Metro

Purchasing Benchmarks And Opportunities

May 1999
A Report by the Office of the Auditor

METRO

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Metro Auditor

METRO

Office of the Auditor

May 4, 1999

To the Metro Council and Executive Officer:

We reviewed how Metro's purchasing functions compare or "benchmark" against the purchasing functions at more than 100 private and public organizations. We identified top performers and looked at the activities that contributed to their standing.

While Metro is not an exact equivalent of the organizations in our benchmarking database, consistent use of explicit methodologies enabled reasonable comparisons of Metro's purchasing processes to those of other organizations.

Overall Metro's purchasing functions compare unfavorably to average and best-of-class organizations benchmarked. However, Metro's high rate of purchasing card use is exemplary.

In the report we identify several areas for improvement and made specific recommendations for improving Metro's purchasing processes. These include updating purchasing requirement thresholds, streamlining purchase processing, increasing computer systems use for purchase processing, increasing centralization of some purchasing activities, instituting a vendor performance measurement system, and establishing internal teams to study purchasing activities to improve cost effectiveness.

We reviewed a draft of this report with the Executive Officer. The last section of this report presents his written response.

We appreciate the cooperation and assistance provided by Metro staff as we conducted this review, particularly the staff from the Risk and Contracts Management division.

Very truly yours,

Alexis Dow, CPA
Metro Auditor

Auditor: Joe Gibbons

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Executive Summary

Benchmarking is a diagnostic tool that can lead to improved operations. This report describes how Metro's purchasing processes compare or "benchmark" against the purchasing practices of more than 100 other private and public organizations. Activities of top performers, or best-of-class organizations, that contributed to their standing are considered "best practices". Generally, organizations become more effective when they adopt best practices.

Metro is not the precise equivalent of the organizations in the benchmarking database; many are larger, private sector, and manufacturing fields. However, consistent use of well-defined methodologies enabled reasonable comparisons of Metro's purchasing processes to those of other organizations.

Metro's benchmarking results fall into three categories: some are favorable, some indicate that Metro could improve and others are inconclusive.

Generally, Metro's purchasing processes compare unfavorably to average and best-of-class organizations benchmarked. For example, Metro's:
- processing costs for purchases are about three times higher than average.
- staff time to process purchases is almost four times more than average.
- purchase order processes are four to five times less efficient than average.
However, Metro's high rate of purchasing card use is exemplary.

Factors contributing to Metro's variance from benchmark averages may include Metro's status as a governmental body, its relative small size and the fact that Metro primarily purchases services rather than materials. However, some changes can be made to improve Metro's purchasing activities.

Best practices that may help Metro enhance its purchasing processes include:
- Regularly updating dollar limits that determine purchasing requirements.
- Automating purchasing processes to the greatest extent feasible to improve purchasing workflow and provide management information that can lead to improved effectiveness.
- Centralizing some purchasing processes to provide more effective negotiation and management of contracts and purchases.
- Formally measuring vendor performance.
- Establishing an internal team to identify opportunities to streamline their purchasing practices and make them more effective.

Specific recommendations for Metro are detailed in this report.

Recommendations

We identified a variety of ways for Metro to improve the efficiency and effectiveness of purchasing processes. Following are our recommendations.

1. **Revise section 2.04.026 of the Metro Code to increase informal and formal contracting requirement thresholds from $2,500 and $25,000 to $7,500 and $75,000, respectively. Similarly, the Code's significant impact standard for major purchases should also be increased from $50,000 to $100,000.**

   Metro has low and outdated dollar approval limits for informal and formal purchases. Outdated dollar approval limits result in unnecessary labor cost to justify low cost purchases. Best of class organizations regularly update dollar thresholds for their purchases and establish procedures to reduce associated risks.

   The recommended limits would bring Metro in line with state and other local government limits and would substantially reduce management and staff time devoted to bidding processes, request for proposal (RFP) development, managing and evaluating quotes, and preparation and delivery of council briefings.

   Because risk may increase with higher dollar limits, the following steps should be undertaken concurrent with the implementation of the above recommendation:
   a) evaluate controls over purchases to assure that standards relating to due diligence and independence are maintained
   b) routinely monitor purchases to assure that they meet relevant Metro, state and federal requirements and that compliance is maintained
   c) assure that adequate records are maintained and that sensitive contracts are reviewed by superiors
   d) establish controls to keep vendors "at arm's length" and assure impartiality
   e) provide staff training on the implications of updated purchasing processes and dollar limits, stressing the legal and ethical issues involved, such as potential abuse or favoritism.

2. Metro should explore ways to simplify and streamline processes associated with purchasing card use.

Metro's purchasing card use rate for all transactions is outstanding and essentially best of class. However, some costs associated with purchasing cards may be reduced. These costs include labor-intensive and repetitive processes such as duplicate matching of receipts, manually coding each purchased item and individually posting purchased items on department general ledgers.

Some specific steps that would help accomplish this goal are:

a) Eliminate individually posting all purchases from all cards to line items in general ledger accounts. Metro departments should summarize charges by expense categories, thereby using fewer line items for such postings while maintaining the same level of general ledger detail as is currently provided to user departments.

b) Work closely with Metro's purchasing card provider to obtain upgraded system software that will fully enable electronic transfer of all transaction information. With computerized transaction information, Metro would be able to download the data into a manageable format, such as Excel spreadsheets. Department staff could then match receipts to downloaded transactions and code expenses on-line. Similarly, supervisors would then review and approve coding and matched receipts on-line and the approved data would be sent electronically to the Accounting Department for direct upload into the PeopleSoft general ledger. Such a process would take a fraction of the labor Metro currently uses on such matters and provide useful and timely summary data for managers.

c) Evaluate potential increases to purchasing card limits to determine if further efficiencies can be realized while still maintaining sufficient management control. Metro recently raised individual card limits from $500 to $1,000. The Purchasing Division estimates that it can eliminate about half of its yearly 3,500 purchase orders with this increase.

3. **Evaluate potential for purchasing efficiencies through expanded use of existing PeopleSoft system capabilities and through use of upgrades that can be cost justified.**

   Metro has low computer systems-related costs for purchasing functions. Conversely, labor-related costs for purchasing functions are high. Metro may be able to lower labor costs and make purchasing processes more efficient through enhanced use of its current PeopleSoft software. Best of class organizations use systems applications to a large degree to reduce purchasing costs and improve workflow. Outputs from systems applications, such as summary reports and monitoring data, lead to improved management effectiveness and oversight.

   Metro recently expanded use of system capabilities when the Executive Officer issued a directive requiring all purchase orders be made online. This will streamline purchase processing by taking advantage of features available in the recently installed PeopleSoft purchasing module.

   We encourage increasing efficiencies by implementing online approvals and postings to accounting records as suggested in Recommendation 2.

   Further efficiencies may be realized through use of cost-justified system upgrades.

4. **Determine if there are ways to benefit from increased centralization of purchasing processes.**

   Due to its primarily decentralized purchasing processes, Metro may be missing some efficiencies and opportunities that come with more centralization. Best of class organizations find that centralized purchasing functions lead to reduced labor costs, more uniform vendor monitoring and management, and consistent compliance practices.

   Metro's decentralized purchasing process has the advantage of efficient decision-making where each department can make fast and focused purchasing decisions. It has the disadvantage of being potentially less effective as department managers may not consistently know whether they are going through purchasing processes correctly, whether they are getting the best prices, or whether vendors fully comply with contract terms.

Metro may benefit from centralized staff fully dedicated and trained to provide operational support, purchasing management, compliance and decision support as well as negotiation of contracts not requiring subject matter expertise possessed by operating departments. Metro has centralized purchasing for office supplies, furniture, computers and travel. Examples of purchasing that may also be centralized include purchases of temporary services, landscaping, and food and beverages for meetings.

5. **Institute formalized vendor performance standards that reflect well-defined and consistent measures, monitoring and reporting. Master contracts should include reference to monitoring and performance measures as well as minimum acceptable performance levels.**

Metro performs essentially no formal monitoring of contractor performance. Consequently, Metro does not consistently determine the degree to which vendors comply with stated contract requirements and related standards.

Consistent and meaningful monitoring of vendor performance is a best practice that Metro should adopt. Only through such monitoring can an organization routinely assure itself that its vendor is providing all goods or services promised and that contract activities are consistent with applicable standards.

Metro should establish a systematic approach to monitor vendor compliance and establish relevant standards. A systematic approach to monitoring could include:
- Determining basic performance standards based on the Metro Code, contract terms, and related criteria
- Establishing and pilot testing an initial set of performance standards for its top vendors
- Inviting vendors to help develop performance standards
- Developing a simple vendor scorecard that includes typical performance standards
- Conducting vendor performance review meetings with Metro and vendors to analyze performance results and to determine if monitoring standards should be refined.

6. Establish internal teams to identify opportunities to streamline purchasing practices and make them more effective.

Metro has no systematic way to consistently determine how efficient and effective purchasing practices and procedures may be. It does not regularly look for improvement opportunities. Best of class organizations routinely monitor how well their purchasing process works and whether streamlining opportunities exist. They perform such monitoring through internal purchasing-enhancement teams.

The team should be comprised of purchasing and other personnel knowledgeable about purchasing needs and processes. Activities would include working with cross-functional teams on quality and cost reduction issues, and documenting, monitoring and measuring results of improvement efforts.

As one example of its activities, the team should evaluate Metro's purchasing programs having social goals. Metro absorbs costs associated with such programs. These include minority business enterprise (MBE), women owned business enterprise (WBE) and emerging small business enterprise (ESB) programs. Social goals are appropriate and sometimes legally required. Accordingly, Metro's internal purchasing evaluation team should periodically evaluate the performance of such purchasing programs to determine whether: (1) each program is achieving its goals; (2) there are ways to better achieve program goals; and (3) Metro can more cost effectively accomplish program goals.

Analysis of Key Benchmarking Indicators

The Hackett Group's report on Metro's purchasing processes presents 29 tables of comparisons between Metro and more than 100 other organizations and appears as Appendix A. Information on The Hackett Group and benchmarking processes is described in the Background section of this report. With the assistance of Risk and Contracts Management Division staff, we selected the most significant processes for presentation in this chapter.

Characteristics of Best-of-Class Organizations   Benchmark 1

Favorable Benchmarking Comparisons

Purchasing card use   Benchmark 2

Purchasing systems-related cost   Benchmark 3

Other purchasing costs   Benchmark 4

Benchmarking Comparisons Indicating Need for Improvements

Purchasing staff time allocation   Benchmark 5

Purchasing cost as a percentage of total purchases   Benchmark 6

Staff involvement in purchasing activities   Benchmark 7

Operational support for purchasing   Benchmark 8

Monitoring support for purchasing   Benchmark 9

Purchasing cost components   Benchmark 10

Benchmarking Metro's purchasing processes disclosed some indicators that suggest possibilities for improvements. We recognize that some corrective modifications may be limited within Metro's government environment. However, most of the comparisons summarized in this chapter show that Metro has opportunities to make some processes, procedures and functions more efficient and effective through use of several best practices. Some repetition occurs in our observations, discussion of best practices, and recommendations because many of these benchmarks have a number of common threads.

1　　Characteristics of Best-of-Class Organizations

Generally, Metro compares unfavorably with others in the study.

	Metro	Average	Top 25 Percent
Processing cost as a percentage of total purchases	3.5	1.1	0.8
FTE* per $1 million purchased	.554	.162	.115
Purchase orders processed per FTE*	517	2,207	2,807
Percentage of purchases made on purchasing cards	78	12	14

*　FTE = Full-Time Employee Equivalent

Explanation

- This is a summary comparison of Metro purchasing functions against average and best-of-class organizations. It assumes $1 million of purchases annually. Metro purchased $63 million of goods and services during the benchmarking period.
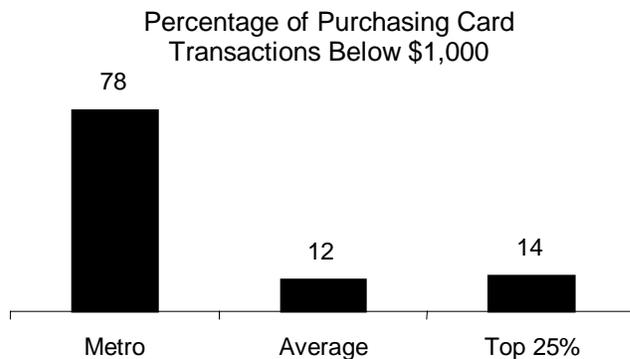
Benchmark observations

- Metro's purchasing cost is about three times higher than the average benchmarked organization.
- Metro's staff use is almost four times higher than the average for all organizations.
- Metro's processing of purchase orders is four to five times less efficient than the average organization benchmarked.
- Metro's use of purchasing cards is exemplary and a best practice.

Best Practices that can close the benchmarking gap

- Regularly update dollar thresholds for purchasing requirements.
- Reduce purchasing costs by raising dollar limits on purchasing cards and allowing their wider use.
- Have centralized purchasing offices with staff fully dedicated to operational support, compliance, decision support, and purchasing management.
- Use computer systems applications to the extent feasible to improve purchasing workflow. Outputs from systems applications, such as summary reports and monitoring data, can lead to improved management effectiveness and oversight.
- Institute a formalized vendor performance measurement system that reflects well-defined measures, monitoring and reporting. Master contracts include monitoring and performance measures and minimum performance levels.
- Establish internal teams to identify opportunities to make purchasing practices more streamlined and effective. Team activities include working with cross-functional teams on quality and cost reduction issues, and documenting, monitoring and measuring improvement results.

2   Purchasing Card Use

Percentage of Purchasing Card
Transactions Below $1,000

*Metro is exemplary
on this benchmark.*

Chart data:
- Metro: 78
- Average: 12
- Top 25%: 14

Explanation

- This benchmark measures purchasing card transactions as a percentage of all purchase transactions below $1,000.

Benchmark Observations

- For the benchmark period, Metro's limit on purchasing card transactions was $500 per purchase. Metro has recently increased the $500 limit to $1,000. By raising the limit to $1,000 per purchase, Metro believes it will eliminate about half of its yearly 3,500 purchase orders.
- Metro's 78 percent use rate allows it to enjoy reduced costs associated with purchase order processing, check writing and bank reconciliation processes.
- Currently, high labor costs are associated with processing purchase card transactions, primarily in the form of redundant matching of receipts and duplicate coding of each purchased item.

Best Practices That Can Close the Benchmarking Gap

- Strive to make processes associated with processing purchasing card transactions less labor-intensive and more streamlined.

3   Purchasing Systems-Related Cost

System Cost as Percentage of Purchases

Metro's systems-related cost is low.
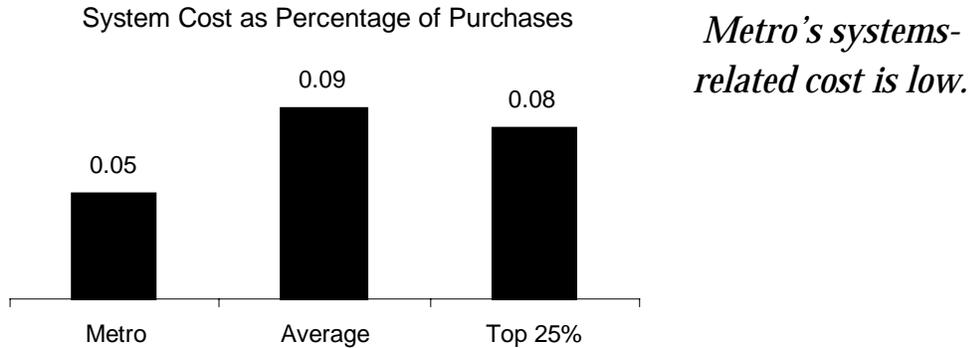
Explanation

- This benchmark measures information technology systems cost relative to total purchases

Benchmark Observations

- In the year under study, Metro's purchases were $63 million and its systems costs were $30,000.
- Although keeping cost low on purchasing functions is generally a preferred business practice, additional systems-related efficiencies may be achieved with increased investment in systems applications.
- Metro may be able to achieve additional systems-related efficiencies through use of existing PeopleSoft capabilities, by adaptations to Metro processes, and by applying systems upgrades that can be cost-justified.

Best Practices That Can Close the Benchmarking Gap

- Establish internal cross-functional teams to identify opportunities to achieve additional systems-related efficiencies through better use of PeopleSoft application software capabilities, by adaptations to Metro processes and by identifying upgrades that can be cost justified.

4 Other Purchasing Costs

Other Purchasing Costs as Percentage of
Total Purchases
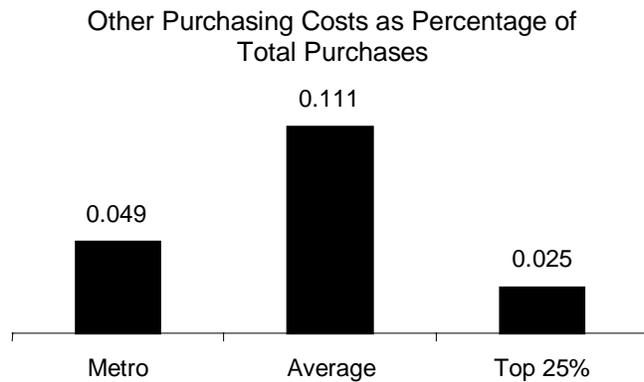
Metro's "other" costs are low and compare favorably with the average.

	Metro
Facilities cost ($ million)	$0.024
Travel and expense cost	$0.001
Training cost	$0.003
Postage cost	$0.000
Miscellaneous cost	$0.003
Total ($ million)	$0.031

Explanation

- This benchmark measures other costs that are specific to the more than 100 purchasing divisions in THG's database. For Metro, it measures other costs only within the relatively small (3.5 FTEs) Purchasing Division.

Benchmark Observations

- Considering Metro's relatively small purchasing staff, small facilities and several years of division budget reductions, expenses are low and compare favorably with "Average" organizations but are higher than "Best-of-Class" organizations.
- According to THG, "Average" organizations have higher other costs primarily due to newer and more expensive facilities. They also spend more on travel and training. First quartile organizations spend comparable amounts on travel, training, postage etc. but their facilities are less costly.

5   Purchasing Staff Time Allocation

Percentage of Purchasing Time Spent on Task
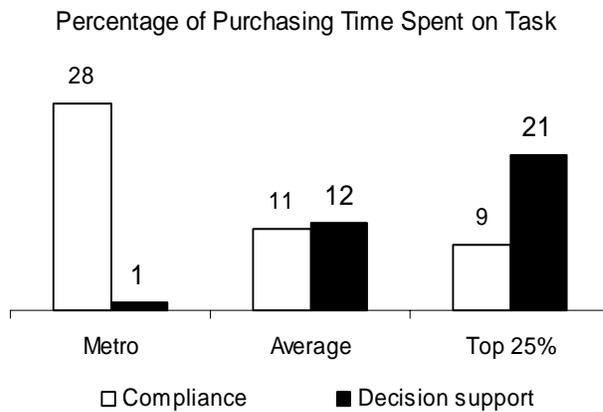
Metro spends little time on strategic decision support.

Explanation

- This benchmark compares only time spent by Risk and Contracts Management Division on purchasing activities and omits purchasing time spent by staff in other departments.

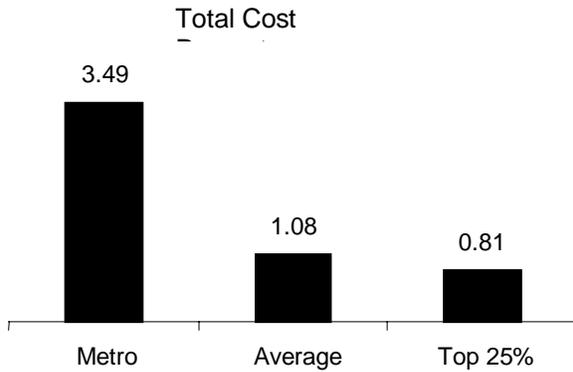|	Metro	Average	Top 25 percent
Operational support	70%	74%	62%
Compliance	28%	11%	9%
Decision support and planning	1%	12%	21%
Purchasing function management	1%	4%	8%
Total	100%	100%	100%

Benchmark Observations

- Purchasing activities are not a strategic function at Metro. Little time is spent on decision support, such as sourcing strategies and procurement management that could improve purchasing effectiveness and overall agency efficiency.

- Metro is bound by certain compliance standards and state and federal requirements that may not apply to private-sector organizations. Examples include requirements related to Metro's MBE, WBE, ESB Programs, Qualified Rehabilitation Firms, and Oregon Bureau of Labor and Industry's Prevailing Wage standards.
- Metro's decentralized purchasing can be *efficient* because individual managers can make fast decisions on most purchases. However, it may be less *effective* than centralized purchasing in complying with Metro's legal mandates cited above and assuring open and competitive contracting.

Best practices that can close the benchmarking gap

- Centralize purchasing staff to effectively manage strategic purchasing functions, including decision support, purchasing management, operational support and compliance.
- Employ a centralized vendor performance management system that monitors and reports on such issues as compliance and performance.
- Establish internal teams to identify opportunities to make purchasing practices more effective and efficient.

6 Purchasing Cost as a Percentage of Total Purchases

Total Cost

3.49

1.08

0.81

| Metro | Average | Top 25% |

A combination of factors contributes to Metro's high purchasing costs.

Explanation

- This benchmark measures Metro's total purchasing cost as a percentage of the agency's total purchases.

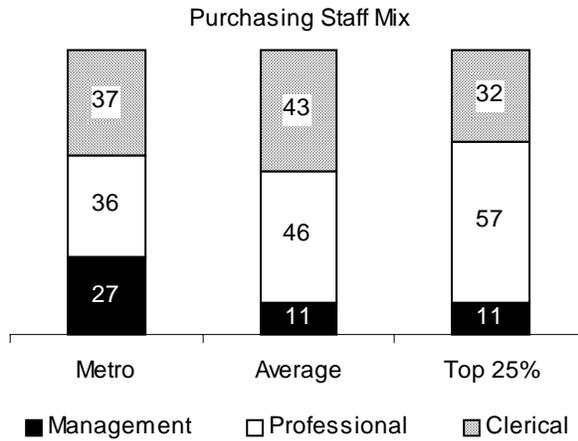|	Metro	Average	Top 25 percent
Labor	3.40%	0.87%	0.63%
Outsourcing	0.00%	0.01%	0.01%
Systems (PeopleSoft)	0.05%	0.09%	0.08%
Other	0.04%	0.11%	0.09%
Total	3.49%	1.08%	0.81%

Benchmark Observations

- Metro's investment of labor in purchasing functions is notably high. About 120 employees spend an average of 10 to 20 percent of their time on purchasing in Metro's decentralized purchasing process. Their total time invested is significant.

- Metro's thresholds for mandated purchasing procedures are low ($2,500 for informal purchases and $25,000 for formal purchases) when compared to thresholds at the City of Portland ($5,000 and $47,000), Multnomah County ($5,000 and $50,000), and State of Oregon ($5,000 and $75,000). The MERC standard is $5,000 and $75,000. Metro management is considering a request to the Metro Council to raise current dollar limits.
- Other likely factors contributing to Metro's higher labor cost include low investment in and use of information systems, decentralized purchasing processes, and issues related to Metro's government environment, such as programs for minority or other disadvantaged business owners.
- According to THG, "Average" organizations have higher other costs primarily due to newer and more expensive facilities. They also spend more on travel and training. First quartile organizations spend comparable amounts on travel, training, postage etc. but their facilities are less costly.

Best practices that can close the benchmarking gap

- Best-of-class organizations employ a variety of methods to lower labor costs associated with these activities. Such organizations:
  - ➢ regularly update dollar thresholds for mandated purchasing requirements,
  - ➢ more effectively use system capabilities, and
  - ➢ maintain certain flexibility and empower managers to decide on high cost purchases while centralizing many purchasing activities.
- Establish internal teams to identify opportunities to streamline purchasing practices and make them more efficient and effective. Team activities include working with cross-functional teams on quality and cost reduction issues, and documenting, monitoring and measuring improvement results.

7 Staff Involvement in Purchasing Activities

Purchasing Staff Mix

	Metro	Average	Top 25%
Clerical	37	43	32
Professional	36	46	57
Management	27	11	11

■ Management □ Professional ▨ Clerical

Metro managers are very involved in purchasing.

Benchmark Observations

- High management investment is primarily due to Metro's decentralized purchasing process which requires a manager's direct involvement in contracting, especially in obtaining approvals for purchases over $25,000.

Best practices that can close the benchmarking gap

- Regularly update dollar thresholds for purchase requirements.
- Have more centralized purchasing staffs that are more expert and fully dedicated to purchasing functions such as decision support, purchasing management, operational support and compliance.
- Establish internal teams to identify opportunities to streamline purchasing practices, making them more efficient and effective. Team activities include working with cross-functional groups on quality and cost reduction issues, and documenting, monitoring and measuring improvement results.

8   Operational Support for Purchasing

FTE per $1 Million Purchased
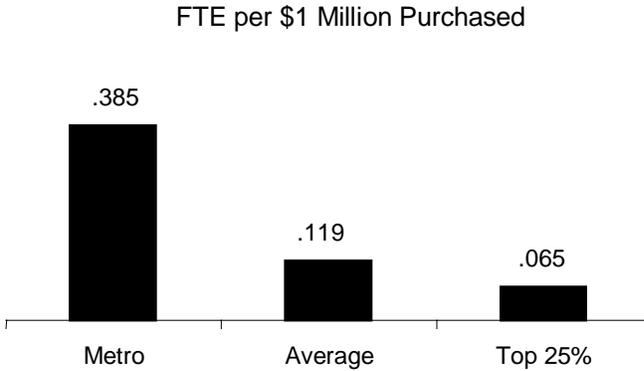
Metro devotes much more staff time to purchasing than most others benchmarked.

Explanation

- Detailed manpower requirements for purchasing's operational support activities only follow:

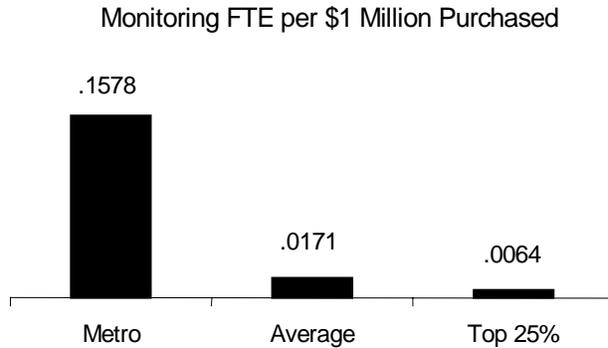|	Metro	Average	Top 25 percent
Supplier selection	.1389	.0090	.0059
Supplier negotiation	.0158	.0178	.0098
Requisition and purchase order processing	.0915	.0399	.0209
Supplier scheduling and purchase order release	.0363	.0078	.0057
Material receipt	.0331	.0247	.0087
Problem resolution	.0489	.0135	.0109
Item and supplier file maintenance	.0205	.0067	.0033
Total	.3850	.1194	.0652

Benchmark Observations

- Metro applies considerable staffing to purchasing support, especially the supplier selection process. Conversely, much less staffing is devoted to monitoring supplier performance (see Benchmark 9).
- Several reasons help explain Metro's high staffing for supplier selection:
  - Metro purchasing requirement thresholds are outdated and low. State and other local government limits are approximately three times higher.
  - Metro is heavily involved in selecting service providers, which is a more burdensome process than selecting materials suppliers. Many other benchmarked organizations have a greater portion of materials purchases.
  - Metro staff must comply with certain federal, state and Metro Code purchasing requirements that may not apply to many of the benchmarked organizations. Examples include requirements related to Metro's MBE, WBE, ESB Programs, Qualified Rehabilitation Firms and Bureau of Labor and Industry's prevailing wage requirements.

Best practices that can close the benchmarking gap

- Regularly update dollar thresholds for purchasing requirements.
- Make use of systems applications to improve purchase order workflow and related files maintenance.
- Have more centralized staff dedicated to operational support.
- Strive to redesign certain expensive and cumbersome processes that were created to achieve desirable social goals.
- Institute internal teams to reengineer processes to improve purchasing effectiveness and efficiency. Examples of such initiatives include working with cross-functional groups on quality and cost reduction issues, and documenting, monitoring and measuring improvement results.

9 Monitoring Support for Purchasing

Monitoring FTE per $1 Million Purchased

Metro devotes substantial staffing to compliance monitoring.

.1578

.0171

.0064

Metro | Average | Top 25%

Explanation

- Manpower requirements for monitoring support activities benchmarked follow:

	Metro	Average	Top 25 percent
Supplier performance monitoring	0.0	.0064	.0025
Government compliance	.0363	.0045	.0011
Internal compliance	.1215	.0062	.0028
Total FTE per $1 Million purchased	.1578	.0171	.0064

Benchmark Observations

- Metro essentially does not monitor the performance of suppliers of goods and services.
- About 120 employees spend varying amounts of their time on purchasing. Their total time invested is significant.
- Metro makes an inordinate investment in internal compliance, especially in managing the internally mandated purchasing requirement thresholds.

- Metro devotes a very high ratio of staff time to other internal and government compliance issues. These include staying abreast of governmental data and regulatory requirements, monitoring distribution of purchasing activity to internally identified targets, and ensuring that purchased items comply with environmental and hazardous waste regulations.
- Metro has a number of code-mandated purchasing requirements, such as the MBE, WBE, ESB programs. Adhering to and monitoring these requirements are time-consuming and expensive. Alternative, more cost-effective means of accomplishing these goals should be sought if they remain a priority.

Best practices that can close the benchmarking gap

- Reduce purchasing costs by regularly updating dollar thresholds for purchase requirements.
- Regularly monitor supplier performance, usually as part of a centralized contract negotiation and evaluation process.
- Strive to redesign certain expensive and cumbersome purchasing processes that were created to achieve desirable goals.
- Improve purchasing operations with regular management analyses of all purchasing activities.

10   Purchasing Cost Components

Percentage of Purchasing Resources
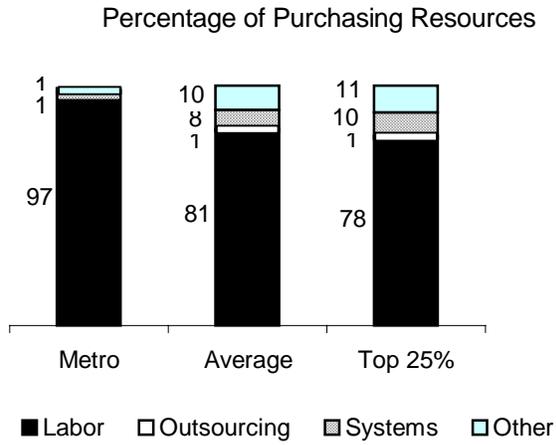
Metro's labor investment in purchasing is relatively high.

■Labor   □Outsourcing   ▨Systems   □Other

Explanation

- Detail of purchasing cost components follows:

	Metro*	Average	Top 25 percent
Labor	97%	81%	78%
Outsourcing	0%	1%	1%
Systems	1%	8%	10%
Other	1%	10%	11%

Benchmark observations

- Metro's purchasing-related labor cost is high and use of systems applications appears low.
- High labor cost appears to be related to low dollar thresholds for purchasing requirements, low investment in and use of information systems, and issues related to Metro's government environment, such as programs for minority or other disadvantaged business owners.

- According to THG, "Average" organizations have higher other costs primarily due to newer and more expensive facilities. They also spend more on travel and training. First quartile organizations spend comparable amounts on travel, training, postage etc. but their facilities are less costly.

Best practices that can close the benchmarking gap

- Regularly update dollar thresholds for purchasing requirements.
- More effectively use system capabilities.
- Reconsider and revise, as appropriate, administrative requirements when they are excessively time-consuming and cumbersome.
- Establish internal teams to identify opportunities to streamline purchasing practices and make them more efficient and effective, including working with cross-functional teams on quality and cost reduction issues, and documenting, monitoring and measuring improvement results.

Background

This report compares Metro's purchasing processes against processes employed in purchasing departments at more than 100 private and public organizations. Although some of Metro's benchmarked purchasing processes compare favorably, other benchmarked processes suggest that Metro has opportunities to adapt and apply "best practices" from other organizations. Our analysis is primarily based on benchmarking research that our contractor, The Hackett Group (THG), has conducted since 1991.

<u>Benchmarking – A Diagnostic Tool</u>

Benchmarking is an analysis of comparative data that can lead to insights that enable positive change. It is the discovering of specific practices responsible for high performance and understanding how these practices work. It is not a complex or highly conceptual method of improving operational effectiveness and efficiency. Rather, benchmarking is simply a management tool that works.

Benchmarking began in the private sector where businesses learned that they did not have to create totally new approaches to change their operations to improve profits. They found that they could realize more significant and pragmatic operational improvements by taking aspects of more effective operations and modifying practices for their operations.

<u>Benchmarking in the Public Sector</u>

In recent years, numerous government benchmarking experiences demonstrate that it is an effective way of doing business in environments that are becoming more results-oriented. For example, federal agencies have made significant operational improvements through their implementation of the Government Performance and Results Act. At the state level, the Oregon Legislature passed a government efficiency bill that clearly set expectations for benchmarks and performance measures. Agencies have reported significant operational improvements as a result of such measurements. Benchmarking in the public sector has led to (1) working smarter toward effective results; (2) building on the work, experience, failures, and successes of others; and (3) enhancing agency accountability and public trust.

The Hackett Group (THG)

We performed our benchmarking survey through a contract with consultants at The Hackett Group, a widely recognized management consulting firm that specializes in benchmarking. THG's benchmarking studies have helped over 1,300 organizations evaluate their operational efficiency and effectiveness, identify and adapt better approaches, and implement positive change.

According to THG, it has the world's most comprehensive benchmarking database of organizations' key processes. THG's database represents a variety of organizations in private and public sectors in the production and services fields. The organizations against which we benchmarked Metro range in size from $225 million to nearly $12 billion in annual revenue, with purchasing department staffs as small as 22 and as large as 1,100. Although Metro is one of the smaller organizations, THG's benchmarking methodologies provide comparisons that are relevant and applicable.

We present THG's summary benchmarking report on Metro's purchasing processes and our annotated comments in Appendix A.

Purchasing at Metro

Metro purchased about $63 million of goods and services in fiscal 1997-98. Its decentralized operating structure provides individual departments with a high degree of authority to purchase goods and services. Each Metro department is responsible for contract initiation, advertisement, selection of applicable vendors, and contract administration. The methods of making purchases range from very informal and "fast" acquisitions made through purchasing cards to formal detailed processes.

The table on the following page summarizes, by type of purchase and dollar amount, Metro's general purchasing procedures and requirements.

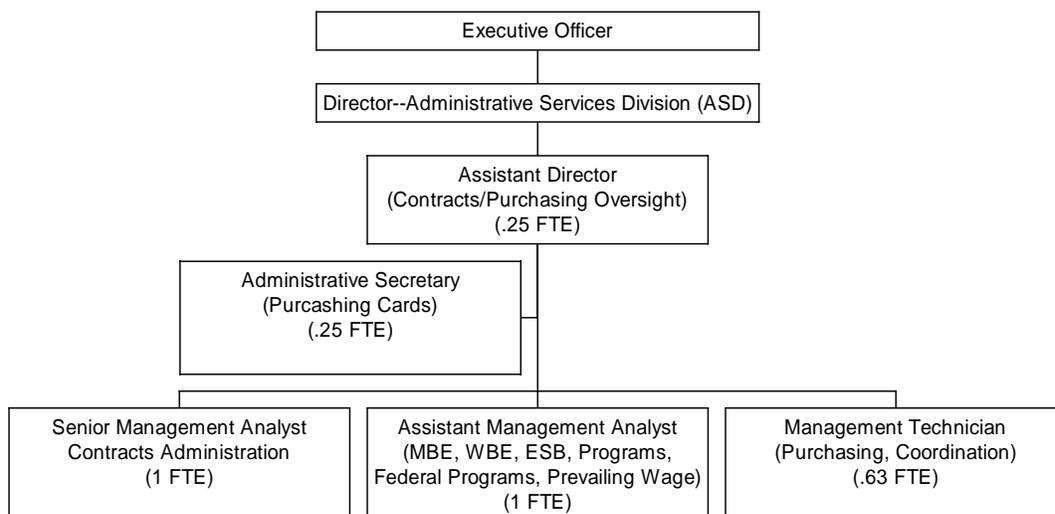| Purchase Amount	For All Purchases other than Personal Services	For Personal Services
Under $2,500	• Develop Scope of Work • Quotes need not be obtained • Recommend ESB, MBE, WBE, vendors • Use purchasing cards for less than $1,000 • Approval by department director	• Obtain one to three proposals • Recommend ESB, MBE, WBE, vendors • Short term personal services contract • Approval by department director
Over $2,500	• Develop Scope of Work • Prepare list of possible bidders • Must include MBE, WBE, ESB • Obtain three bids • Must go to lowest, responsive, responsible bidder • Finalize Acceptance and Rejection Letters • Department Director signs contract up to $10,000	• Develop Scope of Work • Prepare list of possible proposers • Must include MBE, WBE, ESB • Recommend obtaining three written proposals • More than one person evaluates • Inform proposer of acceptance or rejection • Department Director signs contract up to $10,000
Over $25,000	• Formal rules apply • RFB (Request for Bid) developed by department • Develop Scope of Work • If a "significant impact" contract and multi-year, RFB approved by Council • If contract not included in current budget, Council to determine "significant impact" • Prepare Bidders/Planholders List. Must include at least one MBE and one WBE • Advertised two weeks prior to bid opening • Formal bid opening must be held • Must go to lowest, responsive bidder • If not low bid, Council must approve • Send out Acceptance and Rejection Letters • Reviewed by General Counsel prior to Metro signatures	• Formal rules apply • RFP developed by department • Advertise in two newspapers • Written notification to at least 3 potential vendors • Obtain three quotes, one from MBE, WBE, ESB required • Formal evaluation of proposals • Written notification of selection or rejection • Personal services contract
Over $50,000	• "Significant Impact" – Formal process and Council approval required	• "Significant Impact" – Formal process and Council approval required

The Risk and Contracts Management Division within the Administrative Services Department provides purchasing support and direction to Metro staff. The Division applies rules and regulations defined in state law and Metro Code. It is Metro policy to provide equal opportunity for all persons to access and participate in Metro's locally funded projects, programs and services.

Primary responsibilities in the division consist of:
1) encouraging a competitive purchasing process that supports openness and impartiality;
2) reviewing and monitoring departments' contracts, amendments and requests for bids and proposals pursuant to Metro Code and state and federal standards; and
3) overseeing Metro's Disadvantaged, Minority, Women-Owned, Emerging Small Business Enterprise (MBE, MBE, ESB) Programs.

The Risk and Contracts Management Division establishes and disseminates code and other requirements to the departments. Each department is responsible for its own purchasing, including contract initiation, advertisement, negotiation, vendor selection and contract administration. The level of contract review and approval depends on the purchase amount. Areas that use multiple contractors, primarily the Oregon Zoo and Regional Environmental Management Department, have allocated personnel to internally process contracts.

The following illustration depicts the purchasing unit organization within the Risk and Contracts Management Division.

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                    ┌─────────────────────────────────┐
                    │       Executive Officer          │
                    └─────────────────────────────────┘
                                    │
          ┌─────────────────────────────────────────────────┐
          │  Director--Administrative Services Division (ASD) │
          └─────────────────────────────────────────────────┘
                                    │
                 ┌──────────────────────────────────┐
                 │      Assistant Director           │
                 │  (Contracts/Purchasing Oversight) │
                 │           (.25 FTE)               │
                 └──────────────────────────────────┘
                                    │
      ┌──────────────────────────┐
      │  Administrative Secretary │
      │    (Purcashing Cards)     │
      │        (.25 FTE)          │
      └──────────────────────────┘
```

Senior Management Analyst Contracts Administration (1 FTE)	Assistant Management Analyst (MBE, WBE, ESB, Programs, Federal Programs, Prevailing Wage) (1 FTE)	Management Technician (Purchasing, Coordination) (.63 FTE)

Objectives, Scope and Methodology

We conducted this work to determine how Metro's purchasing processes compare against a broad range of public and private organizations. Our objectives were to determine:

- the relative efficiency and effectiveness of Metro's purchasing functions.
- where benchmarking gaps exist.
- where opportunities exist to narrow the benchmarking gap and enhance Metro's purchasing processes. A benchmarking gap is the difference in performance, efficiency or effectiveness between a Metro purchasing activity and others in the database.

We worked with staff from Metro's Risk and Contracts Management Division and THG in a multi-step benchmarking process. Our work included:

- Attending THG's orientation and training meeting where THG consultants elaborated on purchasing process definitions and their questionnaire that asked 235 detailed questions on Metro's purchasing processes for fiscal year 1997-98.
- Working with division staff to collect data and complete the questionnaire.
- Refining data on the completed questionnaire and verifying its accuracy and consistency.
- Conferring with THG consultants on findings and implications of Metro's purchasing benchmarking.
- Analyzing the implications of benchmarking gaps between Metro and other purchasing departments.

Our benchmarking study collected data across the following three purchasing categories and fifteen purchasing processes.

Operational Support	**Compliance**	**Decision Support**
• Supplier selection	• Supplier performance management	• Sourcing strategies
• Supplier negotiation		• Supplier partnering and development
• Requisition & PO processing	• Government compliance	• Product requirements definition
• Supplier scheduling and order release	• Internal compliance	• Total quality management initiatives
• Material receipts		
• Problem resolution		• Purchasing management
• Item and supplier master file maintenance		

We reviewed three performance audits on Metro's purchasing processes that were completed between 1990 and 1993. Metro implemented most of the recommendations from these audits.

We worked with staff from the Risk and Contracts Management Division to refine data presented in this report.

We recognize that Metro is not typical of the more than 100 organizations benchmarked by THG, especially considering its relatively small size and government environment. For example, private-sector organizations do not have the same compliance issues to manage as Metro. Some purchasing-related requirements include legal mandates, Metro Council approvals, public notices and public record requirements.

THG's precise definitions and benchmarking processes helped create comparability in spite of the organizational differences within the database. Our consistent use of THG's explicit methodologies enabled us to compare Metro's purchasing processes to similar processes of other organizations, regardless of size or industry.

We performed our work between July 1998 and March 1999 in accordance with generally accepted government auditing standards.

Appendix A

Annotated THG Benchmark Report on Metro's Purchasing Functions

The Hackett Group

T	G
H	

Appendix 1 -- The Hackett Group Benchmarking Report on Metro's Purchasing Processes (with Auditor's Italicized Annotations)

Metro Regional Government--Purchasing Processes

Baseline

Item 1 Annual Total Purchasing Costs

	Cost ($ Millions)	Percentage
Systems Cost	$0.03	1.3%
Outsourcing Cost	$0.00	0.0%
Labor Cost	$2.15	97.5%
Other Cost	$0.03	1.2%
Annual Total Purchasing Cost	**$2.21**	**100.0%**

-- For purposes of our report, purchasing is defined as the act and function of responsibility for acquisition or procurement of equipment, materials, supplies, and services.

-- "Systems Costs" include the costs include the hardware and software costs associated with purchasing function, primarily Infolink/PeopleSoft costs. See Item 20.

-- "Outsourcing Costs" are all external costs associated with the delivery of purchasing processes and services.

-- "Labor Costs" include all compensation and fringe benefits for fulltime and part-time employees. See Item 10.

-- "Other Costs" are all remaining purchasing-related expenses, including supplies, postage, training and travel. See Item 21.

Item 2 Overall Cost As a Percent of Purchased Cost

Annual Total Purchasing Cost ($ Millions)	$2.21
Purchase Cost ($ Billions)	$0.06
Cost As a Percent of Purchased Cost	3.49%

-- This represents a "snapshot" of Metro's purchasing activities that occurred only in FY 1997-98. It does not include purchases under prior contracts. Metro has about $1.03 billion in active contracts.

Item 3 Staffing By Job Category

	FTEs	Percentage
Manager	9	26%
Professional	13	36%
Clerical	13	38%
Total Staffing By Job Category	**35**	**100%**

-- As part of our methodology, we contacted all 120 Metro employees who made purchases during FY 1997-1998. We did not include MERC purchasing processes. We asked about their activities and time spent on purchasing. 35 FTEs were involved in purchasing activities. The 120 employees/35 FTEs employees spent varying amounts of their time working on purchasing functions.

-- Managers are employees primarily responsible for leading a department and performing oversight, planning, administrative, and personnel functions, including supervision.

-- Professionals are employees primarily performing analytical and technical functions. They work in highly-skilled positions.

-- Clerical are employees primarily performing routine data entry, filing, typing and Other related administrative tasks.

Item	4	Purchasing FTEs Per $ Billion of Purchases	FTEs	FTEs / $ Billion
		Operational Support	24.4	385.1
		Compliance	10.0	157.8
		Decision Support/Planning	0.3	4.7
		Purchasing Function Management	0.4	6.3
		Total FTEs Per $ Billion of Purchased Cost	**35.1**	**554.0**

-- These "35 FTEs" represent 120 Metro employees who spend varying amounts of time on purchasing activities.

-- Operational Support activities include supplier selection and negotiation, preparing requests for quotes and proposals, analyzing quotes and proposals, processing requisitions and purchase orders, scheduling supplies, managing material receipts, resolving problems, processing purchasing card transactions, and working with the Council on approvals.

-- Compliance activities include managing: (1) government compliance issues; (2) Metro's Minority Business Enterprise/Women Business Enterprise/Emerging Small Business (MBE/WBE/ESB) programs; and (3) internal compliance issues, such as comparing purchasing targets to actual results.

-- Decision Support/Planning activities include developing sourcing strategies and product requirements definitions.

-- Purchasing Function Management activities include establishing of purchasing policies and controls as well as general administration and personnel management.

Item	5	Procurement Staff Time Allocation	Metro	Average	1st Quartile
		Operational Support	70%	74%	62%
		Compliance	28%	11%	9%
		Decision Support/Planning	1%	12%	21%
		Purchasing Function Management	1%	4%	8%
		Total Purchasing Staff Time Allocation	**100%**	**100%**	**100%**

-- See report Benchmark 5 for discussion.

| Item	6	Education, Experience, Turnover	Metro	Average	1st Quartile
		MBA/CPA -- Manager	No Data	43%	77%
		MBA/CPA -- Professional	No Data	40%	41%
		Turnover	No Data	8%	7%
		Experience (Years)	19	16	11

-- The years of experience cited for Metro is for 3 employees in Metro's Purchasing Division. Other information related to turnover is not meaningful in Metro's decentralized purchasing environment.

Benchmarking External Costs

Item	7	Purchasing Cost As a Percent of Total Purchases	Metro	Average	1st Quartile
		Labor	3.40%	0.87%	0.63%
		Outsourcing	0.00%	0.01%	0.01%
		Systems (PeopleSoft)	0.05%	0.09%	0.08%
		Other	0.04%	0.11%	0.09%
		Total Cost As a Percent of Purchased Cost	**3.49%**	**1.08%**	**0.81%**

-- See report Benchmark 6 for discussion.

Item 8 Purchasing Cost As a Percent of Total Purchases By Quartile

THG's Overall Database

	4.4%
Quartile 4	
	2.5%
Quartile 3	1.5%
Quartile 2	0.8%
Quartile 1	0.4%
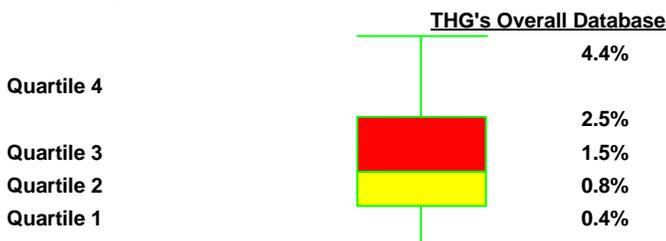
-- See report Benchmark 6 for discussion.

Item	9	Purchasing FTEs Per $ Billion Of Purchases	Metro	Average	1st Quartile
		Operational Support/Transaction Processes	385.1	119.4	85.2
		Compliance	157.8	17.1	8.4
		Decision Support/Planning	4.7	19.2	15.4
		Purchasing Function Management	6.3	6.5	5.5
		Total FTEs Per $ Billion of Purchased Cost	554.0	162.2	114.5

-- See report Benchmark 1 for discussion.

Item	10	Wage Rates for Purchasing Processes	Metro	Average	1st Quartile
		Management	$85,574	$87,059	$85,875
		Professional	$59,413	$60,951	$56,156
		Clerical	$45,385	$34,784	$32,031
		Overall	$61,298	$52,415	$47,644

Item	11	Staff Mix for Purchasing Processes	Metro	Average	1st Quartile
		Management	27%	11%	11%
		Professional	36%	46%	57%
		Clerical	37%	43%	32%

-- See report Benchmark 7 for discussion.

Item	12	Spans Of Control By Purchasing Process Categories	Metro	Average	1st Quartile
		Transaction Processing	1:5	1:9	1:12
		Compliance	1:1	1:4	1:4
		Decision Support/Planning	1:1	1:3	1:3

-- This is the ratio of managers to employees.

Core Transaction Processes

Item	13	Productivity-Transactions Per FTE	Metro	Average	1st Quartile
		Requisition & PO Processing	517	2,207	2,807
		Material Receipts	7,143	6,128	18,538

-- This represents total purchasing volume divided by FTEs.

Operational Support Processes

Item	14	Staffing-FTEs Per $ Billion Of Purchased Cost	Metro	Average	1st Quartile
	A	Supplier Selection	138.9	9.0	5.9
	B	Supplier Negotiation	15.8	17.8	9.8
	C	Requisition & PO Processing	91.5	39.9	20.9
	D	Supplier Scheduling & Order Release	36.3	7.8	5.7
	E	Material Receipts	33.1	24.7	8.7
	F	Problem Resolution	48.9	13.5	10.9
	G	Item & Supplier Master File Maintenance	20.5	6.7	3.3

-- See report Benchmark 8 for discussion

Best Practices Utilization Varies Among Core Operational Support Processes

Item	15A	Supplier Selection	Metro	Average
	1	**Purchases From Preferred Suppliers**	0%	60%
	2	**Suppliers Providing 90% Of Purchase. Dollars**	70%	18%
	3	**Formal Methodology (Preferred Suppliers)**	No	Yes

-- Items 15A1 and 15A2 are not applicable at Metro because preferred providers are not allowed under state law. Item 15A2 shows that 90% of Metro's purchasing dollars go to 70% of its vendors, indicating that Metro has a wide supplier base.

Item	15B	Supplier Negotiation	Metro	Average
	1	**Contracts Negotiated Centrally**	5%	43%
	2	**Contracts Greater Than 1 Year In Length**	90%	31%
	3	**New Items Requiring RFQs Or RFPs**	70%	51%

-- Item 15B1 relates to the decentralized nature of Metro's negotiation processes as few contracts are negotiated by one group of experts. Item 15B2 is a positive indicator because longer term contracts are a best practice.

Item	15C	Requisition & PO Processing	Metro	Average
	1	**Percent Of Approvals Completed Online**	5%	59%
	2	**Purchase Orders Processed Through EDI**	0%	38%
	3	**Purchase Dollars Acquired Using Blanket Contracts**	91%	31%

-- Item 15C1 shows that Metro and its suppliers could be more efficient in their activities through more use of Internet/Electronic Data Interchange(EDI) capabilities. The Executive Officer issued a directive, effective March 1, 1999, that requires purchases be made and managed on-line. Item 15C2 is a negative indicator but Metro has limited potential for changing it because most suppliers do not have EDI capability. Item 15C3 is a positive indicator because blanket contracts are a best practice.

Item	15D	Material Receipts	Metro	Average
	1	**Shipments Received "Dock To Stock"**	90%	29%
	2	**Shipping Notices Processed Through EDI**	0%	22%
	3	**Shipments Containing Embedded Barcodes**	0%	35%
	4	**Electronic Transmission Of Data To A/P**	Yes	Yes

-- Most of Item 15D is not applicable at Metro because over 88% of Metro's purchases are for services, not materials. The primary exception relates to supplies purchased for the Oregon Zoo.

Item	15E	Problem Resolution	Metro	Average
	1	**Online Documentation Of Problem Resolution.**	No	69%
	2	**Percent Of Late Payments To Suppliers**	12%	12%
	3	**Disputes That Purchasing Must Resolve**	5%	59%

-- These are basically neutral indicators. Item 15E1 is not applicable at Metro because Metro and its vendors currently do not have much capability to be linked electronically. Items 15E2 and 15E3 are not related to the operating departments who in Metro's decentralized fashion bear almost total responsibility for payment and problem resolution.

Item	16	Percent Of Transactions Below $1,000 Handled Using Purchasing Cards	
		Metro	78%
		Average	12%
		1st Quartile	14%

-- See report Benchmarks 1 and 2 for discussion.

Compliance

Item	17	Staffing-FTEs Per $ Billion Of Purchase Cost	Metro	Average	1st Quartile
	A	**Supplier Performance Measurement**	0.0	6.4	2.5
	B	**Government Compliance**	36.3	4.5	1.1
	C	**Internal Compliance**	121.5	6.2	2.8

-- See report Benchmark 9 for discussion.

Decision Support/Planning

Item	18	Staffing-FTEs Per $ Billion Of Purchased Cost	Metro	Average	1st Quartile
	A	Sourcing Strategies	3.2	5.0	3.4
	B	Supplier Partnering/Development	1.6	5.0	3.1
	C	Product Requirements Definitions	0.0	4.6	1.9
	D	Total Quality Management Initiatives	0.0	4.6	3.4

Item	19	Outsourcing Cost As a Percent of Purchased Cost	Metro	Average	1st Quartile
	A	Annual Purchase Cost ($ Billions)	$0.06		
	B	Annual Outsourcing Cost ($ Millions)	$0.00		
	C	Outsourcing Cost As a % Of Purchase Cost	0.000%	0.010%	0.010%

Systems Cost Analysis

Item	20	Purchasing Systems Cost As a Percent of Purchased Cost	Metro	Average	1st Quartile
	A	Annual Purchase Cost ($ Billions)	$0.06		
	B	Annual Systems Cost ($ Millions)	$0.03		
	C	Systems Cost As a % Of Purchase Cost	0.045%	0.086%	0.080%

-- See report Benchmark 3 for discussion.

Other Cost Analysis

Item	21	Other Purchasing Cost As a Percent of Purchased Cost	Metro		Average	1st Quartile
			Metro		Average	1st Quartile
		Annual Purchased Cost ($ Billions)	$0.06			
		Facilities Cost ($ Millions)	$0.024	*Fixed cost*		
		Travel and Expense Cost	$0.001	*Low variable cost*		
		Training Cost	$0.003	*Low variable cost*		
		Postage Cost	$0.000	*Low variable cost*		
		Other (Miscellaneous) Cost	$0.003	*Low variable cost*		
		Total Annual Other Cost ($ Millions)	$0.031			
		Other Cost As a Percent of Purchased Cost	0.049%		0.111%	0.025%

Item	22	Purchasing Cost Components	Metro	Average	1st Quartile
		Labor	97%	81%	78%
		Outsourcing	0%	1%	1%
		Systems	1%	8%	10%
		Other	1%	10%	11%

-- See report Benchmark 10 for discussion.

Item	23	Summary--What Does a "Best-of-Class" $ Billion Company Look Like?	Metro	Average	1st Quartile
		Cost as a Percent of Purchased Cost	3.49%	1.1%	0.8%
		FTEs per $1 Billion Purchased	554	162.2	114.5
		Suppliers Receiving 90% Of Purchase Dollars	70%	18%	10%
		POs & Requisitions Processed Per FTE	517	2,207	2,807
		Purchasing Card Usage	78%	12%	14%

-- See report Benchmark 1 for discussion.

Potential Opportunities--If Metro Can Achieve Average or First Quartile Productivity, Metro Can Save Double the Savings Indicated

Item 24 Operational Support Opportunities

Productivity Opportunity

Savings capped at 50%

	At Average		At 1st Quartile	
Supplier Selection	$ 281,000	*	$ 281,000	*
Supplier Negotiation	-		27,521	
Requisition & PO Processing	182,100	*	182,100	*
Supplier Scheduling and Order Release	76,750	*	76,750	*
Material Receipts	33,807		66,350	*
Problem Resolution	92,450	*	92,450	*
Item & Supplier Master File Maintenance	39,100	*	39,100	*
Total Operational Support Opportunities	$ 705,207		$ 765,271	

Item 25 Compliance Process Opportunities

Productivity Opportunity

Savings capped at 50%

	At Average		At 1st Quartile	
Supplier Performance Measurement	$ -		$ -	
Government Compliance	66,100	*	66,100	*
Internal Compliance	211,850	*	211,850	*
Total Control & Risk Opportunities	$ 277,950		$ 277,950	

Item 26 Decision Support/Planning Opportunities

Productivity Opportunity

Savings capped at 50%

	At Average	At 1st Quartile
Sourcing Strategies	$ -	$ -
Supplier Partnering/Development	-	-
Product Requirements Definition	-	-
Total Quality Management Initiatives	-	-
Total Decision Support/Planning Opportunities	Unknown	Unknown

Item 27 Total Potential Productivity Opportunity

Productivity Opportunity

	At Average		At 1st Quartile
Transaction Processing	$ 705,207	$ -	$ 765,271
Compliance	277,950	-	277,950
Decision Support/Planning	Unknown	-	Unknown
Total Productivity Opportunity	$ 983,157		$ 1,043,221

Item   28   Total Cost Opportunities

	Productivity Opportunity ($000)	
	At Average	At 1st Quartile
Productivity Opportunities	$ 983.16	$ 1,043.22
Staff Mix Opportunities	0.11	0.08
Wage Rate Opportunities	0.07	0.12
Total Labor Opportunity	$ 983.34	$ 1,043.42

Item   29   Benchmark Results Summary

	Metro Comparison to Average	Metro Comparison to 1st Quartile
Purchasing Cost as a % of Purchased Cost	223%	331%
FTEs per $ Billion of Purchased Cost	242%	384%
Systems Cost	-48%	-44%
Other Costs	-56%	95%

Response to the Report

METRO

TO: Alexis Dow, Metro Auditor

FROM: Mike Burton, Executive Officer

DATE: March 28, 2000

RE: Response to Purchasing Benchmarks and Opportunities Audit April 1999

Thank you for the opportunity to respond to the purchasing benchmarks and opportunities report. You and your staff have compiled a significant amount of information that will help Metro be more efficient and effective in the delivery of our services.

Overall, as noted below, I concur with your recommendations. My staff has been working on a number of these issues and your conclusions and recommendations are very timely.

Recommendation Responses

1.   Revise section 2.04.026 to the Metro Code to increase informal and formal contracting requirement thresholds from $2,500 and $25,000 to $7,500 and $75,000, respectively. Similarly, the Code's significant impact standard for major purchases should also be increased from $50,000 to $100,000.

Agreement with Recommendation: I agree.

Proposed Action Plan: An ordinance recommending these changes will be presented to Council for their consideration in June 1999. These changes require Council approval. Two years ago, I did recommend to the Council that these purchasing threshold levels be increased. However, at that time the Council rejected my recommendation. I will also direct staff to review our procedures to ensure compliance with applicable codes and integrity in the purchasing process if Council concurs with the new limits.

2.   Metro should explore ways to simplify and streamline processes associated with purchasing card use.

Agreement with Recommendation: I agree.

Proposed Action Plan: The bank which provides the purchasing card is in development of software which streamlines the process. The software will allow transaction logs to be transmitted and completed electronically and uploaded to PeopleSoft. Metro will change its practices as soon as these new processes become available.

In order to best serve department needs, departments are currently allowed to individually post purchasing card transactions, which results in manual efforts. The electronic completion of transaction logs should eliminate manual efforts. The Director of ASD will provide a recommendation on handling of receipts to avoid any duplicative reviews in the second quarter of 1999.

The utilization of purchasing cards will be monitored carefully in light of the recent increase of the spending limit to $1,000.

3.   Evaluate potential for purchasing efficiencies possible through expanded use of existing PeopleSoft capabilities and through use of system upgrades that can be cost justified.

Agreement with Recommendation: I agree.

Proposed Action Plan: PeopleSoft is an exciting product because of its dynamic nature. As PeopleSoft enhancements become available, Metro will evaluate and implement improvements based on cost benefit analysis and available resources. For example, Metro currently uses on-line approvals but it does not interface with e-mail at this time. This feature is available on new releases and will make the system much easier to utilize. I will also direct that staff review your previous audit of the PeopleSoft system to fully implement the capabilities of the existing system to its full potential without new releases.

4.   Determine if there are ways to benefit from increased centralization of purchasing.

Agreement with Recommendation: I agree.

Proposed Action Plan: The Director of Administrative Services has been directed to bring back a plan and implementation strategy to increase centralization of purchasing in those applicable areas by October 1999. (Please note my comment under General Observations below.)

5.   Institute a formalized vendor performance measurement system that reflects well-defined and consistent measures, monitoring and reporting. Master contracts should include reference to monitoring and performance measures as well as minimum acceptable performance levels.

Agreement with Recommendation: I agree.

Proposed Action Plan: Staff has been assigned to implement a formal vendor measurement system, including contractual language, in the fourth quarter of 1999.

6.   Establish internal teams to identify opportunities to streamline purchasing practices and make them more effective.

Agreement with Recommendation: I agree.

Proposed Action Plan: A team will be established to address this recommendation and #4 above, and will begin regular meetings on purchasing in the third quarter of the year. This team (or sub-teams) will work on other ways to improve service delivery.

General Observations about the Benchmark Report

While I agree with the recommendations, I do have concerns about the benchmark agencies selected for comparison to Metro.

1.   Metro is a service organization. Metro purchases during the benchmark study period totaled $63 million, of which $56 million were purchased services. Buying services requires more resources than buying goods. A benchmark using a majority of service organizations, rather than manufacturers, may have produced substantially different results than the benchmarks used here.

2.   Metro desires to improve the local economy by reaching out to small, local vendors. These outreach efforts require additional resources, but the community is strengthened.

3.   In order to maintain public trust and integrity with the spirit of openness and fairness, Metro must adhere to stringent federal and state laws and internal procedures that require additional purchasing resources.

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Report Evaluation Form

METRO

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Your feedback helps us do a better job. If you would please take a few minutes to fill out the following information for us, it will help us assess and improve our work.

Name of Audit Report: _____

Please rate the following elements of this report by checking the appropriate box.

	Too Little	**Just Right**	**Too Much**
Background Information	❑	❑	❑
Details	❑	❑	❑
Length of Report	❑	❑	❑
Clarity of Writing	❑	❑	❑
Potential Impact	❑	❑	❑

Suggestions for our report format:_____
_____
_____

Suggestions for future studies:_____
_____
_____

Other comments, ideas, thoughts:_____
_____
_____

Name (optional):_____

Thanks for taking the time to help us.

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