>
HYBRID*	32,470,126	39,408,451	40,472,397	<b>112,350,975</b>	<b>3.3%</b>
REVENUE	24,517	952,876	2,043,063	<b>3,020,456</b>	<b>0.1%</b>
RENTAL	239,145	158,708	294,240	<b>692,092</b>	<b>0.0%</b>
<b>Grand Total</b>	<b>\$1,005,222,512</b>	<b>\$1,118,855,825</b>	<b>\$1,282,334,590</b>	<b>\$3,406,412,926</b>	<b>100.0%</b>

\*Hybrid contracts are contracts for both commodities and services.

<sup>2</sup> The General Services Agency (GSA) no longer exists as a result of reorganization.

<sup>3</sup> Many DPAs are not full-time buyers and have other roles and responsibilities not related to purchasing.

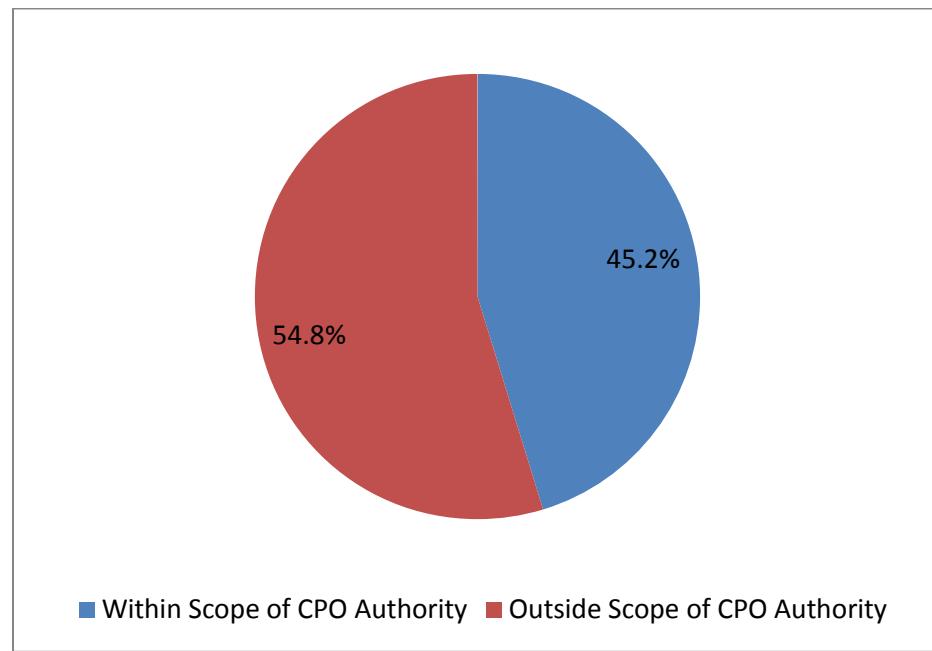
<sup>4</sup> CPM. §1.1

<sup>5</sup> CAPS+ data on purchasing spend for FY 2011 through FY 2013 was provided by the CPO.

Of this \$3.4 billion, approximately \$1.5 billion (45.2%) was within the scope of CPO authority as shown in the following table.

Contract Type	Within Scope of CPO Authority	Outside Scope of CPO Authority	Total
HUMAN SERVICE	-	\$1,128,555,976	\$1,128,555,976
SERVICE	1,068,963,779	-	1,068,963,779
PUBLIC WORKS	-	578,130,123	578,130,123
COMMODITY	217,066,694	-	217,066,694
LEASE*	11,737,677	158,885,029	170,622,706
ARCHITECT-ENGINEER	127,010,125	-	127,010,125
HYBRID	112,350,975	-	112,350,975
REVENUE	3,020,456	-	3,020,456
RENTAL	692,092	-	692,092
<b>Total (\$)</b>	<b>\$1,540,841,798</b>	<b>\$1,865,571,129</b>	<b>\$3,406,412,926</b>
<b>Total (%)</b>	<b>45.2%</b>	<b>54.8%</b>	<b>100.0%</b>

\*CAPS+ data does not breakout "Real Property" contracts. The audit team estimated the value of real property-related "Lease" contracts using Object Code Descriptions.



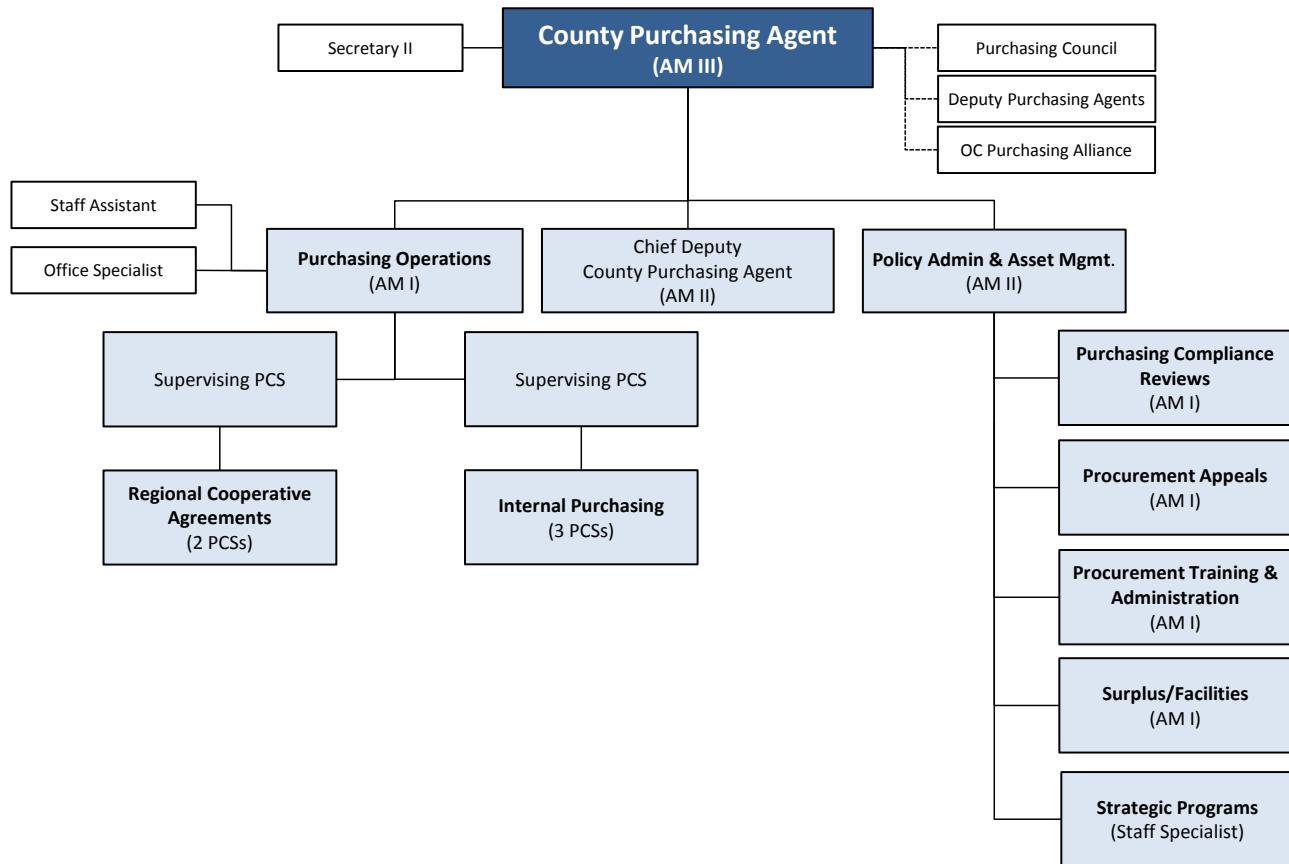
While the CPA is not authorized to execute certain contract types, the CPA does provide periodic compliance monitoring of all contract types for all agencies/departments.<sup>6</sup>

## C. The County Procurement Office

The CPO has 19 positions and an annual budget of \$2.2 million for FY 2014. The CPO is organized into two main groups: (1) Purchasing Operations, and (2) Policy Administration & Asset Management, as shown in the organizational chart below. In 2013, the County Executive Officer appointed a new CPA, who has initiated various organizational and operational changes.

<sup>6</sup> 2012 Contract Policy Manual (CPM). §1.5-103.

## County Procurement Office



## Recent Audits and Initiatives

Since October of 2012, there have been four reviews and subsequent reports related to various aspects of the CPO's operations and countywide purchasing activities.

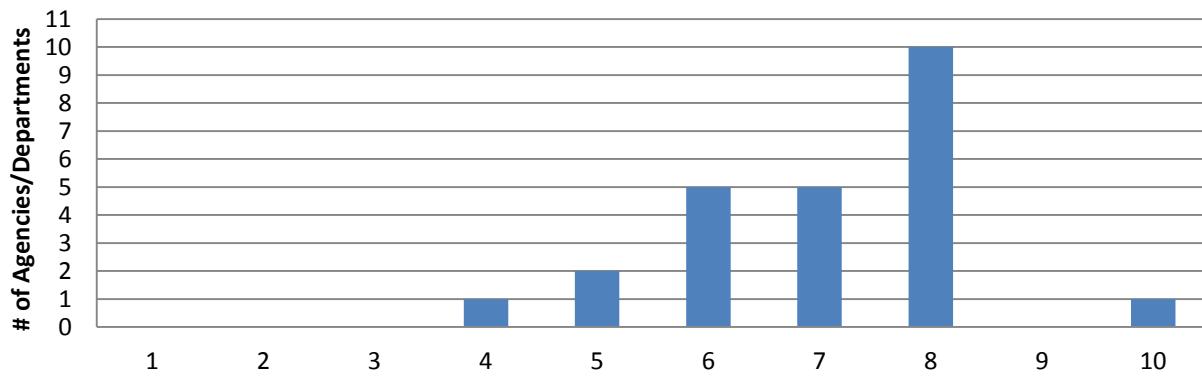
- *Utilizing a “Lean” Systems Redesign Process to Improve the Effectiveness and Efficiency of the County Procurement Office Compliance & Best Practice Review Program.* County Executive Office (October 2012).
- *Internal Assessment of the County Procurement Office.* CEO/County Procurement Office (Draft November 19, 2013).
- *Purchasing Card Audit Using Computer-Assisted Audit Techniques (CAATs): County Executive Office/County Procurement Office.* Internal Audit Department (November 26, 2013).
- *Utilizing a “Lean” Systems Redesign Process to Improve the Effectiveness and Efficiency of the County Payment of Invoice Process.* County Executive Office (Draft - January 2014).

## IV. Audit Results

During the audit, County agencies/departments were surveyed for information that included how each agency/department viewed the purchasing process. The chart below summarizes the 41 responses to

the question regarding satisfaction level.<sup>7</sup> The average score was 7 on a scale of 1 to 10, with a low score of 4 and a high score of 10.

**Q2. On a scale of 1 to 10, how satisfied are you with the purchasing process (1 is extremely dissatisfied and 10 is extremely satisfied)?**



Additionally, agencies/departments provided feedback regarding areas that should be considered as part of this audit. The most common issue identified in the responses was that interpretations of and changes to the CPM and other countywide purchasing policies and procedures are not always communicated in an effective and efficient fashion.

## A. Procurement P&Ps and Knowledge Sharing

### Contract Policy Manual (CPM)

Although the CPM is periodically reviewed and updated, there is no formalized process or schedule for these updates. Most recently, the CPM was updated and approved by the Board of Supervisors in 2007 and 2012. In 2007, the update process was led by a subcommittee of the Board of Supervisors, which prepared a revised draft and recommended it to the full Board for approval. During the 2012 update, the changes to the CPM were developed by the County Procurement Office, with input from impacted agencies/departments, and ultimately approved by the Board.

Based on staff interviews and surveys, there is general consensus that certain parts of the CPM are vague, confusing, or incomplete. And, because there is no standardized process for updates, and updates have occurred rather infrequently, these deficiencies have been allowed to persist. Issues with the existing version of the CPM either are addressed by memorandum or simply remain unaddressed until a new draft is created. Below are some examples:

<sup>7</sup> Results for OCPW, which submitted 18 responses, were aggregated to provide a single average departmental score.

- Several inquiries related to policy regarding contract cost increases (§3.3-111(2)) were clarified by memo dated December 12, 2013.
- Sections are unclear and contain typos (e.g., §4.1-110, §3.5-112).
- Section regarding Architect-Engineer Contracts conflicts with State of California regulations (§3.5-107).

At times, DPAs and other staff have difficulty interpreting County policy regarding procurement, which may lead to financial and operational mistakes. The CPO can do a better job providing clear, concise direction to DPAs and other County staff regarding procurement-related policies and activities.

**Recommendation 1. The County Purchasing Agent should review and update the Contract Policy Manual at least every two years for approval by the Board of Supervisors. Language regarding this formalized review should be incorporated into the next revision of the CPM.**

**Recommendation 2. The County Purchasing Agent should post on the CPO's Intranet website the latest Contract Policy Manual and any relevant policy memos, including County Counsel memos, when appropriate.**

## Procurement Procedures Manual (PPM)

The CPO provides assistance to agencies/departments regarding procurement policies and procedures through a variety of avenues:

- **Procurement policies and procedures.** The CPO is responsible for drafting and implementing new policies and updating existing policies as requested by the Board or CEO.
- **Ask CPO Program.** The CPO provides assistance to all DPAs and any other County employees requiring assistance or interpretation of County purchasing policies via email.
- **CPO's Intranet Site.**
- **Purchasing Council.** Purchasing Managers from each agency/department meet regularly to discuss purchasing issues and make recommendations regarding procurement policies, procedures, and processes.
- **Best Practices meetings.** Regular meetings attended by DPAs are held to discuss best practices in purchasing, view vendor presentations, and disseminate information.

According to agency/department surveys, knowledge sharing can be inconsistent and unreliable. When seeking input on appropriate procurement procedures, DPAs have been told by the CPO that "it's at the agency's/department's discretion." Several respondents indicated that standardized procedures and guidelines would help mitigate confusion.

The CPO currently does not have a comprehensive procurement procedures manual. According to CPO management, creation of such a manual has been identified as a priority and a target date for draft completion has been set for September 2014.

**Recommendation 3.** The County Purchasing Agent should create a comprehensive Procurement Procedures Manual (PPM) and develop formal processes for updating it on a regular basis.

## CPO Intranet

The CPO's Intranet site houses a collection of procurement-related policies, memos, and other information, but the site is difficult to navigate and often contains out-of-date information. For example, while the CPO revised the policy regarding DPA certification and training effective January 1, 2014, as of March 2014, the related DPA Training P&P listed on the website was dated October 2006. The revised DPA training policy has been uploaded to the intranet site and is currently available.

Additionally, the value of the Intranet site would be enhanced if information that was routinely provided to DPAs and Purchasing managers via emails was archived on the Intranet site. For example, as of April 1, 2014, the site did not contain any of the information presented at Best Practices meetings or the Purchasing Council, nor did it contain summaries of findings and best practices from the AskCPO Program or the Annual Compliance Reviews.

Based on discussions with CPO management, reviewing and updating the website has been identified as a priority. Since the start of this audit, the Terms & Conditions section on the site has been updated to include search functionality.

**Recommendation 4.** The County Purchasing Agent should periodically review and update all aspects of the CPO's Intranet website.

**Recommendation 5.** The County Purchasing Agent should make slides and other materials from the "Best Practices" training sessions available for review on the CPO's Intranet site.

**Recommendation 6.** The County Purchasing Agent should track metrics related to P&Ps and knowledge sharing (e.g., AskCPO response times and number of inquiries).

## B. Compliance and Best Practice Review Program

According to the CPM, the CPA is responsible for annual compliance monitoring of the procurement records and processes of all County agencies/departments. These annual compliance reviews should evaluate, on a sample basis, the following performance measures:

- a) compliance with legal and procurement processes outlined in [the CPM];
- b) compliance with Board policy set forth in [the CPM];
- c) cost effectiveness of goods and services acquired;

- d) timeliness of procurement process;
- e) operational efficiencies of processes used; and
- f) other measures as determined by the County Purchasing Agent.<sup>8</sup>

Additionally, an annual report of general findings and potential process changes must be submitted to the County Purchasing Council.

In 2012, the County Executive Office led an effort to revamp the County Procurement Office's compliance review process. The result of this effort was a report entitled *Utilizing a "Lean" Systems Redesign Process to Improve the Effectiveness and Efficiency of the County Procurement Office Compliance & Best Practice Review Program*. Based on this report, significant changes were made to the Program in order to achieve the following outcomes:

- Reduce the time to complete each review from 4-6 months to 4-6 weeks;
- Increase the number of annual audits from an average of six reviews per year to 24 or more reviews per year;
- Provide new opportunities for cross training staff; and
- Allow for the immediate sharing of best practices.

In 2013, the CPO completed 26 compliance reviews. Results of individual reviews were shared with each agency/department and a table summarizing common findings was presented to the Purchasing Council. The information presented did not summarize any identified best practices, procedural changes, or relevant implementation plans.

While the Compliance and Best Practice Review Program is focused on compliance with County policy, its review forms and countywide deliverables do not address identified best practices or several of the performance measures outlined in the CPM (e.g., cost effectiveness of goods and services acquired, timeliness of procurement process, and operational efficiencies of processes used).

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<sup>8</sup> CPM. §1.5 COMPLIANCE MONITORING.

**Recommendation 7.** The County Purchasing Agent should maintain a database of all compliance review findings and related recommendations, including quantitative and qualitative summaries by agency/department that should be included in the CPO's annual report of operational performance.

**Recommendation 8.** The County Purchasing Agent should update the CPM to reflect the significant changes made to its compliance monitoring program for approval by the Board of Supervisors.

## C. Certification and Training of Deputy Purchasing Agents

According to the CPM, employees of the County of Orange must be deputized as Deputy Purchasing Agents (DPAs) to purchase goods and services on behalf of the County.<sup>9</sup> The County Purchasing Agent is responsible for setting the criteria for achieving and maintaining DPA certification.

Through 2013<sup>10</sup>, County DPAs were required to (1) complete two intermediate training modules per year and submit proof of completion, and (2) successfully pass the DPA Certification Exam with a minimum score of 80% every two years. Based on the practice as of December 2013, DPAs were required to complete four hours of purchasing training annually.

In 2013, 244 County DPAs completed a total of 797.5 training hours during that year, which corresponds to an average of 3.3 hours per DPA. Based on a review of data provided by the CPO: (a) 48% of all DPAs (116) did not meet the requirement of four hours of purchasing training per 12-month cycle, (b) 11% of DPAs (27) had not passed the recertification exam within the required timeframe, and (c) 10% of DPAs (24) met neither requirement.<sup>11</sup>

Our review indicated that ineffective enforcement of training requirements and limited CPO-facilitated training opportunities contributed to the non-compliance rates summarized above. As noted in several interviews and survey responses, encouraging and enforcing training requirements was not a priority for CPO over the last several years.

Additionally, a review of data available through CAPS+ Data Warehouse identified several employees listed as buyers for various commodities and services who are not listed as certified Deputy Purchasing Agents. For example, in FY 2013, three non-DPA employees were listed as buyers for over \$20 million in commodities and services.

<sup>9</sup> CPM. §1.1-106 Delegation of Authority & §1.1-107 Authority to Procure.

<sup>10</sup>The CPO's training policy was effective from October 1, 2006, through December 31, 2013, and was revised subsequent to the start of this audit. Discussion of the revised policy effective January 1, 2014, can be found on the next page.

<sup>11</sup> Analysis based on data provided by the CPO.

The existing method of tracking training of DPAs, an Excel spreadsheet that lacks summary data, could be improved to better track the status of DPAs' progress. This spreadsheet, which is circulated to purchasing managers monthly, is unclear and difficult to follow.

#### **Revised Training Requirements**

Effective January 1, 2014, the CPO increased the number of required training hours for DPAs from four hours per 12-month period to ten hours per calendar year. To assist employees in meeting the training requirement, the CPO has scheduled twelve DPA Best Practices meetings in 2014. Given the significant increase in the training requirement, it will be critical for CPO staff to diligently monitor and enforce this annual requirement.

Additionally, the CPO has created two certification levels, one for employees who have purchasing-related duties and one for "non-buyers." The latter group will receive a "Certificate of Participation" for completing the training but not be required to take the test.

**Recommendation 9. The County Purchasing Agent should routinely monitor the list of "buyers" in CAPS+ and take steps to ensure compliance with §1.1-106 Delegation of Authority of the CPM.**

**Recommendation 10. The County Purchasing Agent should take appropriate steps to encourage countywide compliance with DPA training requirements, including, but not limited to, granting formal 6-month extensions of DPA certificates to all non-compliant DPAs, during which time an employee must fulfill all the requirements, and, if necessary, taking steps to formally revoke DPA status.**

**Recommendation 11. The County Purchasing Agent should update the format of the Master DPA List (e.g., summarize by agency/department, include DPA's CAPS+ Name and ID) to make it easier for management to identify those not in compliance. This information should be tracked and published on an annual basis.**

## **D. Key Performance Indicators (KPIs)**

The CPO adheres to an Operational Plan that consists of a variety of procurement-related activities and programs. This Operational Plan is based on: (1) the CPO's mission "to provide leadership in procurement through effective teamwork, communication, training and oversight to ensure a procurement process that is fair, cost effective and efficient and in accordance with Board policy and state and local laws," and (2) the CPO's primary goals below, which "were developed to convey the value that [the] office provides to the CEO and County agencies and departments."<sup>12</sup>

<sup>12</sup> 2013 Operational Plan. CPO.

*Goal 1: Support the County Executive Office in implementing Board of Supervisors policy pertaining to county procurement in order to maintain a procurement process which is fair, cost effective and efficient.*

*Goal 2: Provide safeguards for maintaining a procurement system of quality and integrity in order to obtain the most value for every tax dollar spent.*

*Goal 3: Provide quality service and education through effective teamwork and communication.*

*Goal 4: Promote participation in professional development organizations focused on advancing the purchasing profession and communicate this to DPA's, administrators, officials and the public.<sup>13</sup>*

To determine whether the CPO is successfully fulfilling its mission and achieving these goals, it must first determine how to measure its performance and progress in achieving them. Tracking Key Performance Indicators (KPIs) is a best practice for measuring performance; however, as of April 2014, the CPO does not have any KPIs. CPO management did indicate, however, that it is currently in the process of identifying, evaluating, and establishing potential KPIs.

The CPO has access to a variety of data via CAPS+, other County systems, and vendor reports that could form the basis for relevant KPIs that would allow the CPO to evaluate (1) the effectiveness of its various activities and programs and, in turn, (2) whether it is fulfilling its mission and meeting its primary goals. Using currently available data, the CPO should be able to track and publish the following potential KPIs:

- Purchasing activities (e.g., amount and number of contracts)
- Compliance review results (e.g., percentage in compliance, number of findings)
- RCA performance data (e.g., total spend, number of active contracts, number of renegotiated contracts, top vendors)
- Number of DPAs and their purchasing statistics
- Percentage of DPAs in compliance with certification requirements
- Percentage of DPAs in compliance with training hours requirements
- Customer Satisfaction Survey results
- Number of and response time to agency/department inquiries
- Cal Card transaction and rebate data
- Surplus Program statistics (e.g. revenue by agency/department, destination of items)

Such KPIs related to the County's various procurement activities would be relevant and useful information for many other County stakeholders.

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<sup>13</sup> 2013 Operational Plan. CPO.

**Recommendation 12. The County Purchasing Agent should establish, track, and report Key Performance Indicators relevant to the CPO's mission and primary operating objectives.**

## E. Cal-Card Program

The County's Cal-Card Program (also known as the Purchasing Card Program and the P-Card Program) is a program managed by the CPO that allows authorized staff to make purchases on behalf of the County using individual credit cards. The goal of the Cal-Card Program is to streamline the purchasing process for small dollar purchases by eliminating the need for purchase orders and by reducing the number of vendor payments. The program was established by the State of California and is administered by U.S. Bank. Proper utilization of the Program can result in savings to the County through (1) Cal-Card rebates, (2) reduced transaction processing times and expenses, and (3) opportunities for strategic sourcing.

In 2009, the National Institute of Governmental Purchasing (NIGP) was hired to evaluate business processes and practices of the County's procurement program and related systems. That review found that "Orange County is not using the Cal-Card (purchasing card) to the fullest extent possible, and there is confusion among departments regarding the Cal-Card's role in the procurement cycle."<sup>14</sup> Based on the recommendations of that review, in May 2010, the Board of Supervisors authorized the CEO and Auditor-Controller to make necessary changes to the Cal-Card System "to ensure that the County's P-Card Program provides maximum benefit to the County." Since that time, the utilization of the program has increased modestly. Total volume increased from \$5.6 million in FY 2009 to \$6.3 million in FY 2011 and to \$7.6 million in FY 2013.<sup>15</sup> While utilization has increased in recent years, the County's program remains underutilized relative to the utilization by other comparable county governments.<sup>16</sup> Based on recent Cal-Card transaction data, some of the most common merchant categories included wholesale trade, airline, and office services.

<sup>14</sup> PROCUREMENT POLICY STUDY - The County of Orange, California. National Institute of Governmental Purchasing (NIGP). 2009.

<sup>15</sup> 2009 NIGP Report and data provided by CPO.

<sup>16</sup> Comparable Cal-Card usage data for various California counties is reviewed later in the section.

Merchant Category (Oct 2012 - Oct 2013)	Total Spend (\$)	Number of Transactions
WHOLESALE TRADE	\$2,001,958	4,480
AIRLINE	846,465	2,491
OFFICE SERVICES	838,118	1,582
BUSINESS EXPENSES	822,850	2,117
OTHER	799,316	2,205
OFFICE SUPPLIES	612,299	2,564
HOTELS	292,974	861
BUILDING SERVICE	247,710	364
MRO SUPPLIES	241,730	581
MAIL/TELEPHONE	239,508	540
VEHICLE EXPENSE	149,538	624
EATING/DRINKING	101,462	856
RENTAL CARS	94,548	148
OTHER TRAVEL	81,414	2,469
AUTO/RV DEALERS	62,181	246
MEDICAL	27,600	79
RETAIL SERVICES	150	1
<b>Total</b>	<b>\$7,459,822</b>	<b>22,208</b>

## Security Concerns

Concern and confusion regarding security and fraud potential have been cited as reasons why the program has not been more fully utilized. The 2009 NIGP report notes that “the perceived risk of fraud or misuse with a Cal-Card Program is not reality” and that the “controls implicit within [Cal-Cards] serve as an effective control and monitoring mechanism.” In November 2013, the Internal Audit Department completed a Computer-Assisted Purchasing Card Audit of over 20,247 transactions totaling \$7.5 million and had no significant control findings in any of the following areas: card management, merchant management, transaction analysis, and segregation of duties.<sup>17</sup> Based on the Internal Audit Department’s audit, the County’s Cal-Card Program has adequate controls and can be effectively monitored using available audit programs and techniques. Subsequent to that audit, CPO management indicated that it plans to utilize the Internal Audit Department’s Computer-Assisted Audit Techniques (CAATs) in order to more actively monitor transaction data.

## Process Concerns

Another concern regarding the program was the belief that the payment process for a Cal-Card transaction was more cumbersome than a purchasing order transaction. The CPO is currently rolling out an electronic Cal-Card system that utilizes the online functionality of U.S. Bank’s systems (the County’s Cal-Card Program service provider). The system reduces transaction time by utilizing electronic workflows and improves report creation. Four agencies were part of a pilot for an electronic Cal-Card system in 2013. Countywide rollout of this program is expected to be completed in 2014.

## Benchmarking Analysis

The tables and chart below summarize transaction and rebate data for the top counties in the State based on Cal-Card transaction volume.<sup>18</sup> Of this group, Orange County ranks 2<sup>nd</sup> in FY 2013 total

<sup>17</sup> *Purchasing Card Audit Using Computer-Assisted Audit Techniques (CAATs): County Executive Office/County Procurement Office*. Internal Audit Department (November 26, 2013).

<sup>18</sup> California Department of General Services & select Comprehensive Annual Financial Reports (CAFRs).

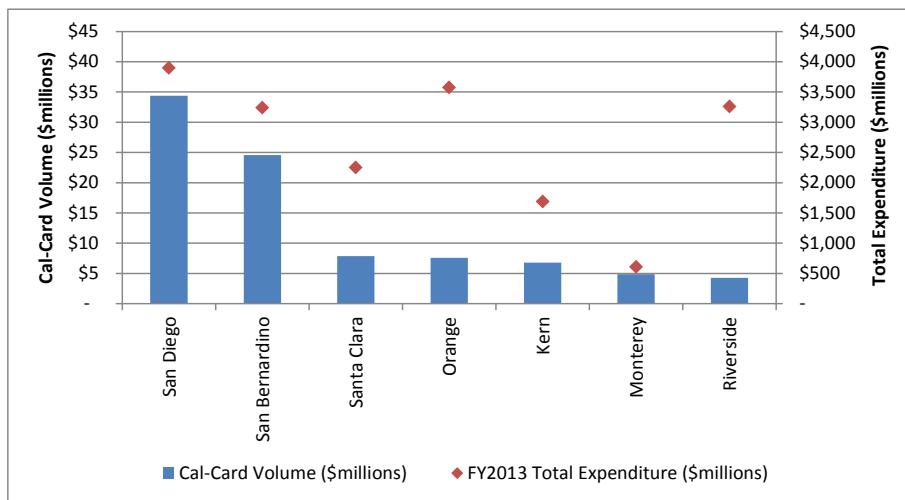
expenditures, yet ranks 4<sup>th</sup> in total CAL-Card volume, 3<sup>rd</sup> in transactions, and 5<sup>th</sup> in total rebates. By comparison, San Diego County, which is slightly larger than Orange County in terms of total expenditure, had more than four times the volume and six times the rebates. Similarly, San Bernardino County, which is slightly smaller than Orange County in terms of total expenditure, had more than three times the volume and four times the rebates.

### Cal-Card Activity for Select Counties (FY 2013)

County	Cal-Card Volume (\$millions)	Transactions (#)	Average Transaction (\$)	CAL-Card Rebate (\$)	FY2013 Total Expenditure (\$millions)
San Diego	\$34,393,246	91,886	\$374	\$298,347	\$3,898
San Bernardino	\$24,564,961	71,186	\$345	\$213,549	\$3,241
Santa Clara	\$7,880,900	21,404	\$368	\$79,471	\$2,251
Orange	\$7,595,088	21,928	\$346	\$48,632	\$3,577
Kern	\$6,777,596	17,280	\$392	\$65,758	\$1,690
Monterey	\$4,886,910	13,267	\$368	\$34,233	\$608
Riverside	\$4,291,540	18,756	\$229	\$26,793	\$3,261

County	Cal-Card Volume (rank)	Transactions (rank)	Average Transaction (rank)	CAL-Card Rebate (rank)	FY2013 Total Expenditure (rank)
San Diego	1	1	2	1	1
San Bernardino	2	2	6	2	4
Santa Clara	3	4	4	3	5
Orange	4	3	5	5	2
Kern	5	6	1	4	6
Monterey	6	8	3	6	10
Riverside	7	5	7	7	3

### Cal-Card Activity for Select Counties (FY 2013)



Source: California Department of General Services; County CAFRs

The audit team estimated the potential savings if the County's utilization rates mirrored those of the top two counties, San Diego and San Bernardino. In addition to saving from rebates, further savings can be realized through reduced transaction costs. The 2009 NIGP Report estimated that "the cumbersome process with the traditional method [of transaction processing] costs \$70 versus a cost of \$20 while using a Cal-Card." The estimated annual savings from rebates and reduced transaction costs, assuming the County achieves the utilization rates of San Bernardino and San Diego, range between \$2.6 million and \$3.7 million, respectively. The savings from rebates alone would be between \$165,000 and

\$250,000. The balance of the savings would come from reduced transaction costs with increased utilization of electronic workflows, as discussed above.

**Potential Annual Savings if Orange County Increases CAL-Card Activity to San Diego Levels**

County	CAL-Card Volume (\$)	Transactions (#)	CAL-Card Rebate (\$)
San Diego	\$34,393,246	91,886	\$298,347
Orange	\$7,595,088	21,928	\$48,632
<b>Difference</b>	<b>\$26,798,158</b>	<b>69,958</b>	<b>\$249,715</b>

"Cost to Procure" Utilizing Purchase Orders	\$70 *
"Cost to Procure" Utilizing Purchase Card	\$20 *
Savings from Purchase Card per transaction	\$50
Net Increase in Transactions	69,958
Savings from reduced transaction costs	\$3,497,900
Increased CAL-Card Rebates	\$249,715
<b>Total Estimated Savings from Increased Activity</b>	<b>\$3,747,615</b>

\* Source: 2009 NIGP Report

**Potential Annual Savings if Orange County Increases CAL-Card Activity to San Bernardino Levels**

County	CAL-Card Volume (\$)	Transactions (#)	CAL-Card Rebate (\$)
San Bernardino	\$24,564,961	71,186	\$213,549
Orange	\$7,595,088	21,928	\$48,632
<b>Difference</b>	<b>\$16,969,873</b>	<b>49,258</b>	<b>\$164,917</b>

"Cost to Procure" Utilizing Purchase Orders	\$70 *
"Cost to Procure" Utilizing Purchase Card	\$20 *
Savings from Purchase Card per transaction	\$50
Net Increase in Transactions	49,258
Savings from reduced transaction costs	\$2,462,900
Increased CAL-Card Rebates	\$164,917
<b>Total Estimated Savings from Increased Activity</b>	<b>\$2,627,817</b>

\* Source: 2009 NIGP Report

County Policy establishes the Cal-Card system limits of \$15,000 per month per Cardholder and \$5,000 per transaction. Based on survey data provided by the CPO of 53 California counties and cities, the County's limits are in the middle of the range.

**Cal-Card Limits for Select CA Counties & Cities**

(n=53)	Transaction Limit	Monthly Limit
25th Percentile	\$1,500	\$5,000
Median	\$2,500	\$15,000
Orange County	\$5,000	\$15,000
75th Percentile	\$5,000	\$50,000

The audit team considered whether adjusting these limits could improve utilization. Both San Diego County and San Bernardino County have higher monthly limits than the County (\$25,000 and \$30,000, respectively). The Cal-Card is a purchasing tool utilized for a small portion of County transactions. The current monthly limit of \$15,000 represents a small percentage of the total monthly spend for some County staff. By increasing the monthly limit, staff would have the ability to complete a larger portion of their monthly transactions using Cal-Card. Based on a review of 18,865 recent Cal-Card transactions, at the County, the average transaction was less than \$400 and less than 1% of them (67 transactions) were

over \$4,000. Therefore, it seems unlikely that utilization would improve significantly with an increase to the per transaction limit.

A review of Accounts Payable data available through the CAPS+ Data Warehouse showed that in FY 2013, the County issued over 21,000 physical checks in amounts less than \$5,000 for payments to vendors in an aggregate amount of \$29.7 million.<sup>19</sup> The average amount per check was \$1,373. As an example, if the payment method of 25% of these transactions in FY 2013 was a Cal-Card rather than a paper check, the County would have issued 5,418 fewer checks and increased the utilization of the Cal-Card Program by 98% (\$7.4 million).

**Recommendation 13. The County Purchasing Agent should increase the Cal-Card monthly limit from \$15,000 to \$30,000.**

**Recommendation 14. The County Purchasing Agent should work with the Auditor-Controller Department to establish a formal policy that agencies/departments should complete routine transactions using the Cal-Card whenever possible.**

**Recommendation 15. The County Purchasing Agent should prepare an annual report to the Board regarding the status of the Cal-Card Program that includes utilization, rebate, volume, transactions, and historical and regional benchmarking data.**

## F. Strategic Sourcing (i.e., Cooperative Contracts for Multiple Agencies/Departments)

The CPO's Purchasing Operations Group is made up of the Regional Cooperative Agreements Unit and the Internal Purchasing Unit (formerly known as the CEO Purchasing Unit). These two units are made up of seven Purchasing Contract Specialists (PCSs) and are overseen by one Administrative Manager.

- **Regional Cooperative Agreements Unit.** This group consists of two PCSs and one Supervising PCS who are responsible for managing approximately 100 regional cooperative agreements (RCAs). These RCAs are master agreements managed by the CPO for use by any agency/department at the County. The general rule/goal for an RCA is to have overall annual usage of \$500,000 and be used by six (6) or more agencies/departments, with certain exceptions for specialty vendors. Typically, these contracts do not go before the Board because at the time they are entered into, there are no dollars associated with them. Based on the audit team's analysis, \$27.9 million was spent through these agreements in FY 2013. Based on interviews, it appears that the RCA Unit does not actively manage the contracts or conduct strategic sourcing.

<sup>19</sup> Includes payments for Delivery Orders, Contracts, and Purchase Orders.

- **Internal Purchasing Unit.** This group consists of three PCSs and one Supervising PCS who are responsible for facilitating the day-to-day purchasing requests for the County Executive Office and other smaller agencies/departments.

The RCA Unit is primarily focused on administrative functions such as maintaining and renewing existing RCAs. It does not analyze purchasing data to identify trends, strategic buying opportunities, and other opportunities for savings. In addition to maintaining existing RCAs, the CPO should adopt the concept of Strategic Sourcing and actively monitor the County's purchasing spend and identify opportunities to continually adjust its buying strategies to take greater advantage of its buying power.

There are various categories of commonly used goods and services that could be candidates for Strategic Sourcing. Below is a highlight of some of these candidates:

- Over the last three fiscal years, the County spent \$36.5 million on Food (Object Code 0900). Ninety-eight percent was purchased by the Sheriff-Coroner Department and the Probation Department, collectively. Ten vendors were paid at least \$1 million and two were paid more than \$5 million. The CPO could review buying patterns and evaluate opportunities to enhance cooperative buying between these two departments.
- Over the last three fiscal years, the County spent \$2.5 million on Cell Phones, Pagers, & Blackberrys (Object 0742). Of that amount, \$2.3 million was paid to four providers (Verizon, Sprint, AT&T, & Nextel) through 37 different master agreements. The CPO could evaluate the terms of these agreements and identify strategic sourcing opportunities.
- Over the last three fiscal years, the County spent \$34.7 million on office supplies (Object Code 1800 & Object Code 1805). An analysis of opportunities for strategic sourcing within this commodity type is reviewed in a case study below.

### **Case Study: Office Supplies**

Over the last three fiscal years, the County spent \$34.7 million on office supplies (Object Code 1800 & Object Code 1805). Of this amount, \$26.2 million (75.5%) was spent through master agreements managed by the CPO.

	FY 2011	FY 2012	FY 2013	Grand Total	% of Total
CPO-Managed Master Agreements	\$7,931,480	\$9,026,938	\$9,248,599	\$26,207,017	75.5%
Other Master Agreements	1,803,249	1,376,314	1,367,160	4,546,723	13.1%
Purchase Orders	1,538,152	1,026,624	1,112,260	3,677,036	10.6%
Contracts	199,765	66,899	15,608	282,272	0.8%
All Vendor Contract Types	<b>\$11,472,647</b>	<b>\$11,496,775</b>	<b>\$11,743,626</b>	<b>\$34,713,048</b>	<b>100.0%</b>

Over this period, of the \$34.7 million the County spent on office supplies, more than \$21.7 million was spent through contracts with three vendors: Staples, OfficeMax, and Office Depot.

# Performance Audit of Countywide Purchasing

2014

	FY 2011	FY 2012	FY 2013	Grand Total
STAPLES CONTRACT & COMMERCIAL INC	\$2,870,583	\$4,090,081	\$3,401,934	\$10,362,599
OFFICEMAX INCORPORATED	679,733	3,523,306	3,587,338	7,790,378
OFFICE DEPOT INC	2,796,691	482,198	265,987	3,544,875
<b>Total (\$)</b>	<b>\$6,347,007</b>	<b>\$8,095,585</b>	<b>\$7,255,259</b>	<b>\$21,697,851</b>
<b>Total (%)</b>	<b>29.3%</b>	<b>37.3%</b>	<b>33.4%</b>	<b>100.0%</b>

	CPO Master Agreement	Other	Grand Total
STAPLES CONTRACT & COMMERCIAL INC	\$9,772,482	\$590,117	\$10,362,599
OFFICEMAX INCORPORATED	7,642,620	147,758	7,790,378
OFFICE DEPOT INC	3,240,165	304,710	3,544,875
<b>Total (\$)</b>	<b>\$20,655,267</b>	<b>\$1,042,584</b>	<b>\$21,697,851</b>
<b>Total (%)</b>	<b>95.2%</b>	<b>4.8%</b>	<b>100.0%</b>

The vast majority (95.2%) of this spend was completed through master agreements managed by the CPO. In FY 2013, County agencies/departments primarily purchased office supplies from Staples (\$3.4 million) and OfficeMax (\$3.6 million). As shown in the table below, most agencies/departments utilized both vendors while some utilized only Staples or OfficeMax.

Agency/Department (FY13)	STAPLES CONTRACT & COMMERCIAL INC	OFFICEMAX INCORPORATED	OFFICE DEPOT INC	Total
SOCIAL SERVICES AGENCY	\$908,106	\$852,696	-	\$1,760,802
SHERIFF-CORONER	-	1,447,460	265,987	1,713,447
HEALTH CARE AGENCY	794,956	6,337	-	801,293
OC PUBLIC WORKS	702,209	43,636	-	745,845
OC COMMUNITY RESOURCES	669,328	64,448	-	733,776
PROBATION	185,558	77,117	-	262,675
DISTRICT ATTORNEY	-	249,365	-	249,365
PUBLIC DEFENDER	65,680	171,883	-	237,563
CHILD SUPPORT SERVICES	102,251	35,708	-	137,959
COUNTY EXECUTIVE OFFICE	47,759	45,006	-	92,765
OC WASTE & RECYCLING	3,913	83,381	-	87,294
CLERK-RECORDER	-	61,313	-	61,313
ASSESSOR	-	57,520	-	57,520
JOHN WAYNE AIRPORT	-	53,279	-	53,279
AUDITOR-CONTROLLER	44,500	8,031	-	52,531
ORANGE COUNTY PUBLIC GUARDIAN	-	35,384	-	35,384
COUNTY COUNSEL	-	32,325	-	32,325
HUMAN RESOURCE SERVICES	21,970	-	-	21,970
REGISTRAR OF VOTERS	6,599	12,096	-	18,695
TREASURER/TAX COLLECTOR	5,552	13,015	-	18,567
OTHER AGENCIES/DEPARTMENTS	28,960	51,932	-	80,891
<b>Total (\$)</b>	<b>\$3,587,338</b>	<b>\$3,401,934</b>	<b>\$265,987</b>	<b>\$7,255,259</b>
<b>Total (%)</b>	<b>49.4%</b>	<b>46.9%</b>	<b>3.7%</b>	<b>100.0%</b>

Based on an analysis of available usage data for two recent 12-month periods from the County's two primary office supplies vendors, 38% (\$941,000) and 56% (\$1.3 million) of total spend was on printer ink and toner, respectively.<sup>20</sup> Further review showed that over these periods (1) the County spent more than \$180,000 on a single type of toner (HP Toner Q5949XD) from these two vendors, collectively, and (2) the average price charged by one vendor was \$39.68 more (20.1%) per unit than the average price charged by the other.

If the County conducted its own request for proposal (RFP) for an office supplies vendor based on its aggregate spending and specific needs (better discounts for specific items, e-commerce, 1-day delivery, etc.) it is conceivable that the County could negotiate discounts that are more beneficial to the County

<sup>20</sup> Raw data provided by the CPO.

based on its actual spend. For example, an additional discount on toner of 10% could result in savings to the County of more than \$200,000 per year.

**Recommendation 16.** The County Purchasing Agent should coordinate with County agencies/departments to issue an RFP for office supplies based on the County's purchasing volume and requirements.

**Recommendation 17.** The County Purchasing Agent should consider issuing separate RFPs for certain high-volume commodities (e.g., toner).

**Recommendation 18.** The County Purchasing Agent should direct the RCA Unit to actively monitor transactions data available through CAPS+, Cal-Card Program, etc., and evaluate opportunities for strategic sourcing on an ongoing basis.

## G. Regional Cooperative Agreements (RCAs)

The CPO's Regional Cooperative Agreements (RCA) Unit coordinates approximately 100 master agreements, known as RCAs.<sup>21</sup> This group is responsible for overseeing and managing these contracts on behalf of the County.<sup>22</sup>

The CPO is responsible for issuing new RCAs based on the following criteria:

1. Six or more user agencies/departments require the same goods or services, and
2. The total dollar amount of the contract for the six or more agencies/departments meets or exceeds \$500,000. Final determination of this requirement will be at the sole discretion of the Purchasing Agent.<sup>23</sup>

According to the County's Cooperative Purchasing Program Manual, "the mission of the RCA Unit is to research, draft, negotiate, and successfully implement and manage Cooperative Agreements to be utilized County-wide to procure commodities and services; thereby, taking advantage of economies of scale to reduce costs, safeguard public funds, and provide quality and efficient services to customers while minimizing risk to the County."<sup>24</sup> Responsibilities of the RCA Unit include:

1. Identifying other Cooperative Agreements that would be beneficial for County-wide use and sharing this information with agency/department DPAs;
2. Soliciting bids/proposals for countywide procurement of goods and services;

<sup>21</sup> 98 RCAs as of December 2013. RCAs used to be called CEO Purchasing Master Agreements and can be utilized by all county agencies and departments.

<sup>22</sup> The group consists of one Supervising Procurement Contract Specialist (Supervising PCS) and two Procurement Contract Specialists and is supervised by an Administrative Manager I.

<sup>23</sup> CPO P&P. Regional Cooperative Agreement Policy. March 2007.

<sup>24</sup> Cooperative Purchasing Program Manual. CPO (2007).

3. Pursuing Cooperative Agreements with the State and other governmental agencies in order to obtain cost savings for the County;
4. Contract review and administration;
5. Providing support to agency/department DPAs on the use of RCAs and subordinate agreements;
6. Reviewing solicitations and contracts for agency/department DPAs, when requested;
7. Conducting contract analyses and providing metrics on usage/costs;
8. Collaborating with agency/department DPAs through DPA sub-committees;
9. Ensuring County Cooperative Agreements are renewed or rebid in a timely manner (3-6 months prior to expiration);
10. Ensuring Cooperative Agreements are available for County-wide use;
11. Identifying County requirements for additional Cooperative Agreements, as needed; and
12. Conducting regular analyses and data research to identify purchasing trends and to develop contracts to assist the County with receiving goods and services in a cost-effective, fair and efficient manner.

Based on a review of the RCA Unit's activities, the group does not currently provide metrics on RCA usage/costs nor does it conduct analyses to identify purchasing trends.

### **Cooperative Agreements (COOPs)**

Per the CPO's Cooperative Purchasing Program Manual, "the RCA Unit is responsible for issuing and identifying Cooperative purchasing arrangements [COOPs] that may be advantageous to the County. Cooperative Agreements are used to leverage the County's purchasing volume to receive corporate discounts for commonly purchased items and reduce procurement costs." In order to accomplish this objective, the RCA Unit can leverage other agencies' vendor contracts that have already been competitively bid and negotiated. Provided that "the initial procurement the County is relying upon is consistent with County purchasing rules and requirements,"<sup>25</sup> COOPs from the following organizations can be utilized by the RCA Unit:<sup>26</sup>

- Cooperative Purchasing Alliances (*competitively bid contracts*)
  - Orange County Purchasing Alliance (OCPA)
  - Western States Contracting Alliance (WSCA)
  - U.S. Communities
  - National Intergovernmental Purchasing Alliance Company (National IPA)
- Federal Contracts (*negotiated contracts*)
  - Federal Supply Schedule
- State of California Agreements (*negotiated contracts*)
  - California Multiple Award Schedule (CMAS)

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<sup>25</sup> CPM. §4.6

<sup>26</sup> Cooperative Purchasing Program Manual. CPO (2007).

These types of agreements can be beneficial to the CPO and agencies/departments because of their ease of use (e.g., no need to conduct formal RFP) but do not necessarily provide the County with the best value.

### Existing RCAs

It is estimated that County agencies/departments spent \$27.9 million via RCAs with a total of 79 vendors in FY 2013.<sup>27</sup> Approximately 30% of these RCA vendors accounted for approximately 95% of the contract spend.

FY 2013 Spend	RCA Vendors (#)	RCA Vendors (%)	Aggregate Value (\$)	Aggregate Value (%)
> \$500,000	10	12.7%	\$23,167,510	83.0%
\$100,000 - \$499,999	14	17.7%	\$3,485,510	12.5%
\$50,000 - \$99,999	8	10.1%	\$589,023	2.1%
\$10,000- \$49,999	23	29.1%	\$574,721	2.1%
\$0 - \$9,999	24	30.4%	\$86,486	0.3%
<b>Total</b>	<b>79</b>	<b>100.0%</b>	<b>\$27,903,250</b>	<b>100.0%</b>

Below is additional summary data for this group of RCAs in FY 2013:

- Of the \$27.9 million paid to vendors with active RCAs in FY 2013, only \$2.0 million (or 7.3% of the contract spend) was authorized by the Board of Supervisors.<sup>28</sup>
- Eight of the 79 vendors with active RCAs met the threshold for inclusion (six or more user agencies/departments and total value for all agencies of \$500,000 or more) in 2013.
- Three of the top 10 vendors had RCAs that were actively bid by CPO staff, with the balance coming from contracts that were bid and negotiated by non-County agencies.

Top 10 RCA Vendors for FY 2013	FY13 Spend (\$)	Procurement Type	User Agencies/Departments (#)
MOBIL DELIVERY SERVICE INC	\$4,116,287	RFB	4
OFFICEMAX INCORPORATED	\$3,575,885	COOP	20
STAPLES CONTRACT & COMMERCIAL INC	\$3,557,189	COOP	28
US BANK NATIONAL ASSOCIATION ND	\$3,127,075	RFB	9
PITNEY BOWES BANK INC	\$2,652,786	COOP	13
SOUTHERN COUNTIES OIL CO	\$1,736,499	RFB	2
WAXIE ENTERPRISES INC	\$1,476,639	COOP	9
HEWLETT PACKARD COMPANY	\$1,364,048	COOP	14
GOFORTH & MARTI OFFICE	\$1,022,286	COOP	10
W W GRAINGER INC	\$538,816	COOP	9

The CPO currently does not periodically monitor whether and how contracts are being utilized. RCAs that are not appropriately managed can cause adverse financial effects including higher costs due to poor contract enforcement and inefficient utilization. In addition, improved oversight could increase buying power and savings to the County. Finally, by identifying under-utilized RCAs, the CPO may be able to more effectively allocate its staff resources.

<sup>27</sup> List based on: (1) CAPS+ data provided by CPO, and (2) list of active RCAs downloaded from BidSync in December 2013. List includes: (1) vendors with multiple RCAs, and (2) vendors with RCAs that may not have been active for all of FY 2013.

<sup>28</sup> Based on CAPS+ data, the following agreements were authorized by the Board MA01710010800 (PITNEY BOWES), MA01712011201 (PIXELPUSHERS INC), MA01711010285 (PLATINUM ADVISORS LLC), MA01710012546 (HYLAND SOFTWARE INC), MA01711011883 (IRON MOUNTAIN INFO MGNT INC) and MA01710012414 (IRON MOUNTAIN INFO MGNT INC).

**Recommendation 19. The County Purchasing Agent should revise the Contract Policy Manual to require that Regional Cooperative Agreements for services with anticipated annual value in excess of \$100,000 be approved by the Board of Supervisors.**

**Recommendation 20. The County Purchasing Agent should produce a report on the RCA Unit's activities and distribute the report to all agencies/departments.**

### Case Study: Unleaded Fuel RCA

For FY 2013, the vendor that generated the most revenue from CPO-managed RCAs was Mobil Delivery Services Inc., which delivers fuel to various County facilities. In FY 2013, this vendor received \$4.1 million from CPO-managed master agreements for unleaded fuel (MA-017-11012276) and for diesel fuel (MA-017-13010843), plus an additional \$253,000 from master agreements with other agencies/departments.

MOBIL DELIVERY SERVICE INC	OC PUBLIC WORKS	OC WASTE & RECYCLING	SHERIFF-CORONER	JOHN WAYNE AIRPORT	PROBATION	Total
MA01711012276	\$2,463,062	\$251,621	-	\$218,571	\$3,502	\$2,936,756
MA01713010843	-	1,178,058	-	-	1,473	1,179,531
MA06012011600	-	-	168,737	-	-	168,737
MA06013011542	-	-	50,000	-	-	50,000
MA06013011288	-	-	25,958	-	-	25,958
MA08013010953	8,443	-	-	-	-	8,443
<b>Grand Total</b>	<b>\$2,471,505</b>	<b>\$1,429,679</b>	<b>\$244,695</b>	<b>\$218,571</b>	<b>\$4,975</b>	<b>\$4,369,424</b>

The unleaded fuel contract (MA-017-11012276) was procured through a request for bid by the CPO and became effective in April 2011 for a one-year term. The contract was renewed for two two-year terms and is effective through April 2016. Per the contract, the County is assessed incremental fees or discounts depending on the volume of each fuel delivery. Below is the incremental fee/discount schedule based on the contract terms effective through April 27, 2014 (MA-017-11012276).<sup>29</sup>

Gallons	87 Octane (per gallon)	89 Octane (per gallon)	92 Octane (per gallon)
0-1,999 gallons	+\$0.10	+\$0.10	+\$0.10
2,000-4,999 gallons	+\$0.06	+\$0.05	+\$0.05
5,000-9,999 gallons	-\$0.0125	-\$0.0225	-\$0.0225
10,000+ gallons	-\$0.0125	-\$0.0225	-\$0.0225

The County is entitled to a per gallon rebate for all orders of 5,000 gallons or more (\$0.0725, or approximately 2.25%-2.5%). As illustrated below, an order of 5,000 gallons of 87 Octane would have an aggregate cost of \$359 less than an order of 4,999 gallons.

	Order #1	Order #2
Gallons of 87 Octane	4,999	5,000
Net Price (per gallon)	\$3.0000	\$3.0000
Pricing Adjustment (per gallon)	\$0.0600	-\$0.0125
Adjusted Price	\$3.0600	\$2.9875
Gross Price	\$15,297	\$14,938
<b>Difference</b>	-	<b>-\$359</b>

<sup>29</sup> This contract was renewed in February 2014 with a revised fee schedule, which is summarized on the following page.

The OCPW Fleet Department is the primary user of the unleaded fuel master agreement. Based on a review of invoices from unleaded fuel deliveries to the County's fuel tank at 1102 E. Fruit Street from July 2013 and August 2013, the majority of deliveries to this location were for a few gallons short of 5,000. Orders to fill this fuel tank, which holds a maximum of 10,000 gallons, are placed by OCPW staff at the County's fleet shop and are approved by shop supervisors.

Deliveries to 1102 E. Fruit Street

Deliver Date	Gallons (Invoiced)	Above/(below) 5,000 (gallons)	Above/(below)			Saving if order Rate >=5,000 gallons (\$)	
			5,000 (%)	Net Rate	Adjustment		
7/3/2013	4,906	-94	-1.9%	\$2.8963	\$0.0600	\$2.9563	\$350
7/8/2013	4,892	-108	-2.2%	\$3.0488	\$0.0600	\$3.1088	\$349
7/11/2013	4,844	-156	-3.1%	\$3.1019	\$0.0600	\$3.1619	\$345
7/15/2013	4,901	-99	-2.0%	\$3.1350	\$0.0600	\$3.1950	\$349
7/18/2013	4,944	-56	-1.1%	\$3.0444	\$0.0600	\$3.1044	\$352
7/23/2013	4,929	-71	-1.4%	\$2.8931	\$0.0600	\$2.9531	\$351
7/26/213	4,921	-79	-1.6%	\$2.8400	\$0.0600	\$2.9000	\$351
7/30/2013	4,933	-67	-1.3%	\$2.8669	\$0.0600	\$2.9269	\$351
8/2/2013	4,940	-60	-1.2%	\$2.8825	\$0.0600	\$2.9425	\$352
8/8/2013	4,940	-60	-1.2%	\$2.7544	\$0.0600	\$2.8144	\$352
8/12/2013	5,918	918	18.4%	\$2.7925	-\$0.0125	\$2.7800	\$0
<b>Total/Average</b>	<b>55,068</b>	<b>68</b>	<b>0.1%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$3,502</b>

In 10 of 11 instances, deliveries were less than 5,000 and assessed a \$0.06/gallon fee. Had these orders qualified for the -\$0.0125/gallon adjustment rather than the \$0.06/gallon adjustment, the savings to the County would be approximately \$350 per order or \$3,502 for these ten deliveries. Looking at this another way, if the County had received 5,000 gallons per delivery for these ten orders rather than the invoiced amounts, the County would have received 850 more gallons and saved over \$1,000.

Deliver Date	Gallons (Invoiced)	Total Cost before taxes	Gallons (5,000)	Total Cost before taxes	Difference
7/3/2013	4,906	\$14,504	5,000	\$14,419	-\$85
7/8/2013	4,892	\$15,208	5,000	\$15,182	-\$27
7/11/2013	4,844	\$15,316	5,000	\$15,447	\$131
7/15/2013	4,901	\$15,659	5,000	\$15,613	-\$46
7/18/2013	4,944	\$15,348	5,000	\$15,160	-\$189
7/23/2013	4,929	\$14,556	5,000	\$14,403	-\$153
7/26/213	4,921	\$14,271	5,000	\$14,138	-\$133
7/30/2013	4,933	\$14,438	5,000	\$14,272	-\$166
8/2/2013	4,940	\$14,536	5,000	\$14,350	-\$186
8/8/2013	4,940	\$13,903	5,000	\$13,710	-\$194
<b>Total</b>	<b>49,150</b>	<b>\$147,739</b>	<b>50,000</b>	<b>\$146,692</b>	<b>-\$1,048</b>

On February 18, 2014, the RCA Unit authorized a two-year extension, effective April 27, 2014, to this contract along with revised fees. For deliveries less than 1,000 gallons and 5,000 gallons or more the increases in fees were \$0.05/gallon and \$0.0225/gallon, respectively. Since this new pricing was not competitively bid, it could not be determined whether the new pricing reflects current market rates.

### Board Approval Thresholds

Contract value thresholds for approval requirements are delineated in the CPM, which is periodically reviewed and approved by the Board of Supervisors. Most recently, in 2012, the Board approved updates to the CPM that had the effect of increasing the number of contracts that require Board

approval.<sup>30</sup> Of the \$3.4 billion spent between FY 2011 and FY 2013, the Board of Supervisors formally approved approximately \$3.0 billion (87%) of total contract spend, while approximately \$443 million in contracts (13% of total spend) was not submitted to the Board of Supervisors for review and approval.<sup>31</sup> Only 6.5% of the \$217 million spent on commodities was reviewed by the Board of Supervisors.

Contract Type	Total (\$)	Not Reviewed/Approved by BOS (\$)	Not Reviewed/Approved by BOS (%)	Approved by BOS (\$)	Approved by BOS (%)
ARCHITECT-ENGINEER	\$127,010,125	\$3,797,671	3.0%	\$123,212,454	97.0%
COMMODITY	217,066,694	202,887,765	93.5%	14,178,929	6.5%
HUMAN SERVICE	1,128,555,976	25,595,363	2.3%	1,102,960,613	97.7%
HYBRID	112,350,975	83,815,361	74.6%	28,535,615	25.4%
LEASE	170,622,706	9,928,125	5.8%	160,694,581	94.2%
PUBLIC WORKS	578,130,123	12,066,842	2.1%	566,063,281	97.9%
RENTAL	692,092	580,028	83.8%	112,065	16.2%
REVENUE	3,020,456	-	0.0%	3,020,456	100.0%
SERVICE	1,068,963,779	103,979,966	9.7%	964,983,813	90.3%
<b>Total</b>	<b>\$3,406,412,926</b>	<b>\$442,651,120</b>	<b>87.0%</b>	<b>\$2,963,761,806</b>	<b>87.0%</b>

Given their significant dollar value and the opportunity for cost savings, it may be appropriate to increase management and Board oversight of commodities contracts.

**Recommendation 21.** The County Purchasing Agent should establish a formal policy for identifying underutilized RCAs that should not be renewed.

**Recommendation 22.** The RCA Unit should evaluate strategic buying opportunities and consider opportunities to tailor future contracts to the County's benefit (e.g., improved prices for commonly ordered fuel quantities).

**Recommendation 23.** The County Purchasing Agent should assign County Procurement Office staff with appropriate skills to provide analytical support in order to achieve Recommendations 16 through 22.

**Recommendation 24.** The County Purchasing Agent should consider amending the Contract Policy Manual to increase Board oversight for commodities contracts.

**Recommendation 25.** The County Purchasing Agent should advise OC Public Works Fleet to take advantage of the pricing/volume discount based on the pricing structure of MA-017-11012276.

<sup>30</sup> Threshold for seeking Board approval on sole source commodity contracts was reduced to \$250,000 (CPM §3.1-115). Architectural-Engineering slates must now be approved by the Board every three years (CPM §3.5-109).

<sup>31</sup> Analysis based on CAPS+ data provided by the CPO.

## H. Data Collection and Analysis

Agencies/departments including the CPO utilize a variety of IT systems to assist them in facilitating and managing procurement activities. The recent Lean Invoicing Report noted, “that due to the utilization of this multitude of shadow systems, it is not possible to get consistent and cumulative Countywide reporting of procurement and contract expenditure data.”

The systems and processes identified in the report that are utilized by at least one of the agencies/departments that participated in the Lean Review<sup>32</sup> include the following:

- CAPS+ (County Accounting Procurement System)
- CAPS+ Data Warehouse
- CMS (Contract Management System)
- CMIS (Contract Management Invoice System)
- ERMI (Electronic Reporting Management Imaging)
- Expeditor Electronic Requisition System
- Departmental shared drives
- ISPT (Integrated Strategic Planning and Tracking)
- Maintstar
- Manual requisitions
- Multiple manual spreadsheets (some departments have up to four separate spreadsheets all reporting on the same activity)
- Sharepoint
- OC Project Management Portal
- BidSync

Below is an overview of programs currently being utilized or being considered for use by the CPO.

- **CAPS+ Finance & Purchasing System.** This system is the County's primary financial system and is managed by the Auditor-Controller.
- **BidSync.** A list of Regional Cooperative Agreements managed by the CPO is primarily maintained through the BidSync. This online database contains information on active contracts. Additionally, BidSync contains bid documents and results from County solicitations as well as from solicitations of other government agencies.
- **RCA Contract Management Solution.** The Purchasing Operations group is currently implementing a tool that will assist staff with contract management and allow CPO management to better manage staff workloads. *PENDING*
- **Expediter.** Expediter is a program that was developed internally by OC Public Works. It is a web-based program that electronically facilitates the procurement process from staff-inputted requisitions through management approval, budget approval, purchasing approval,

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<sup>32</sup> CEO, OCWR, OCCR, OCPW, and CSS participated in the LEAN Invoicing Review in 2013.

- purchasing actions, and accounts payable actions. Several agencies/departments, including the CPO, are considering implementing a new version of Expediter. *PENDING*
- **eProcurement.** The Auditor-Controller (A-C) is the lead department for the implementation of a countywide eProcurement system. While identified as a strategic priority, funding for this initiative has not yet been identified. The A-C submitted a budget augmentation request to CEO/Budget for FY 14/15 to begin implementation. This request is not expected to be approved. The estimated cost to implement this system is approximately \$4 million with ongoing costs of approximately \$200,000.<sup>33</sup> *PENDING*

As stated in the Lean Report, the County is currently unable to develop an accurate countywide understanding of spend on goods and services. County management should have access to procurement-related data that is consistent across County agencies/departments. This information should be readily accessible and sufficient to allow the CPO and other management staff to provide appropriate oversight and identify opportunities for operational improvement and strategic sourcing.

**Recommendation 26. The County Purchasing Agent should take the lead on coordinating all new countywide procurement-related IT systems including eProcurement.**

**Recommendation 27. The County Purchasing Agent should establish a formal policy to ensure that the County Procurement Office will be consulted prior to any agency-specific implementations of procurement-related IT systems (e.g. Expediter).**

## I. County Surplus Program

The CPO is responsible for supervising the disposal of all Surplus County Property.<sup>34</sup> According to the CPM, the Surplus Program should encourage reuse of surplus items by other agencies/departments and non-profits and maximize revenue from the sale of surplus items by administering the program in an efficient and cost-effective manner. The relevant language in the CPM is listed below:

### *§1.6-103 Disposal of Surplus County Property*

*(1) The method used by agencies/departments to dispose of surplus county property must be approved by and coordinated with the County Purchasing Agent or designee.*

***Internal reuse of Surplus County Property by County agencies/departments is the preferred method of disposal.***

*(2) Disposition Methods – Surplus County Property shall be disposed of in one of the following preferred methods:*

<sup>33</sup> 2013 Strategic Financial Plan.

<sup>34</sup> Surplus County Property is defined as all tangible supplies, materials or equipment to which the County acquired title by means of purchase, donation, grant, or any other lawful means of acquisition that is determined no longer to be useable or required by the agency/department in possession thereof. (CPM. §1.6-101.1).

- a) internal transfer to a claiming agency/department
- b) direct sale by agency/department
- c) sale by County Purchasing Agent/designee
- d) donation of Computers and related equipment with a fair market value less than \$5,000 per lot to the Department of Education, OC Special Districts, and Not-for-Profit Organizations
- e) auction (material value)
- f) recycling
- g) waste

**§1.6-104 Receipt of Fair Market Value**

(1) *In the event that property is not transferred within the County and must be disposed of in another manner, every attempt will be made to receive fair market value for the property.*

The County's Surplus Program is managed by the CPO's Surplus Program Manager. Agencies/departments have representatives who receive training from the Surplus Program Manager and are responsible for facilitating the disposal of items for their respective agencies/departments. Based on CPO procedures, before non-fixed assets can be sent to auction, they must first be offered to other agencies/departments and non-profit organizations based on the following schedule:

- 1) County of Orange agencies/departments – seven (7) days
- 2) Orange County school districts – next seven (7) days
- 3) Orange County non-profits – next seven (7) days
- 4) Auctioneering/surplus vendor

The CPO utilizes three primary contracts to help facilitate this process: Public Surplus, Gold'n West Surplus, and Ken Porter Auctions.

Public Surplus (The Public Group LLC) hosts an online auction website that allows County agencies/departments to advertise surplus items to other agencies/departments and to the external non-profit organizations. Public Surplus generates revenue by taking a percentage of every successful auction (3%-7%) plus a buyer's premium (1%-10%).<sup>35</sup>

Based on an analysis of data provided by the CPO, the County Surplus Program facilitated the disposal of 1,360 lots of items over a recent 12-month period (2/25/2013-2/25/2014), including vehicles, computer equipment, and miscellaneous office furniture.<sup>36</sup> Of these 1,360 lots, 5.4% were reallocated within the

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<sup>35</sup> Fees are based on annual volume and transaction size. In the two years that the County has had this contract, Public Surplus has generated no revenue from the County. This is because items are ultimately sold through other vendors.

<sup>36</sup> Data from Public Surplus provided by the CPO.

County or to another non-profit organization (50 lots to other County agencies/departments and 23 lots to Orange County School Districts).

	# of Lots	% of Total
Internal Reallocation	50	3.7%
Orange County School Districts	23	1.7%
Other Non-profits	-	0.0%
Not Reallocated	1,287	94.6%
<b>Total</b>	<b>1,360</b>	<b>100.0%</b>

The remaining 1,287 lots either stayed with the agency/department or were transferred to one of two vendors for auction or disposal.

- **Gold'n West Surplus.** This vendor disposes of computers and other electronic equipment and pays the County a nominal fee based on weight of the equipment (e.g., \$0.40/lb. for PCs, \$5.00/lb. for laptops, and \$0.04/lb. for printers). In 2013, County agencies/departments generated \$66,204 by disposing of e-waste through Gold'n West Surplus.<sup>37</sup>
- **Ken Porter Auctions.** This vendor facilitates the sale and disposal of County Surplus Property. The vendor's services include pick-up, auctioneering activities, and disposal. In 2013, County agencies/departments generated \$636,572 by auctioning assets through Ken Porter Auctions.<sup>38</sup>

The CPO does not regularly produce reports that summarize the activity of the County Surplus Program (e.g., disposition of property, revenue generation). Additionally, since less than 4% of all County Surplus Property was reused by another agency/department, there is opportunity for the County to increase internal reuse of surplus property. Items that could be utilized elsewhere at the County are being sold at prices significantly below their replacement cost. Additionally, as illustrated in the following case study, it appears that sales revenue the County receives for some of its disposed property may not reflect fair market value.

<sup>37</sup> Data provided by CPO.

<sup>38</sup> Data provided by CPO.

### Case Study: Ken Porter Auctions

According to Ken Porter Auctions' contract (MA-017-12010370) with the County, the vendor may charge the following commissions and fees:<sup>39</sup>

Commission Percentage	
Gross Sales Per Lot	Percentage Fee Charged to County (before tax, buyer's premium, and other fees approved by the County)
Misc. Equipment & Personal Property	9.85%
Vehicles and Heavy Equipment	3.85%
Additional Fees	
Buyer's Premium (for Vehicles & Heavy Equipment)	10.00%
Buyer's Premium (for Misc. Equipment & Personal Property)	10.00%
Labor for Moving*	\$ 45.00 per hour/per person
Cost for Trailer (to be left at County site)**	\$ 250.00 per trailer/per day
Minor Repairs for Vehicles (up to \$100.00 in total costs)***	At Contractor's Cost, Requires Approval by the County
Fees Related to the Transportation of Heavy Equipment****	At Contractor's Cost, Requires Approval by the County

The commissions "must cover all overhead costs [Ken Porter Auctions] may incur" and "[Ken Porter Auctions] shall pay County 50% of all buyer's premium charges collected from sales."<sup>40</sup> The table below summarizes the fees for three lots recently sold at auction by Ken Porter Auctions. In these examples, the County received 17.68%, 56.34%, 86.39% of the revenue generated by the sale of each lot, respectively, with the balance going to Ken Porter Auctions.

Agency	OCWR	SSA	OCPW
Lot #	1807	1831	284
Lot Description	Pallet of Chairs	4 Metal Computer Shelves	1992 Ford F700
Sale Price	\$5.00	\$40.00	\$9,500.00
Buyer Premium (10.00%)	\$0.50	\$4.00	\$950.00
Doc/Process Fee (\$)	\$20.00	\$20.00	\$65.00
Other Fees (\$)	\$0.00	\$0.00	\$58.25
<b>Total Amount by Buyer (\$)</b>	<b>\$25.50</b>	<b>\$64.00</b>	<b>\$10,573.25</b>
Commission (9.85%/3.85%)	\$0.49	\$3.94	\$365.75
Received by Vendor (\$)	\$20.99	\$27.94	\$1,439.00
<b>Received by County (\$)</b>	<b>\$4.51</b>	<b>\$36.06</b>	<b>\$9,134.25</b>
<b>Received by County (% of amount paid)</b>	<b>17.68%</b>	<b>56.34%</b>	<b>86.39%</b>
<b>Amount owed to County (\$)</b>	<b>\$0.25</b>	<b>\$2.00</b>	<b>\$475.00</b>
<b>Amount owed to County (% of sale price)</b>	<b>5.00%</b>	<b>5.00%</b>	<b>5.00%</b>

<sup>39</sup> MA-017-12010370.

<sup>40</sup> MA-017-12010370.

It appears that Ken Porter Auctions may not be in compliance with the terms of MA-017-12010370 in at least two key areas:

- Ken Porter Auctions is not currently paying the County its share of the buyer's premium, which represents 5% of the purchase price of each lot. Ken Porter Auctions remitted to the County \$796,998 over a recent 13-month period, which represents between 90.15% and 96.15% of the sale price of all auctioned items. Based on this estimate, the County should have received between \$41,000 and \$44,000 in buyer's premiums from Ken Porter Auctions over this period.<sup>41</sup> The audit team brought this issue to the attention of CPO management, which in turn (1) is working to determine the actual amount owed and (2) has issued the vendor a "Notice to Cure" to recoup this revenue.
- Ken Porter Auctions assesses a \$20 "Doc/Process Fee" to select buyers for each lot purchased. This fee is not outlined in MA-017-12010370. For example, if a particular buyer purchases five consecutive lots, the buyer will be assessed fees totaling \$100, in addition to the bid price and auction premium. For 29 lots sold on February 15, 2014, the aggregate sale price was \$648.75, of which the County received \$584.92. For these lots, Ken Porter Auctions received aggregate "Doc/Process Fees" of \$520. The revenue generated by Ken Porter Auctions by this fee (\$20 for non-fixed asset sales and \$65 for fixed assets sales) over the term of its contract with the County is significant. The audit team brought this to the attention of CPO management, which is still evaluating the issue.

The cost to the County of selling surplus property, including all commissions, premiums, and fees, is substantial, particularly for low-dollar items. Given the contract issues identified above, it may be appropriate to re-bid the contract with Ken Porter Auctions, which is set to expire on September 30, 2014, rather than extend the contract.

**Recommendation 28. The County Purchasing Agent should publish an annual report that summarizes the activities of the Surplus Program, including disposition of surplus property and revenue to the County and participating vendors.**

**Recommendation 29. The County Purchasing Agent should review the existing contract with Ken Porter Auctions and take steps to recover any revenue owed to the County.**

**Recommendation 30. The County Purchasing Agent should evaluate alternatives to the existing surplus program, including direct sales and alternative auction procedures, and issue a Request for Proposals, if appropriate.**

<sup>41</sup> MA-017-12010370 has been active since October 1, 2011. The total amount owed to the County could exceed \$100,000.

## V. Conclusion

The County Procurement Office (CPO) is the countywide leader for procurement-related policies, procedures, and training. In this leadership role, the CPO has the ability and opportunity to champion efforts to standardize, enhance, and coordinate the County's collective procurement activities. The overall conclusion of this audit is that the CPO is making progress towards achieving operational effectiveness and efficiency of countywide purchasing. The County Purchasing Agent has already identified and initiated various policy and procedural changes that will contribute to the CPO's and the County's collective success. The CPO can continue this progress by ensuring that:

- Standardized policies and procedures are communicated, interpreted, and implemented in a consistent fashion;
- Deputy Purchasing Agents have the knowledge and resources necessary to effectively fulfill their purchasing duties;
- Countywide contracts are negotiated and managed effectively;
- Purchasing data are collected, analyzed, and shared with relevant stakeholders; and
- Opportunities to increase the County's purchasing power through strategic sourcing and other approaches are identified and utilized.

## VI. Recommendations & Management Response

Recommendation	Mgmt. Response (Concur/ Partially Concur/ Do Not Concur)	Management Action Plan	Target Completion Date
Recommendation 1. The County Purchasing Agent should review and update the Contract Policy Manual at least every two years for approval by the Board of Supervisors. Language regarding this formalized review should be incorporated into the next revision of the CPM.	Concur	County Procurement Office (CPO) staff, in cooperation with the County procurement community, will identify items for potential revision and present revisions to the Board.	Initiate project First Quarter of 2015 and present to Board for approval in June 2015.
Recommendation 2. The County Purchasing Agent should post on the CPO's Intranet website the latest Contract Policy Manual and any relevant policy memos, including County Counsel memos, when appropriate.	Concur	CPM and relevant policy memos are currently posted in the CPO website.	Complete
Recommendation 3. The County Purchasing Agent should create a comprehensive Procurement Procedures Manual (PPM) and develop formal processes for updating it on a regular basis.	Concur	The County Procurement Office is currently in the process of developing a comprehensive Procurement Procedures Manual.	October 2014
Recommendation 4. The County Purchasing Agent should periodically review and update all aspects of the CPO's Intranet website.	Concur	CPO is diligently working to keep the CPO website updated. Review and updating of website is done on an ongoing basis. CPO will be using the new Sharepoint system for this page.	August 2014
Recommendation 5. The County Purchasing Agent should make slides and other materials from the "Best Practices" training sessions available for review on the CPO's Intranet site.	Concur	CPO's "Best Practices" minutes, presentations and materials are currently posted and up to date.  The County Procurement Office is currently updating its intranet site regularly with training slides, handout materials, and minutes of various meetings including the Purchasing Council, "Best Practices", and the Auditor-Controller/CPO roundtable for review.	Complete
Recommendation 6. The County Purchasing Agent should track metrics related to P&Ps and knowledge sharing (e.g., AskCPO response times and number of inquiries).	Concur	The County Purchasing Agent will establish a system to track recommended metrics.	January 2015
Recommendation 7. The County Purchasing Agent should maintain a database of all compliance review findings and related recommendations, including quantitative and qualitative summaries by agency/department that should be included in the CPO's annual report of operational performance.	Concur	An internal database is in use and includes all reviews, findings and related recommendations along with a quantitative annual summary. CPO will generate a qualitative summary to be included in the annual report.	January 2015
Recommendation 8. The County Purchasing Agent should update the CPM to reflect the significant changes made to its compliance monitoring program for approval by the Board of Supervisors.	Concur	CPO will outline the significant changes to the Compliance Program for Board of Supervisors approval in the next update of the CPM.	June 2015 (upon update of CPM)
Recommendation 9. The County Purchasing Agent should routinely monitor the list of "buyers" in CAPS+ and take steps to ensure compliance with §1.1-106 Delegation of Authority of the CPM.	Concur	CPO currently reviews and approves ALL buyer roles for CAPS+ via UDOC/ARF as roles are added, modified or deleted. Annual Report may be processed and filed for future review.	July 2014

Recommendation	Mgmt. Response (Concur/ Partially Concur/ Do Not Concur)	Management Action Plan	Target Completion Date
Recommendation 10. The County Purchasing Agent should take appropriate steps to encourage countywide compliance with DPA training requirements, including, but not limited to, granting formal 6-month extensions of DPA certificates to all non-compliant DPAs, during which time an employee must fulfill all the requirements, and, if necessary, taking steps to formally revoke DPA status.	Concur	A 3-month extension would be a more appropriate time frame for non-compliant DPAs to fulfill their requirements. The existing policy will be reviewed with consideration of a revocation timeline shorter than 6 months.	August 2014
Recommendation 11. The County Purchasing Agent should update the format of the Master DPA List (e.g., summarize by agency/department, include DPA's CAPS+ Name and ID) to make it easier for management to identify those not in compliance. This information should be tracked and published on an annual basis.	Concur	Master DPA list already summarizes DPA status by agency/department and is provided monthly to the Purchasing Council. CPO tracks training hours and provides re-test dates indicating DPA certification status. CPO will update the spreadsheet to indicate non-compliant DPAs for easier use. Additionally, the County Purchasing Agent will continue working directly with agency/department procurement managers concerning the status of their respective DPAs.	July 2014
Recommendation 12. The County Purchasing Agent should establish, track, and report Key Performance Indicators relevant to the CPO's mission and primary operating objectives.	Concur	The County Purchasing Agent has recently established Key Performance Indicators (KPI) relevant to our mission and operating objectives. Effective 7/1/2014, these KPI will be implemented and benchmarked. Reports will be made on a quarterly basis.	October 2014
Recommendation 13. The County Purchasing Agent should increase the Cal-Card monthly limit from \$15,000 to \$30,000.	Concur	The County Purchasing Agent will formally request that the Board of Supervisors approve the recommended increase to the monthly Cal-Card limit. Upon approval, CPO will notify Cardholders and Approvers, allowing Cal-Card Authorized Signers to request monthly Cal-Card increases up to \$30,000.	Within 6 months of Board of Supervisors Approval of PA recommendation
Recommendation 14. The County Purchasing Agent should work with the Auditor-Controller Department to establish a formal policy that agencies/departments should complete routine transactions using the Cal-Card whenever possible.	Concur	The County Purchasing Agent will update the Cal-Card Policy, in collaboration with the Auditor-Controller Department, to outline programmatic policies and procedures, and encourage the use of Cal-Card whenever possible. Terms and conditions have been added to encourage this improvement.	August 2014

Recommendation	Mgmt. Response (Concur/ Partially Concur/ Do Not Concur)	Management Action Plan	Target Completion Date
Recommendation 15. The County Purchasing Agent should prepare an annual report to the Board regarding the status of the Cal-Card Program that includes utilization, rebate, volume, transactions, and historical and regional benchmarking data.	Concur	The County Procurement Office will gather Cal-Card Program figures, such as number of cards, usage/spend, rebate information, speed of payment, programmatic enhancements, and benchmarking data which will be submitted to the Board annually.	January 2015
Recommendation 16. The County Purchasing Agent should coordinate with County agencies/departments to issue an RFP for office supplies based on the County's purchasing volume and requirements.	Concur	The County Purchasing Agent will conduct ongoing data analysis to reaffirm most cost effective method of procurement. An RFP will be issued to test the marketplace.	November 2014
Recommendation 17. The County Purchasing Agent should consider issuing separate RFPs for certain high-volume commodities (e.g., toner).	Concur	The County Purchasing Agent will conduct ongoing data analysis to reaffirm most cost effective method of procurement. An RFP will be issued to test the marketplace.	November 2014
Recommendation 18. The County Purchasing Agent should direct the RCA Unit to actively monitor transactions data available through CAPS+, Cal-Card Program, etc., and evaluate opportunities for strategic sourcing on an ongoing basis.	Concur	The County Purchasing Agent will identify necessary training and staffing to fulfill this recommendation.	December 2014
Recommendation 19. The County Purchasing Agent should revise the Contract Policy Manual to require that Regional Cooperative Agreements for services with anticipated annual value in excess of \$100,000 be approved by the Board of Supervisors.	Partially Concur	CPM requires all subordinate agreements in excess of \$100,000 obtain Board Approval. Each County agency/department will continue to take their subordinate agreements directly to Board for approval in accordance with the Contract Policy Manual thresholds. This change will be considered in concert with the review of the Contract Policy Manual.	June 2015 (upon review of the CPM)
Recommendation 20. The County Purchasing Agent should produce a report on the RCA Unit's activities and distribute the report to all agencies/departments.	Concur	An annual and quarterly report will be prepared.	July 2014
Recommendation 21. The County Purchasing Agent should establish a formal policy for identifying underutilized RCAs that should not be renewed.	Concur	CPO staff currently runs usage reports and solicits vendor performance evaluations to determine if contracts should be renewed and/or rebid. A formal policy will be established. This will occur in concert with the review of the CPM.	August 2014
Recommendation 22. The RCA Unit should evaluate strategic buying opportunities and consider opportunities to tailor future contracts to the County's benefit (e.g., improved prices for commonly ordered fuel quantities).	Concur	Additional training, systems and resources may be needed to fulfill this task. Three CPO Staff members have been enrolled in an NIGP training course concerning strategic sourcing.	December 2014

Recommendation	Mgmt. Response (Concur/ Partially Concur/ Do Not Concur)	Management Action Plan	Target Completion Date
Recommendation 23. The County Purchasing Agent should assign County Procurement Office staff with appropriate skills to provide analytical support in order to achieve Recommendations 16 through 22.	Concur	The County Purchasing Agent will identify the specific skills needed and develop a plan to obtain training or identify additional staffing requirements.	July 2014
Recommendation 24. The County Purchasing Agent should consider amending the Contract Policy Manual to increase Board oversight for commodities contracts.	Concur	Commodity contracts are bid out and awarded to the lowest responsive, responsible bidder. The County Procurement Office will be more active in strategic sourcing of commonly used commodities to better leverage the County's purchasing power in this area. The County Purchasing Agent will conduct further analysis to reaffirm best value for the County. Additionally, necessary revisions to the CPM will be prepared.	June 2015 (upon update of the CPM)
Recommendation 25. The County Purchasing Agent should advise OC Public Works Fleet to take advantage of the pricing/volume discount based on the pricing structure of MA-017-11012276.	Concur	The County Purchasing Agent will arrange a meeting with OC Public Works Fleet to address this matter.	June 2014
Recommendation 26. The County Purchasing Agent should take the lead on coordinating all new countywide procurement-related IT systems including eProcurement.	Concur	The County Purchasing Agent, on behalf of the County Procurement Office and the purchasing community, will take steps to lead these efforts to assure business needs are met and to foster ownership of countywide procurement –related systems including eProcurement. The County Purchasing Agent will develop a plan for implementation of this recommendation.	August 2014
Recommendation 27. The County Purchasing Agent should establish a formal policy to ensure that the County Procurement Office will be consulted prior to any agency-specific implementations of procurement-related IT systems (e.g. Expediter).	Concur	The County Purchasing Agent will prepare a written policy and distribute to all agencies and departments.	July 2014
Recommendation 28. The County Purchasing Agent should publish an annual report that summarizes the activities of the Surplus Program, including disposition of surplus property and revenue to the County and participating vendors.	Concur	The County Purchasing Agent will publish an annual report summarizing the activities of the surplus program. The report will detail surplus reallocated to the County as well as a breakdown of items donated to the Orange County Schools and Non-Profits. A detailed breakdown of revenue received from the sales of surplus items sent to auction and revenue received from the recycling of surplus IT equipment (in cooperation with CEO/IT) will also be part of this report.	January 2015

Recommendation	Mgmt. Response (Concur/ Partially Concur/ Do Not Concur)	Management Action Plan	Target Completion Date
Recommendation 29. The County Purchasing Agent should review the existing contract with Ken Porter Auctions and take steps to recover any revenue owed to the County.	Concur	The County Purchasing Agent is already reviewing the existing contract with Ken Porter Auctions. A determination of the total dollar amount owed to the County is underway. The County Procurement Office has already met with Ken Porter Auctions to discuss this oversight and has issued a cure notice to the contractor to correct the issue. A demand letter for payment from the vendor will be issued when the exact amount is determined.	June 2014
Recommendation 30. The County Purchasing Agent should evaluate alternatives to the existing surplus program, including direct sales and alternative auction procedures, and issue a Request for Proposals, if appropriate.	Concur	Infrequently County departments have used the direct sale method on items that they felt were of exceptional value. Direct Sale is an allowed method of disposal in the Surplus Policy and Procedure. The Surplus Program Manager is always ready to assist any department if a direct sale of their surplus item(s) is preferred.  The County Purchasing Agent has been investigating alternative auction procedures. We are currently considering a pilot project with Public Surplus, an online auction company. We have tested their online "Internal Reallocation" function and are ready to move forward with testing their online public sale module. If this type of product proves to be an asset to the County, the Procurement Office will recommend the most viable method to provide this service. The County Purchasing Agent will initiate an RFP or IFB for the needed services.	September 2014

## VII. Appendix

### Definitions of Contract Types<sup>42</sup>

**Contract (CT).** A formal document in CAPS+ used by the County to enter into legal agreements with registered vendors for specific goods and services. In CAPS+, contracts are created on a document with the code of CT. Contracts are used to encumber funds to purchase goods and services, are non-renewable, project specific, allow for multiple payments throughout a designated term, and may be created as a hybrid.

**Delivery Order (DO).** CAPS+ encumbering document used to purchase goods/services from an existing Master Agreement. A Master Agreement sets specific terms, conditions, and pricing, but does not commit the client to make a purchase. Therefore it carries no funding information and does not encumber.

**Hybrid.** A procurement document that consists of both commodities and services.

**Master Agreement (MA).** A renewable contract with prices, terms, and conditions by which the departments may arrange for the recurring purchase of goods and services from a vendor at a negotiated price. A master agreement does not commit to making purchases and therefore does not carry any funding information. In CAPS+, master agreements are created on a document with the code of MA.

**Purchase Order (PO).** A formal document used by the County to enter into contractual agreements with registered vendors for specific goods and services. A PO is used to encumber funds for purchases of goods and services, is non-renewable, and is commonly used for one order, one invoice, and one payment.

**Regional Cooperative Agreement (RCA).** What used to be called a CEO Purchasing Master Agreement is now called a Regional Cooperative Agreement. These agreements are identified by 017 in the document ID Department Code and “ALL” as the Authorized Department on the agreement.

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<sup>42</sup> CAPS+ Department Procedures Manual – Procurement Glossary of Terms. Auditor-Controller.