

# CITY OF PHILADELPHIA PENNSYLVANIA

## OFFICE OF THE CONTROLLER

*Promoting honest, efficient, and fully accountable government*

**REVIEW OF THE  
CITY OF PHILADELPHIA  
PROCUREMENT FUNCTION  
MARCH 2013**



City Controller  
**ALAN BUTKOVITZ**



# CITY OF PHILADELPHIA

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ALAN BUTKOVITZ  
City Controller

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March 4, 2013

Mr. Hugh Ortman, Commissioner  
Procurement Department  
1401 John F. Kennedy Boulevard  
Suite 120, Municipal Services Building  
Philadelphia, PA 19102

Dear Mr. Ortman:

The Office of the Controller commissioned and oversaw a review, conducted by the consulting firm of JF Smith & Associates, of the City of Philadelphia's procurement function. The purpose of this review was to assess the City of Philadelphia's purchasing processes and procedures currently in place and to identify potential areas of improvement. This review was conducted pursuant to Section 6-400 (d) of the Home Rule Charter, and the results of the consultant's review are summarized in the executive summary attached to this report.

We discussed the findings and recommendations with you, your staff and a representative from the Managing Director's Office at an exit conference and included your written response to the consultant's findings in Section II of the report. We believe the recommendations in the attached report, if implemented, will improve the city's procurement process.

We would like to express our thanks to you and your staff, as well as the staffs of the Mayor's Office, the Managing Director's Office, the Office of the Director of Finance, and the Office of Innovation and Technology, for the courtesy and cooperation displayed during the conduct of our work.

Very truly yours,

A handwritten signature in dark ink, appearing to read 'Alan Butkovitz'.

ALAN BUTKOVITZ  
City Controller

cc: Honorable Michael A. Nutter, Mayor  
Honorable Darrell L. Clarke, President  
and Honorable Members of City Council  
Members of the Mayor's Cabinet  
Rob Dubow, Director of Finance



# REVIEW OF THE CITY OF PHILADELPHIA PROCUREMENT FUNCTION

## EXECUTIVE SUMMARY

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### Why the Controller's Office Conducted the Examination

Pursuant to Section 6-400 (d) of the Philadelphia Home Rule Charter, the Controller's Office engaged JF Smith & Associates to conduct a review of the City of Philadelphia's (City) procurement function. The objective of this review was to identify opportunities for improvement in the processes and procedures over purchasing.

### What the Controller's Office Found

The City could potentially save nearly \$12.2 million annually by reengineering purchasing workflow processes and implementing new technology. If the reengineered processes and new technology do not come to fruition, four areas with unaddressed emerging risk could negatively impact the City's procurement function. These areas include:

- **Staffing** – Twenty-three percent of the Procurement Department's current staff is near retirement. Nearly all of these individuals have specific committed dates in the city's Deferred Retirement Option Plan (DROP). Because the city's current procurement process is highly manual, the anticipated decrease in staff will have a negative impact on the department's operations.
- **Systems** – Many of the City's technology systems are obsolete. They date back to the mid-1990s and are no longer supported. Attempts to find newer technologies have been hindered because of budget and / or planning concerns and competing solutions. Delaying replacement of these legacy systems coupled with outdated processes and procedures will continue to cost the city millions annually and detract from efficient operations.
- **Services, Supplies, and Equipment** – Restrictions imposed by the City Charter have inadvertently reduced the number of qualified companies willing to bid, and will continue to inhibit the City's ability to take advantage of longer term contracts, consequently increasing acquisition costs by millions of dollars per year. In fiscal 2011 there was only an average of three bids per solicitation and eight percent of contracts were awarded to single bidders.
- **Workflows** – Manually intensive, redundant and time consuming best describes the City's procurement workflow practices. Procurement Department management reported that it takes on average 14 days to create a requisition, 18 days to select a vendor, 30 days to create a contract, and 76 days to create an invitation to bid. City departments will continue to use petty cash, direct purchase orders, emergency orders, and stockpiling to circumvent the slow process of ordering goods and services.

### What the Controller's Office Recommends

The City should (1) facilitate the implementation of a proposed mid-term technology solution known as *eProcurement technology*; (2) change contract terms and conditions to be parallel with private sector corporations; and (3) develop new workflow diagrams, job descriptions, and training programs as staffing, systems, and City Charter changes occur, so employees can be aligned with the changing work environment. These and other proposed actions are more fully described in the body of the report.

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**MANAGEMENT'S RESPONSE ..... II**

**CONTROLLER'S OFFICE EVALUATION OF MANAGEMENT'S RESPONSE ..... III**

**SECTION I**  
**CONSULTANTS'S REPORT**

**Performance Review**  
**of**  
**City of Philadelphia Procurement Function**

**by**



**J. F. Smith & Associates**  
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**Fort Washington, PA 19034**

**January 2013**

**Performance Review**  
**City of Philadelphia Procurement Function**

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**EXECUTIVE SUMMARY**

**Introduction**

This performance review was conducted to assess and report on the City of Philadelphia's (City) purchasing processes and procedures currently in place and to identify potential areas of process and performance improvement and savings.

**Performance Review Findings**

Four areas have been identified that represent currently unaddressed emerging risks that could negatively impact the City. It was found that: (1) **Staff:** 23% of the Procurement Department's staff is at retirement age and 19% of its staff is committed to DROP retirement dates. (2) **Systems:** Technology infrastructures are obsolete. In the past, marginal investments have only permitted the City to stand still, mired in manual, redundant, labor intensive and out-of-date business processes. Delaying the replacement of these legacy systems coupled with outdated processes and procedures has cost the City millions of dollars annually as well as gains in efficiencies and job performance. (3) **Services, Supplies and Equipment (SS&E):** Restrictions imposed by the City Charter have inadvertently reduced the number of qualified companies willing to bid, which has increased costs by millions of dollars per year. Too few vendors are willing to bid under current contract terms, which limit the attractiveness of the City's solicitations. (4) **Workflows:** City departments are laboring to perform their work with aging systems, which place undue burden on the Office of Innovation & Technology's (OIT) limited resources; perpetuate the City's inadequate tracking systems; and support unproductive, unnecessarily redundant and ultimately unsustainable workflows.

There are an estimated \$12.2 million of recurring annual net savings achievable through both reengineered workflow processing and the use of implemented new technology.

Historically, the City of Philadelphia has faced chronic financial and planning challenges, which have stalled continuous process improvements and investments in technology. Cities are in an intense competition to attract new and maintain existing "customers" (businesses and populations). To maintain a competitive advantage the City must invest in the effective, efficient and economic processes provided by modern technology. If the stewards of the City do not take action, it could be argued that the City will be unprepared for the realities of global competition and lose any chance of being considered a world-class city.

## **Performance Review Recommendations**

It is recommended that the Mayor's Office, as the owner of City's Procurement business processes, support the Procurement Department's continued efforts to resolve these overall findings as well as the detailed ones itemized below in this report and its appendices. Where certain observed findings involve applications controlled today by OIT, it is imperative that the Mayor's Office together with the Managing Director's Office, the Finance Director's Office and the Chief Innovation Officer's (CIO) Office facilitate the implementation of the proposed mid-term technology solution for the Procurement Department that is needed to drive organizational change Citywide. The savings generated from implemented new technology and workflow process changes could fund additional technology based innovation, streamlining process and enhancing the effectiveness, efficiency, and economy of City operations.

It is recommended that the City implement tested technology initiatives that are known to produce savings such as eProcurement. Thereafter, the Mayor's Office could opt to "bank" the savings generated by the new system and processes and disperse these savings as temporary "grant funds" to City departments with repayment schedules to spur additional technology investments. The reinvestment in technology will provide a steady source of funding through economies gained to fund future initiatives and, thereby halt the wasteful cycle of spending monies to maintain the current archaic, undesirable and unsustainable manual processes. The Procurement Department itself has recognized the urgency of this situation and its leadership is willing to move forward with the administration's support. Their staff, systems, products & service, and workflows, if remediated, could serve as a model for the City's reform and renewal efforts.

Specifically, it is recommended that the City approve the expenditure of the approximately \$700,000<sup>1</sup> previously requested by the Procurement Department. (This expenditure was approved and then tabled in FY 2011.) The City could conceivably save an estimated \$7.4 million per year alone on SS&E purchases. In addition, after implementation, the City could realize over the ensuing two-year period an additional 15 full-time-equivalent (FTE) headcount reduction by attrition citywide as a result of this automation. This would result in an additional \$750,000 per year savings.

Lastly, it is recommended that a thorough review of the portions of the City Charter that impact Procurement be conducted. These rules should again be evaluated for their impact on the final cost of SS&E and compared to best practices of private industry and other municipalities. Increased vendor participation in City bids coupled with longer term contracts could provide an additional \$2.0 to \$5.0 million per year savings.

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<sup>1</sup>See OIT budget in Appendix "D".

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## **ACKNOWLEDGMENTS**

J. F. Smith & Associates (JFSA) thanks the City of Philadelphia (City), the Mayor's Office, Office of the Controller (Controller's Office), Managing Director's Office, Finance Director's Office, Procurement Commissioner and Chief Innovation Officer (CIO) for the openness and support shown by the executives, administrators, directors, managers, supervisors and staff for providing us with assistance in assembling and reflecting on the documents; conducting walkthroughs; and offering observations that were essential to the creation of the findings and recommendations outlined in this report.

## **INTRODUCTION**

Philadelphia strives to be a world-class city with a world-class workforce. The City's government, elected officials, their appointees and its nearly 23,000 employees do strive for excellence through both competitive and cooperative means. However, there are tremendous financial obstacles confronting Philadelphia that impede this quest for excellence. These obstacles include: aging infrastructures, dwindling middle class populations, poverty, inadequate educational systems and many more. Although many of these problems are imposed by societal changes and global competition, many are self-inflicted and can be mitigated. Two examples of self-inflicted problems are the City of Philadelphia (City) Home Rule Charter and the under use of technology.

The Philadelphia Home Rule Charter (Charter) was adopted in the 1950's by the voters of the City. It forever changed citizen services including procurement support services from political services to public services, which were anchored by civil service. Subsequently, from the 1980's and continuing today, government services have increasingly evolved into business services where citizens are ultimately treated as customers. Today, as the Internet redefines our way of life, support services like procurement are rapidly transitioning to online self-services.

When looking at a City department, it is important to understand its mandate. The City Charter imposes certain constraints on departments by determining the spirit and the letter of law governing their operations. This rule is true for the Procurement Department. Established to replace the "Department of Supplies and Purchases," which operated from 1919 to 1951, the City's voters created, through Philadelphia Home Rule Charter's Section 3-100 (d),<sup>2</sup> the Procurement Department as one of fifteen departments to perform "the executive and administrative work of the City" and empowered the Director of Finance to appoint the Procurement Commissioner whose departmental roles and responsibilities specified in Charter Section 6 and Section 8 covering broadly five areas: Procurement; Printing & Publications; Contracts; Sales of

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<sup>2</sup>Philadelphia's Home Rule Charter adopted on April 17, 1951 in accordance with P.L. 665, Section 17, dated April 21, 1949, i.e. the Commonwealth of Pennsylvania's "First Class City Home Rule Act.

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Unserviceable Personal Property; and Property Records. Once created, on the recommendation of the Mayor and City Council, the citizens have through the years also voted to amend these Procurement Department Charter Sections and modify its departmental operations.

The Charter shapes and continues to condition the way citizens interact with government departments and how they are structured. The Charter is “desirous of establishing a form of improved...self-government in which all qualified citizens may participate....”<sup>3</sup> While serving as an authoritative reference for the City’s future long-term, in its short-term timelines and outcomes, the Charter also originates, identifies and outlines the executive, administrative, financial and technical roles, responsibilities and relationships, envisioning the missions, principles and values of the government organizational structure and its strategic business unit functions.

In the 21<sup>st</sup> century, the Internet and other enabling technologies have driven the relationship of government and its citizenry to a more customer centric one. Ideally, the government provides goods and services to its citizens in an effective, efficient and economic manner. As a result, there is more demand for customer service, which results in an increased need to control the costs of those goods and services. In an environment of declining tax revenue, there may come a time when government could charge a fee for more of its own goods and services. All these forces serve as impetus for a more technologically enabled business-like approach to government.

For a variety of reasons, the City has allowed its technology infrastructure to decline. As outlined in a recent public presentation<sup>4</sup> by the City’s Chief Innovation Officer (CIO), Adel Ebeid, the City’s technology has been rated by Gartner as strong one (1)/weak two (2).<sup>5</sup> The CIO reiterated Mayor Nutter’s goal #5, “Philadelphia government works efficiently and effectively, with integrity and responsiveness.” To fulfill on that promise, the CIO envisions “... our purpose is to be the premier *broker* of innovative technology services, recognized for our integrity, talented stewards, and high touch customer service.” Mr. Ebeid plans to do this in five steps to (1) stabilize, (2) secure, (3) optimize, (4) modernize, and (5) innovate with the objective of achieving a Gartner rating of three (3) by 2013 and five (5) by 2015.

Hence, at the request of the Controller’s Office, JFSA has undertaken this performance review of the City’s procurement function also mindful of both the collective and individual nature of the executive, administrative, financial and technological aspects of that function.

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<sup>3</sup>Home Rule Charter Preamble.

<sup>4</sup>From Chief Innovation Officer Presentation Delivered January 31, 2012 at the Philadelphia Convention Center.

<sup>5</sup> Gartner (<http://www.gartner.com>) is an internationally recognized leader in information technology research. A Gartner rating of strong 1/weak 2 is considered functional. It is based on a 1-5 scale with 5 being the highest rating. See Appendix E for more detail on Gartner ratings.

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**ASSUMPTIONS AND SCOPE LIMITATIONS**

The Controller's Office engaged JFSA to conduct a performance review of the business workflows and information technologies used for the acquisition of City Services, Supplies and Equipment (SS&E). Hence, the purpose of this engagement is to evaluate the effectiveness, efficiency and ultimately the potential for innovations and economies in the City's procurement process. This performance review was limited in scope to the services outlined in the letter from the Controller's Office to Mr. Hugh Ortman, Procurement Commissioner.<sup>6</sup>

This Performance Review focused on current procurement processes, staffing, systems, products & services, and workflows. These observations were used as a basis for the recommendations for organizational development through innovations and economies. As a measure of administrative effectiveness, JFSA looked at the importance of the City's governmental structure and the performance of its business functionality. Additionally, as a measure of financial efficiency, JFSA looked at City's procurement workflow and cost for products and services. Finally, JFSA looked at the City's level of innovative and economic organizational development as a function of the maturity of its information technology environment given the City's current capabilities and the availability of alternative information technologies ready at hand and in use within the public and private sectors.

(Continued on next page)

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<sup>6</sup>See Letter from Controller's Office and Information Requesting Appendix "A".

## **DETAILED FINDINGS & RECOMMENDATIONS**

### **INTRODUCTION**

A team composed of representatives from the Controller's Office, Finance Director's Office, Managing Director's Office, OIT and the Procurement Department and at the request of JFSA assembled and reviewed all relevant documents relating to procurement. For example, these documents included the personnel budget listings, procurement technology contract notes, systems requirements, products & services expenditure reports and workflow studies. Concurrently, the team interviewed key members of the Procurement Department staff to determine how goods and services were purchased, what procedures and systems were used, and how current systems were maintained to support those purchasing processes. The team identified those City departments, which had the highest cumulative expenditures for Services, Supplies & Equipment (SS&E). These departments included, in order of SS&E expenditures: Fleet; Water; Streets; Police; Fire; Health; Recreation; Commerce; Prisons; and Library. In each of those departments, whenever possible, procurement specialists were interviewed to determine what processes they used internally and how inventories were maintained.

### **FINDINGS**

#### *Staffing*

The current level of staffing in the Procurement Department is 47 (and decreasing). Another 15 procurement specialists are working in 10 City departments. There are an alarming number of Procurement Department staff members at or near retirement age: 23% at retirement age and 19% in DROP with committed retirement dates. As noted below in the Systems section, the current processes are highly manual and it does not appear likely that Procurement could function with shrinking staff unless significantly reorganized around and using newer technology. Additionally, there are currently 1,185 individuals citywide, other than Procurement Department staff, across departments engaged, many occasionally and indirectly, in purchasing or other related procurement activities like receiving and paying for goods and services.<sup>7</sup>

#### *Systems*

The current technology systems and infrastructure are obsolete. Many date back to the mid-1990s. For example, the City's Advanced Purchasing and Inventory System (ADPICS) have not been updated to the newest version available for a decade. The Special Procurement Evaluation and Enhanced Database (SPEED) were written in MS-Access and are running under Windows 95 on an NT server. These technologies are no longer supported. As we write, OIT is in the process of updating SPEED to application, desktop

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<sup>7</sup> See Appendix C for staff detail. Also see Appendix H for findings and recommendations.

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and server technologies more compatible with current technologies. The SPEED upgrade is at best a stopgap measure, which perpetuates manual, redundant, labor intensive and out-of-date business processes.

Requisitions are currently created manually in departments. They are (1) keyed centrally into SPEED to track manual bidding and contracting activities, are then (2) rekeyed into ADPICS to encumber and print purchase orders, and finally (3) rekeyed again into the City's inventory system (C-400) to track manually kept departmental inventories. Unfortunately, even if ADPICS, SPEED and C-400 were upgraded to newer versions, the multiple manual steps would remain.<sup>8</sup>

Many attempts have been made by Procurement, OIT and other agencies to find newer technologies to resolve these problems, but budgeting and/or planning concerns and competing solutions have always blocked the road to achieving a successful migration away from aging processes and systems. As a result, there is a great deal of doubt and frustration at various levels of government about the future viability of any new technology. For example, an eProcurement project was competitively bid in FY 2011. Prior to selecting a vendor, OIT halted the award, initiated its own project to build a procurement technology, and then cancelled that project when IT's management changed.

*Services, Supplies & Equipment*

Three departments (Fleet, Water and Streets) account for \$80 million (56%) of the total \$141 million SS&E spend. Five classes account for \$62 million (44%) of the total SS&E spend. Twenty vendors account for \$71 million (50%) of the total SS&E spend.<sup>9</sup>

In FY 2011, there were on average 3.0<sup>10</sup> bids per product and service solicitation. Of the approximately \$141 million<sup>11</sup> spent on SS&E during FY2011 by the City, \$11 million (8%) in contracts were awarded to single bidder (see table below).

<b>SS&amp;E Spend per year (FY2011)</b>				
	\$ in Millions	% Dollars	Bids	% Bids
Total	\$141		151	
One Bidder	\$11	8%	53	35%
Single Respondent	\$5	4%	30	20%
Sole Source	\$6	4%	23	15%

Anecdotally, it appears that the City's contract terms and conditions are discouraging qualified vendors from bidding. Additionally, there are provisions in the City Charter

<sup>8</sup> See Appendix D for details on systems.

<sup>9</sup> See Appendix G for details of department, class code and vendor spends.

<sup>10</sup> PhillyStat Outcomes: Improving Contracting project in October 2012.

<sup>11</sup> See Appendix F for more information.

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that inhibit the City's ability to take advantage of longer term pricing and other vendor offerings. The authors of the City Charter, which was written in the 1950's, could not have anticipated the way business is conducted in the 21st century. The provision for contracts to be one (1) year with renewals does not allow true multi-year pricing opportunities and discourages businesses from bidding, as they cannot readily secure financing for such short-term commitments with neither defined volumes nor renewals. It is encouraging to note that the Procurement Commissioner had success in 2008 when City Council and the voters agreed to amend the City Charter for cooperative purchasing.<sup>12</sup> Cooperative purchasing allows the City through its procurement process to save taxpayer dollars by joint purchasing with other governmental bodies and agencies.

### *Workflows*

Workflow diagrams, which outline the current processes, as previously stated, depict highly manual, redundant and time consuming purchasing activities. City departments may attempt to find ways around this slow process, by resorting to petty cash, direct purchase orders, emergency orders or stockpiling items in inventory.

We found that many of the process steps in the procurement workflow consume a great deal of calendar time.<sup>13</sup> For example, the Procurement Department management reported that it took on average 14 days to create a requisition, 18 days to select a vendor, 30 days to create a contract, 76 days to create an invitation to bid.

### *Organization*

Viewed most restrictively, Mayor Nutter's Five (5) Year Financial and Strategic Plan's City Organization Chart<sup>14</sup> has the Procurement Department reporting ultimately to the Mayor's Office through the Managing Director's Office and specifically through a Deputy Managing Director. The Managing Director and his Deputy oversee other Internal City Administrative Service departments, divisions and units. This represents an alternative to the Charter described organizational plan, which had established that the Procurement Commissioner report to the Director of Finance.<sup>15</sup> However, in consideration of the whole charter, this alternative may be permissible.

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<sup>12</sup> Resolution No. 080888, Adopted by the Council of the City of Philadelphia on the thirteenth of November, 2008.

<sup>13</sup> See Appendix I for Workflow Information Detail.

<sup>14</sup> See Appendix B for City Organization Chart.

<sup>15</sup> Philadelphia's Home Rule Charter adopted on April 17, 1951, Section 3-206.



## RECOMMENDATIONS

### *Staffing*

In the short-term, the potential loss of people through retirements needs to be addressed. Reorganization, cross training and succession planning are recommended overall for the short, mid and long-term. If the mid-term technology solution (eProcurement) suggested below is adopted, the attrition resulting from retirements will bring staffing levels down to a new, more economic lower level citywide. If the solution is not adopted, replacements will need to be identified and trained precluding cost savings. An organizational study is suggested to develop a proper staffing plan for both scenarios.

*Savings:* If the eProcurement solution below is implemented, approximately 15 people involved in manual procurement processing could be reduced from the headcount citywide. Assuming an average of at least \$50,000 in salary and fringe benefits per person, the resulting savings would be nominally \$750,000 per year.

### *Systems*

The aging obsolete ADPICS and SPEED systems should be replaced with a system that is compatible with or part of the new Enterprise Resource Planning (ERP)<sup>16</sup> system being investigated by the City. The ERP is a long-term project and is years and perhaps an administration away from completion. In the short-term, upgrades to SPEED are under way and will be completed in the spring of 2012. In the mid-term, the eProcurement<sup>17</sup> technology solution could be purchased and installed. This project could be completed by the end of 2013 at an estimated cost of \$700,000. These funds had been approved in 2011. It is our understanding that the eProcurement solution identified by the Procurement Department would be compatible with the ERP initiative being considered and would already eliminate the manual creation of requisitions in City departments, replace SPEED and could, if the City chooses, replace the functions of ADPICS itself.

*Savings:* Based on other government entities' experiences, the eProcurement solution's vendor estimated that the savings in the actual costs of SS&E would be \$7.4 million (5% of SS&E spend) per year. Since it was not included in the scope of this project, other commodities in class codes 200 and 600 were not reviewed. Again, based on the vendor's review and other government entities' experiences, it appears that similar cost

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<sup>16</sup>Enterprise Resource Planning (ERP) is business management software that allows an organization to use a system of [integrated](#) applications to manage the business. ERP software integrates all facets of an operation, including development, manufacturing, sales and marketing.

<sup>17</sup>E-procurement (electronic [procurement](#)) is the [business-to-business](#) or [business-to-government](#) purchase and sale of [supplies](#), [work](#) and [services](#); supplier management system. It is a "private marketplace" that typically operates through the [Internet](#) as well as other information and networking systems, such as [Electronic Data Interchange](#) and [Enterprise Resource Planning](#).

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savings could be potentially found in those items as well. Labor savings from 15 FTE's were addressed above. Other process related efficiencies and intangibles would also add to these savings. These will be discussed in more detail in the workflows section of this report.

### *Services, Supplies & Equipment*

Changes to terms and conditions should be considered so that the City is more aligned with those used by corporations. Some changes are recommended to the City Charter. These changes include allowing multi-year agreements, as they will result in more qualified vendor participations and the ability of vendors to secure private sector funding to support their bidding on City procurements.

*Savings:* If a second, third and fourth bidder could be found for all City contracts, even a modest 2-5% saving could result in an additional 3.0 to 7.0 million dollars in SS&E savings. More bidders will allow for greater competition and more options for procuring goods and services.

### *Workflows*

As new organizational patterns, systems, terms and conditions, and City Charter changes occur, new workflow diagrams, job descriptions and training programs would be required to ensure that the people would be aligned with a changing work environment. Significant reductions in the calendar time required for the process steps outlined in Appendix "G" should result from the process automation.

We recommend that these processes be defined and assessed in order to determine how these timelines might be reduced and to determine how much savings will result from those reductions. These will be highly dependent on the vendor and processes selected.

*Savings:* The reduced process time could result in additional savings.

The new systems and workflows should nearly eliminate the need for emergency order<sup>18</sup> transactions. The proposed eProcurement system also has a petty cash function, which would provide additional controls and provide business intelligence to management over those purchases.<sup>19</sup> Since all petty cash, direct purchase orders and emergency orders could be required to be processed through the eProcurement system, the city will have better control and oversight of these activities. The savings could be modest but the additional control provided by the eProcurement software could be meaningful.

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<sup>18</sup> Emergency orders are generated when urgent purchases are required to sustain services and the normal time from requisition to receiving exceeds and jeopardizes operations.

<sup>19</sup> In lieu of petty cash purchases, the City may elect to use a well-controlled procurement purchase card.

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*Project Funding*

It is unlikely that the City will ever be able to fund fully in one administration the projects currently being considered under the Mayor's \$120 million IT upgrade initiative. It is recommended that the City consider recreating a "productivity bank" (bank) like the one initiated during the Rendell administration and terminated subsequently at the end of the Street administration. While Rendell's and Street's Bank was funded by a bond issue, we believe, if the savings that result from all of the initiatives discussed above were placed in a "Nutter's Bank," there could initially be \$10 million available from savings to "lend" out for future IT initiatives, which could then be repaid to the "bank" with interest through economies realized by departments. These dollars could help alleviate the destructive cycle of insufficient funding for current and future IT needs. In the CIO's aforementioned IT plan, there is a two million dollar budget item to fund smaller initiatives. There does not, however, appear to be a dedicated source of funds for this budget item. Money could be set aside in the "bank" for these smaller initiatives, which could provide a more predictable source of funding.

**CONCLUSION**

This performance review identified many issues that impede the City and its Procurement Department from effectively, efficiently and economically performing the procurement function as mandated by the City Charter. Although the Procurement Commissioner and his staff are aware of many of the findings, there are many obstacles that force the department and OIT to continue to use manual and obsolete systems and processes. If the City aspires to improve its procurement function, this cycle of counter-productivity must be addressed.

Based on the results of this performance review, it is recommended that the City leadership move forward on the eProcurement technology initiative that was identified by the Procurement Department staff and approved in FY 2011. This initiative could provide savings that could be set aside in a "bank" to be loaned or granted to future projects. Additionally, this new technology could enable staffing in procurement citywide to be reduced by attrition and could provide another source of potential savings that could also be set aside in the "bank". Lastly, the City Charter could continue to be reviewed and amended to bring it from the 1950's into the 21<sup>st</sup> century. These changes could focus on ways to improve vendor engagement with the City and could result in an additional source of savings through increased competition for City bids. These savings could also be set aside in the "bank". This recurring process of investments and returns-on-investments will create a perpetual source of funding for technology projects that could provide additional savings that could be added to the "bank." Additionally, other opportunities to reduce staffing by attrition through technology and innovation would continue to occur.<sup>20</sup>

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<sup>20</sup> See Appendix H for Findings and Recommendations Details.

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**Appendix  
A**



**CITY OF PHILADELPHIA**

OFFICE OF THE CONTROLLER  
1230 Municipal Services Building  
1401 John F. Kennedy Boulevard  
Philadelphia, PA 19102-1679  
(215) 686-6680 FAX (215) 686-3832

ALAN BUTKOVITZ  
City Controller  
  
GERALD V. MICCIULLA  
Deputy City Controller

Mr. Hugh Ortman, Commissioner  
Procurement Department  
City of Philadelphia  
Suite 1300 Municipal Services Building  
1401 John F. Kennedy Boulevard  
Philadelphia, PA 19102

Dear Mr. Ortman:

The City Controller's Office will soon be commencing a review of the Procurement Department's purchasing function including any related information systems. We have contracted with the firm of JF Smith & Associates to conduct this review. The review will assess and report on the purchasing processes and procedures currently in place and identify potential areas of improvement.

We would like to meet with you and your representatives, including any appropriate Office of Innovation & Technology personnel, to introduce the staff from JF Smith & Associates who will be conducting the review. We are available to meet with you on November 3, 2011 at 10am in your offices. We will contact you within the next couple of days to set up this entrance meeting.

To expedite the project, attached please find a list of documents that should be made available to us at the time of our entrance conference.

We look forward to the cooperation of your staff and trust that they will make available to us whatever information is requested in connection with our review. We would appreciate your designating a liaison to facilitate interview scheduling and information requests. We hope to maintain an ongoing dialogue with the liaison to ensure accurate definitions and mutual agreement as to remedial action.

Sincerely,  
Konstantinos Tsakos,  
Audit Administrator  
cc: Deborah A. Beatrice, Administrative Services Director

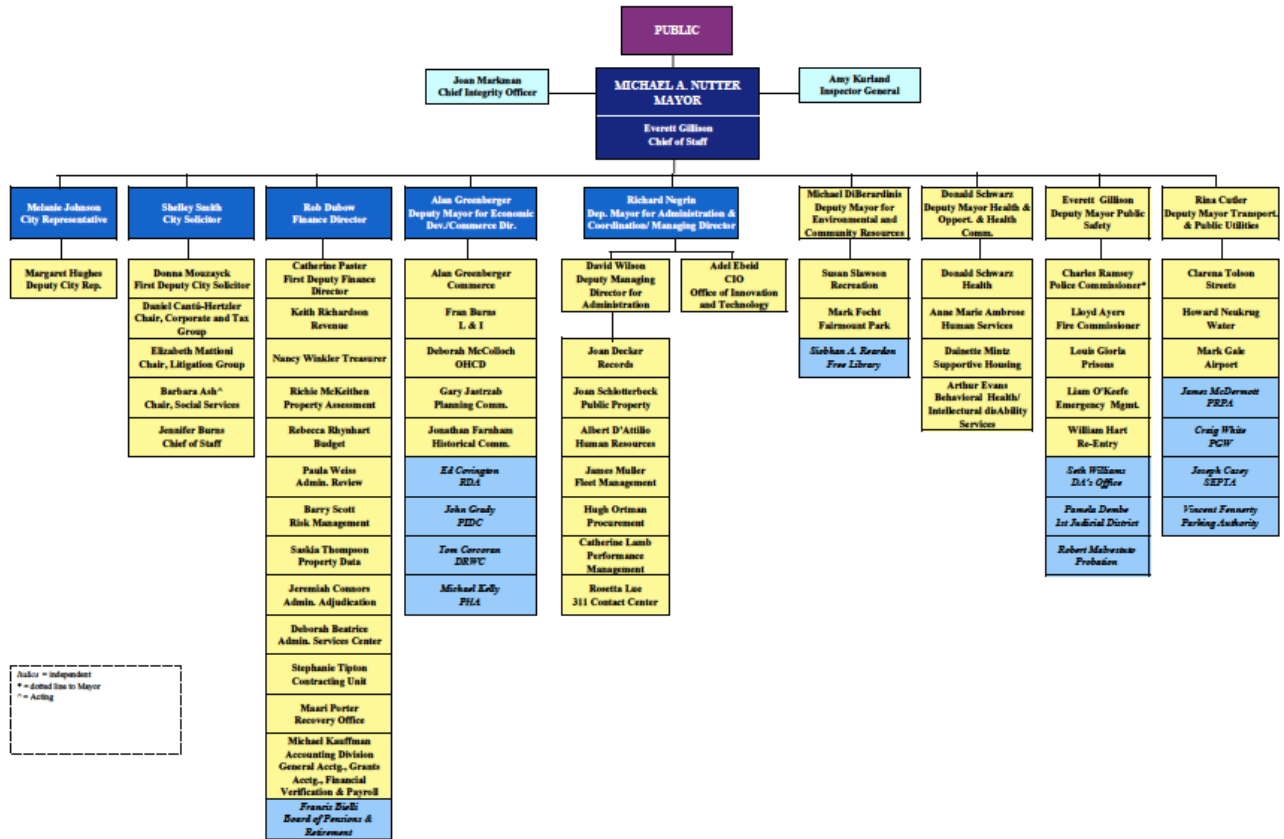
**Process & Performance Improvements for Procurement  
Information and Document Request**

As part of the fact-finding phase of this project, J. F. Smith & Associates requests the information below. Other information may be needed as we move forward with the project.

- 1) Staff
  - a) Organization chart including names, titles, telephone numbers and locations of staff involved with the procurement function.
  - b) OIT staff involved in the support of the procurement function.
  - c) Total number of employees involved in the procurement function or its support – all divisions and units.
  - d) Job descriptions of key staff in procurement workflow.
- 2) Systems Information
  - a) List of current software and hardware used in support of the procurement function – including date of installation, vendor contact, version used and latest upgrade.
  - b) End of term dates for application software and hardware support contracts including type service.
  - c) List of procurement application software and hardware requests or budgeted.
- 3) Products and services information (annual or fiscal year data).
  - a) Total spend for goods and services (spend) citywide.
  - b) Total number of transactions.
  - c) Total number of vendors – active and inactive.
  - d) List of the 10 city departments with the highest total spends.
  - e) List of the top 10 (20 if more meaningful). Largest total:
    - i) Spends by code.
    - ii) Spends by vendor.
    - iii) Most frequent purchases.
- 4) General Information
  - a) Workflow diagram or description for procurement including:
    - i) Requisition process
    - ii) Approval or authorization process
    - iii) Purchase order process.
    - iv) Receiving process.
    - v) Payment process.
  - b) Copies of past audits, studies, reports, findings, etc., that have been done on the procurement function.
  - c) Description of significant processing and reporting challenges resulting from the current processes and systems.
  - d) Extent of manual processes currently in place.
  - e) Types of requisitions or purchases that are currently done manually.

**Performance Review**  
**City of Philadelphia Procurement Function**

**Appendix B**  
**City Organizational Chart**  
**from City Website**



**Performance Review**  
**City of Philadelphia Procurement Function**

**Appendix C - Staff Detail<sup>21</sup>**

PROCUREMENT DEPARTMENT STAFF ANALYSIS			
JOB TITLE	NUMBER OF POSITIONS	ELIGIBLE TO RETIRE?	ENROLLED IN DROP?
Procurement Commissioner	1	Yes	Yes
Deputy Procurement Commissioner	1		
Chief of Staff	1		
Executive Secretary	2	Yes	Yes
Operations Manager	1		
Secretary	1		
Manager	0		
Clerk Typist I	1		
Procurement Technical Supervisor	1	Yes	Yes
Procurement Technician I	1	Yes	
Administrative Technician Trainee	1		
Word Processing Specialist	1	Yes	Yes
Special Services Supervisor	1		
Procurement Advertising Assistant	1	Yes	Yes
Data Services Support Clerk	1		
Inventory Field Agent	1		
Surplus Disposal Officer	1		
Inspection Services Officer	1		
Procurement Technician Supervisor	1		
Secretary	1		
Procurement Technician II	2		
Administrative Trainee	1		
Administrative Trainee	1		
Clerk III	2		
Purchases Supervisor	1		
Clerk Stenographer II	1	Yes	Yes
Administrative Trainee	1		
Procurement Technician II	4	Yes	Yes
Clerk Typist I	0		
Procurement Op. Support Manager	1		
Clerk Typist II	1	Yes	
Administrative Services Supervisor	1		
Account Clerk	1		
Clerk III	2		
Word Processing Specialist	1	Yes	Yes
Clerk Typist II	1		
Contract Clerk	1		
Clerk Typist II	1		
Clerk III	1		
Clerical Supervisor II	1	Yes	Yes
Service Representative	2		
<b>Total Procurement Department Staff</b>	<b>47</b>		
<b>Total Staff Eligible to Retire</b>		<b>11</b>	
<i>Percent of Staff Eligible to Retire</i>		<i>23%</i>	
<b>Total Staff Enrolled in Drop</b>			<b>9</b>
<i>Percent of Staff Enrolled in Drop</i>			<i>19%</i>

<sup>21</sup> Staff data was provided by the Chief of Staff, Procurement Department.

**Performance Review**  
**City of Philadelphia Procurement Function**

**Appendix C - (cont.)**  
**Staff Detail**

ANALYSIS OF PROCUREMENT POSITIONS IN VARIOUS CITY DEPARTMENTS		
JOB TITLE	NUMBER OF POSITIONS	DEPARTMENT
Procurement Specialist	3	Police
Procurement Specialist	1	Fire
Procurement Specialist	1	Recreation
Procurement Specialist	1	Public Property
Procurement Specialist	2	Fleet Management
Procurement Specialist	1	Licenses and Inspections
Procurement Specialist	2	Water
Procurement Specialist	1	Revenue
Procurement Specialist	2	Airport
Procurement Specialist	1	Free Library
<i>Total Procurement Positions in Various City Departments</i>	<b>15</b>	
<i>Total Procurement Department Staff</i>	<b>47</b>	
<i>Total City Staff with Procurement Titles</i>	<b>62</b>	

ANALYSIS OF CITY STAFF WITH ACCESS TO PROCUREMENT SYSTEMS	
ACCESS TYPE	NUMBER OF POSITIONS
<b><i>SPEED</i></b>	
City Staff with ID's to SPEED Supplies & Equipment	40
City Staff with ID to SPEED Public Works	4
<b><i>Total City Staff with ID's for SPEED &amp; ADPICS</i></b>	<b>44</b>
<b><i>ADPICS</i></b>	
City Staff with IDs as Inquiry Only- Level 200	205
City Staff with IDs as Requisitioners- Level 300	588
City Staff with IDs as Approvers- Level 400	371
City Procurement Department Staff with IDs to review and approve Purchase Orders as Oversight- Level 500	45
City Central Agency Reviewer/Approver- Level 6/700	25
City Staff with IDs as Systems Administrators- Level 900	13
<b><i>Total Citywide Staff</i></b>	<b>1,247</b>
<b><i>Staff with Procurement Titles</i></b>	<b>-62</b>
<b><i>Staff Non-Procurement Titles</i></b>	<b>1,185</b>



**Performance Review**  
**City of Philadelphia Procurement Function**

**Appendix D**  
**Systems Detail/OIT Budget**

**Systems Detail**

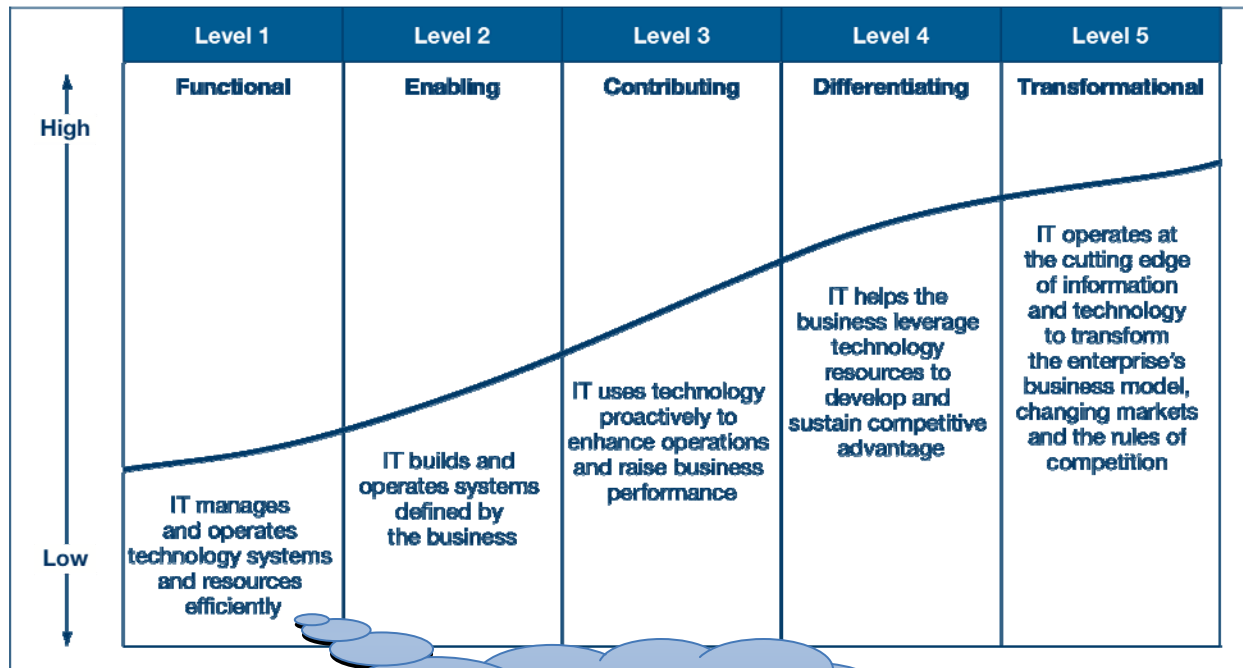
In Production	Software	Installation Date	Version Used	Latest Upgrade	Type Services	Contract End Date
<b>Speed, Class 400, Mailroom</b>	Windows NT Access 95 SQL 6.5	1/1/2002	NT 4	Not Applicable	Not Applicable	Not Applicable
	Windows 2003	1/1/2004	Sp1 Standard	7/1/2006	Not Applicable	Not Applicable
<b>Advanced Purchasing (ADPICS)</b>	COBOL VSAM	1/1/1986	4.5	1/1/1996	Maintenance warranty	11/30/2011 (in Law)
<b>Purchase Order (PO) Imaging</b>	Windows 2003 WebXtender	9/1/2011	6.5	10/1/2011	Maintenance warranty	6/30/2012

**OIT Budget**

Requested /Budgeted								
System	Hardware	Installation Date	Type Used	Latest Upgrade	Type Services	Contract End Date	Status	Requested /Budgeted
<b>Speed, Class 400, Mailroom (Stabilization Project)</b>	IBM x360	1/7/2005	8863	8/1/2011	Not Applicable	Not Applicable	Testing	\$0
	<b>Software</b>	<b>Installation Date</b>	<b>Version Used</b>	<b>Latest Upgrade</b>	<b>Type Services</b>	<b>Contract End Date</b>	<b>Status</b>	
	Windows 2003 SQL Server 2005	6/1/2011	9.0.1399	8/1/2011	Maintenance warranty	6/30/2012	Testing	\$0
Procurement is currently reviewing an e-Procurement portal to be purchased and rolled out in months (rather than years), which would include at a minimum vendor registration, e-notification, bids workflow, and reporting capabilities.								\$700,000

Appendix E  
City of Philadelphia Gartner Rating<sup>22</sup>

According to Gartner the City of Philadelphia is rated a strong 1/weak 2 which is a “functional” rating. Explanation of rating system 1 to 5 is shown in table below.



*We are here  
strong 1...weak 2*

<sup>22</sup> From Chief Innovation Officer's presentation which was delivered on January 31, 2012 at the Philadelphia Convention Center, slide 8.

**Performance Review**  
**City of Philadelphia Procurement Function**

**Appendix F**

**Total Spend, Transactions and Vendors<sup>23</sup>**  
**Services, Supplies & Equipment**

SUMMARY ANSWERS TO QUESTIONS FOR CLASS 300 & 400	TOTAL CITYWIDE SPENDS FOR FISCAL 2011	CITYWIDE TOTAL TRANSACTIONS	CITYWIDE TOTAL VENDORS
1. Total spend for goods and services (spend) citywide.	\$140,961,337		
2. Total number of Transactions.		2,012	
3. Total number of vendors.			
Active.			7,909
Inactive.			10,824

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<sup>23</sup> Information provided by Procurement Department.

Performance Review  
City of Philadelphia Procurement Function

**Appendix G**

**Top Twenty Department, Class and Vendor Spends<sup>24</sup>**

TOP 20 CITY DEPARTMENTS BY SPENDS		
DEPARTMENT		AMOUNT
1	Fleet Management	\$ 34,998,059
2	Water	32,339,907
3	Streets	12,265,897
4	Police	9,670,784
5	Fire	7,414,449
6	Health	6,815,945
7	Recreation	6,502,017
8	Commerce	5,478,464
9	Prisons	5,014,363
10	Free Library	4,649,193
11	Office of Innovation and Technology	3,674,045
12	First Judicial District	2,939,958
13	Human Services	1,847,950
14	Office of Supportive Housing	1,230,834
15	Revenue	977,633
16	Public Property	856,645
17	Managing Director	551,001
18	District Attorney	533,717
19	City Commissioners	521,366
20	Mayor's Office of Community Services	333,282
<b>Total</b>		<b>\$138,615,509</b>

<sup>24</sup>Data from City of Philadelphia's Finance Data Warehouse for FY 2011

Performance Review  
City of Philadelphia Procurement Function

**Appendix G (cont.)**  
**Top Twenty Department, Class and Vendor Spends**

TOP 20 CLASS SPENDS (ALL FUNDS)	
CLASS DESCRIPTION	AMOUNT
1 Chemicals and Gases	\$ 23,788,701
2 Gasoline	11,372,965
3 Motor Vehicle Parts and Accessories	11,329,781
4 Dry Goods, Notions, Wearing Apparel	9,517,629
5 Electrical and Communication	6,380,765
6 Hospital and Laboratory	6,268,841
7 Food	6,047,783
8 Diesel Fuel (No. 2)	4,893,913
9 Computer Equipment and Peripherals	4,732,861
10 Building and Construction	4,278,322
11 Precision, Photographic and Artists	3,973,478
12 Office Materials and Supplies	3,945,588
13 Vehicles – Motor and Motor less	3,767,014
14 Plumbing, Air Conditioning, Space Heating	3,693,156
15 Library Materials	3,675,338
16 Janitorial, Laundry and Household	3,471,474
17 General Equipment and Machinery	3,233,001
18 Bio-Fuels	3,032,429
19 Fire Fighting and Safety	2,617,248
20 Other Materials and Supplies	2,578,891
<b>Total</b>	<b>\$122,599,178</b>

Performance Review  
City of Philadelphia Procurement Function

**Appendix G (cont.)**  
**Top Twenty Department, Class and Vendor Spends**

TOP 20 SPENDS BY VENDOR	
VENDORS	AMOUNT
Vendor 1	\$13,934,671
Vendor 2	6,134,942
Vendor 3	5,764,494
Vendor 4	4,912,675
Vendor 5	4,215,811
Vendor 6	3,942,320
Vendor 7	3,101,107
Vendor 8	3,063,228
Vendor 9	3,032,429
Vendor 10	3,006,985
Vendor 11	2,922,157
Vendor 12	2,601,572
Vendor 13	2,128,960
Vendor 14	2,072,602
Vendor 15	1,959,566
Vendor 16	1,844,326
Vendor 17	1,838,847
Vendor 18	1,685,771
Vendor 19	1,617,919
Vendor 20	1,500,000
<b>Total</b>	<b>\$71,280,382</b>

**Performance Review**  
**City of Philadelphia Procurement Function**

**Appendix H**  
**Findings and Recommendations- Data and Information**

**Staff**

<b>Topics</b>	<b>Findings</b>	<b>Recommendations</b>
<b>Overall</b>	While the Procurement Department had implicitly understood the severity of the its staffing, systems, products & services and workflow concerns, JFSA provided the questioning and the focusing of responses to quantify and measure the situation as well as to create the prioritized recommendations for these challenges.	Continue to monitor and update the Procurement Department's situation through remediation of these existing conditions.
<b>Effectiveness Administrative Structure - Staff</b>	Budget (and staffing) reductions in 2010 and continuing staff retirements have driven organization restructuring. As 11 (currently) or 23% of the Procurement Department's staff members have already reached retirement age and 9 (currently) or 19% are in the Deferred Retirement Option Plan (DROP) program, maintaining the current intensely manual purchasing processes requires recruitment and training of new staff, and training and support of current staff. The Procurement Department has already begun the succession planning process.	Complete succession planning. Develop staffing models to support current systems and replacement systems.

**Performance Review**  
**City of Philadelphia Procurement Function**

**Appendix H (cont.)**  
**Findings and Recommendations - Data and Information**  
**Staff**

Topics	Findings	Recommendations
1. Does the Procurement Department have a current organization chart including: names; titles; telephone numbers; and, locations of staff involved with the procurement function?	While the current organizational chart, list of staff and key up-to-date job descriptions clearly show roles and responsibility from top to bottom, the departmental structure depicted on the chart from left to right might better reflect the department workflow. With fewer and fewer employees - down from 147 in the 80's to 77 in the 90's to 47 today, division into traditional business units may no longer be feasible and a workflow arrangement highlighting: advertising; requisitioning; bidding; contracting; purchasing; etc., should be considered to ensure normal as well as the emergency operations for business continuity and disaster recovery of the procurement process.	1a. Reorganize organizational structure emphasizing departmental functions over business units better to reflect a sustainable business continuity/ disaster recoverable City procurement process. 1b. Cross train existing staff. 1c. Define new skill requirements for current & future system & workflows updating job descriptions 1d. Backfill some vacancies and recruit others into new roles to rebalance staffing to avoid exacerbating of the narrowing of supervisory span of control, which has left the Procurement Department with not enough supervisees for supervisors.
2. Is there a list of office of OIT staff involved in the support of the procurement function?	The organizational chart, list of staff, and notes do not include changes to come within OIT. They reflect the current (FY 2011) situation, which is limited on a day-to-day basis to the helpdesk and a network staff resource. However, OIT reports that there are an additional 2.5 full-time-equivalent resources committed to the Procurement Department by OIT in FY 2012.	2. Continue to reconfigure OIT resources to expand Procurement Department support commensurate with its importance for all City departments and the IT hardware & software resources mobilized for its support.



**Performance Review**  
**City of Philadelphia Procurement Function**

**Appendix H (cont.)**  
**Findings and Recommendations - Data and Information**  
**Staff**

Topics	Findings	Recommendations
3. What is the total number of employees involved in the procurement function or its support - all divisions and units?	The current Procurement Department head count is 47. Within the individual city agencies there are 15 people with the title of procurement specialists. Another 1,185 city employees have access to some part of the ADPICS purchasing system. Their individual ADPICS role assigned and ability to access the system does not clearly define their responsibility in the departmental purchasing process. It is difficult to determine how often these individuals may exercise a responsibility in their departmental purchasing process. Since most procurement processes are still manual, utilization of ADPICS does not determine how often these individuals are actually involved in the purchase of goods and services. Many are only accessing the ADPICS inquiry function. It appears that many of these individuals may not use the system at all. From the finance perspective, the ADPICS System has dual purposes. Some portions of departmental users are involved in receiving, and payment processing. Finance and Procurement are responsible to support these departmental users whenever they need to be involved in the ADPICS supported electronic workflows.	3. Continue providing the Procurement Department with assistance to support citywide procurement processing.
4. Are there job descriptions of key staff in procurement workflow?	The Procurement Department and OIT have job descriptions of key staff in the procurement workflow. The Procurement Department's job descriptions have been updated in the last two years. OIT's job descriptions are many years old.	4. Continue reviewing and updating the job descriptions as roles and responsibilities change. OIT's job descriptions are out-of-date and need attention.

**Performance Review**  
**City of Philadelphia Procurement Function**

**Appendix H (cont.)**

**Findings and Recommendations - Data and Information  
Staff**

Topics	Findings	Recommendations
5. Does the Procurement Department have a Clear Up-To-Date Mandate?	Some outdated City Charter provisions have been modified with City Council & voter approvals.	5. Continue to review City contract practices and update the City Charter.
	While various City Charter revisions have already been made by the Procurement Department support by the MDO, the Mayor, City Council and the Voter of Philadelphia, a City Team composed of Procurement OIT, Mayor's Integrity Office, Airport, Health and other departments as required executively sponsored and led by the MDO, Finance and Law, is currently and actively reviewing City contract practices as a whole.	
6. Does the Procurement Department have an up-to-date financial & strategic plan?	The Procurement Department leadership and staff are knowledgeable and synchronized with a current Budget document in hand. There is no Procurement Department strategic plan. However, the development of a strategic plan was discussed by the Deputy Procurement Commissioner, the Chief of Staff and the Operations Manager, and is being considered for the spring/early summer of 2012.	6. Capitalizing on the knowledge and experience of new and existing leadership and staff, write a Procurement Department financial & strategic plan.
7. Does the Procurement Department have an up-to date annual report?	While the Procurement Department leadership and staff has the knowledge and experience of their accomplishments there is no current end-of-year annual report. The last Procurement Department annual report put on file in the Records Department was dated 1986.	7. Leveraging the PhillyStat Reports, write the Charter mandated departmental annual report

**Performance Review**  
**City of Philadelphia Procurement Function**

**Appendix H (Cont.)**  
**Findings and Recommendations - Data and Information**  
**Systems Information**

Topics	Findings	Recommendations
Effectiveness Administrative Function – Systems Information	All City procurement systems are well beyond the end of their technology life cycle. The Procurement and OIT departments are well aware that the current City purchasing systems are long overdue for replacement. As a stopgap measure and to avoid SPEED's complete failure, SPEED's Infrastructure and Application will be upgraded from Windows NT and Access 95. OIT plans to upgrade the SPEED's server environment from NT to 2000 then to 2005 and finally to VM/Server and upgrade Access 95 to Access 97 and finally to Access 2003.	a. For now, continue maintenance & support of existing systems b. Short term, migrate existing server-based system to current platforms to sustain until replacement. c. Mid-term, implement eMarket (eProcurement) software solution as it is congruent with long-term solution, will improve controls, reduce overall spend, and reduce manual processing. The reductions in overall spend will pay for this solution, should provide net savings, and therefore not negatively impact the budget. d. Long-term, implement procure-pay software solution.
	OIT has expended significant resources to provide maintenance and support, proposed solutions and participated extensively in Procurement proposals for global system replacements. OIT halted award of an eProcurement project which was competitively bid in FY 2011. It initiated its own project to build a procurement technology, but then cancelled the project when management changed.	

**Performance Review**  
**City of Philadelphia Procurement Function**

**Appendix H (cont.)**  
**Findings and Recommendations - Data and Information**  
**Systems Information**

Topics	Findings	Recommendations
1. Does the Procurement Department have a list of current software and hardware used in support of the procurement function including date of installation, vendor contact, version used and latest upgrade?	Hardware and software contracts were current.	Continue tracking and updating the budgeted and requested list of software and hardware.
2. Does the Procurement Department have end of term dates for application software and hardware support contracts including type service?		
3. Does the Procurement Department have a list of procurement application software and hardware requests or budgeted?	Application software and hardware requests or budgeted were current.	

**Performance Review**  
**City of Philadelphia Procurement Function**

**Appendix H (cont.)**

**Findings and Recommendations -Data and Information  
Systems Information**

<b>Topics</b>	<b>Findings</b>	<b>Recommendations</b>
4. Does the Procurement Department have current mission, goal, objective, and task statements?	The Procurement Department has current mission, goal, objective, and task statements presented in their Quarterly PhillyStat Reports as well as in various other documents and formats. The Procurement Department also noted their intention to write a strategic plan to be completed in the spring of FY '12.	Complete the Outline for the Strategic Plan by spring 2012 and the strategic plan document itself by summer 2012.
5. Does the Procurement Department have current workflow documentation and diagrams corresponding to existing functions and systems reviewed?	The Procurement Department and OIT have spent significant resources to develop detailed current documentation and this current detailed written workflow documentation and diagrams corresponding to existing functions and systems were available and well documented.	Continue documenting and diagramming workflow in all departmental processes.
6. Does the Procurement Department have current business processes and systems?	The Procurement Department demonstrated and provided a walkthrough of the business processes for tracking: requisition, bid, award, and purchase order using SPEED & ADPICS. The City Controller studied the procurement process within City departments and found the business processes originating with individual requisitions are manual and mostly outside the Procurement Department's direct oversight. Indeed, the City's procurement processes are significantly laborious, primarily manual and paper intensive.	

**Performance Review**  
**City of Philadelphia Procurement Function**

**Appendix H (cont.)**  
**Findings and Recommendations - Data and Information**  
**Services, Supplies & Equipment**

Topics	Findings	Recommendations
<b>Financial Efficiency</b> <b>Cost - Services, Supplies &amp; Equipment Information</b> <b>(Annual or Fiscal Year Data)</b>	<p>The City Charter rules and regulations are often described by the Managing Director's Office, the Finance Department and the Procurement Department as outdated and as thwarting negotiation and flexibility in contracting. Purchasing terms and conditions make it difficult to attract vendors (current average 2.4 vendors per bid). This low vendor attraction rate appears to be suboptimal and could mean that the City is over paying for supplies, services, and equipment.</p>	<p>Continue to review City procurement business practices and update the City Charter to improve the City's costs for products &amp; services. Further analysis of the vendors per bid is recommended with a focus on the greatest spends. With respect to the departmental requisitioning, It is recommended that the Procurement Commissioner's request for a mid-term eMarket Solution RFP award be supported by the Managing Director's and the Finance Director's Offices to implement a uniform requisitioning process and provide guidance to department to encourage competitive bids wherever possible for petty cash and direct purchase orders to improve pricing.</p>
1. Is there total spend for goods and services (spend) citywide? 2. Is there total number of transactions? 3. Is there total number of vendors -active and Inactive? 4. Is there a list of the 10 City departments with the highest total spends? 5. Is there a list of the Top 10 (20 if more meaningful) largest total: a. Spends by code? b. Spends by vendor? c. Most frequent purchases?	<p>This information was readily available upon request from the Finance Department.</p>	<p>Implement monthly, quarterly, semi-annually, annually and multi-yearly analyses to compare and contract trends in expenditures, monitoring for economies due to improved purchasing and spending practices.</p>

**Appendix H (cont.)**

**Findings and Recommendations- Data and Information  
Workflow**

Topics	Findings	Recommendations
<b>Financial Efficiency Control - General Information (Workflow)</b>	City procurement processes are mainly manual, overly complex and redundantly iterative. These processes are significantly burdensome and typically slow.	The team observed and found non-uniform manual and electronic work order processes supported by non-uniform manual and electronic inventory management driving non-uniform departmental purchasing. With respect to work order and inventory management, it is recommended that the Mayor promote uniformity of administration and departmental business processes.
1. Is there a workflow diagram or description for procurement including:	This information was available upon request and is documented.	While the Procurement Department needs to maintain, support and ultimately replace these manual business process and their IT systems with a complement of eMarket and enterprise purchasing solutions. It is also recommended that the Procurement Department track departmental contract renewal dates to mitigate contracts on commodities running out and the need for emergency orders.
Requisition process		
a. Approval or authorization process?		
b. Purchase order process?		
c. Receiving process?		

**Performance Review**  
**City of Philadelphia Procurement Function**

**Appendix H (cont.)**

**Findings and Recommendations - Data and Information  
Workflow**

<b>Topics</b>	<b>Findings</b>	<b>Recommendations</b>
d. Payment process?	While requisitioning, bidding, contracting and receiving are tracked manual processes, once procurements are entered into ADPICS, payment processing in FAMIS is electronic. After this electronic processing. Receiving and inventory management is again manual in the City departments.	It is recognized that much has been done electronically to expedite payment processing and most recently commends, Procurement and OIT for imaging purchase orders.
e. Inventory control process?	The City created a fixed asset inventory solution without an interface to ADPICS necessitating duplicated data entry of ADPICS data into C-400.	The team agrees with the Procurement Department in the need to maintain, support and ultimately replace these manual business process and their IT Systems with a complement of eMarket and enterprise purchasing solutions. Concurrently, the City needs to explore and improve inventory and warehouse controls. Review the City's inventory policies, practices and thresholds.
2. Are there copies of past audits, studies, reports, findings, etc., that have been done on the procurement function?	While there have been many discussions and there have been several Procurement Department studies, there has not been a consistent sustained global transformation of the City's procurement processes and systems with current technologies since the mid-1990's.	It is recommended that the Procurement Department keep the multidepartment-shared document management technology solution up-to-date.



**Performance Review**  
**City of Philadelphia Procurement Function**

**Appendix H (cont.)**

**Findings and Recommendations - Data and Information  
Workflow**

Topics	Findings	Recommendations
3. Is there a description of significant processing and reporting challenges resulting from the current processes and systems?	Ashort list of challenges was provided. Also, there were many discussions and additional documents provided which showed how difficult it has been for the city to establish and maintain an up path for modernizing the procurement process.	It is recommended that the City move forward beyond discussion and take action on address the challenges arising from current obsolete processes and systems.
4. What is the extent of manual processes currently in place?	Requisitioning, bidding, contracting and approving are primarily manual processes supported by IT used principally as tracking systems. However, IT produces the purchase order after electronically checking in FAMIS for appropriations and since this fall purchase orders are printed to Imaging to be reviewed by City departments and available for emailing to vendors rather than exclusively printed out in multiple copies and posted to suppliers.	It is recommended that the City confront the true impacts of manual processes and redesign/replace its business processes.
5. What are the types of requisitions or purchases that are currently done manually?	All types of requisitions, except blanket purchase orders, are primarily manual in City departments and support by tracking systems in the Procurement Department.	It is recommended that the implementation of modern electronic technologies in lieu of cumbersome manual, non-uniform business processes.

**Performance Review**  
**City of Philadelphia Procurement Function**

**Appendix I**  
**Workflow Information Detail<sup>25</sup>**

PROCUREMENT SERVICE, SUPPLIES & EQUIPMENT PURCHASE PROCESSING STEPS			
PROCESS	AVERAGE DAYS TO COMPLETE PROCESS	TYPE OF SYSTEM (Manual/ Tracking/ Electronic)	IT SYSTEM NAME & NOTE
1 Create Departmental Requisition	14	Tracking	Manual steps tracked in SPEED
2 Create Citywide Requisition	1	Tracking	
3 Create Invitation and Bid	76	Tracking	
4 Create Addenda and Bid	1	Tracking	
5 Select Vendor	18	Tracking	
6 Create Contract	30	Tracking	
7 Create Contract Add-ons	2	Tracking	
8 Create Contract Amendments	21	Tracking	
9 Create Contract Confirming Order	10	Tracking	
10 Create Small Order Purchase (SOP)	7	Tracking	
11 Create Emergency Order	1	Manual	Manual steps tracked in SPEED
12 Create Purchase Order Advice of Changes	Not Known	Tracking	
13 Generate Procurement Reports	1	Electronic	
14 Enter Requisition or Purchase Order	1	Electronic	
15 Iterate Approval; Forward Toward Last Approver; or Reject Back to Initiator	Not Known	Electronic	Electronic approval steps tracked in ADPICS
16 Post to FAMIS to Pre-Encumber Requisition or Encumber Purchase Order to Move Forward or Document Stays with Last Approver for Disposition	Not Known	Electronic	
17 Print Purchase Order to Imaging and Email to Vendor	1 to 3	Electronic	Electronic imaged purchase orders indexed for retrieval and storage in EMC Documentum
18 Receiving Processing	Not Known	Manual	Manually tracked except in the Fleet Department
19 Fixed Asset Inventory	1 to 3	Tracking	Assets inventory tracked in C-400
20 Payment Processing	Not Known	Electronic	Electronic in FAMIS
21 Fixed Asset Inventory	1 to 180	Tracking	Assets disposal tracked in C-400

<sup>25</sup> Data provided by Procurement Department.

**SECTION II**  
**MANAGEMENT'S RESPONSE**



## CITY OF PHILADELPHIA

PROCUREMENT DEPARTMENT  
120 Municipal Services Building  
Philadelphia, PA 19102-1685  
(215) 686-4750  
FAX (215) 686-4728

HUGH ORTMAN  
Procurement Commissioner

March 1, 2013

Mr. Alan Butkovitz, City Controller  
Office of the Controller  
1230 Municipal Services Building  
1401 John F. Kennedy Boulevard  
Philadelphia, PA 19102

Dear Mr. Butkovitz:

SUBJECT: Procurement's Response to Controller Audit

The Procurement Department (the "Department") has reviewed the Executive Summary as submitted by the Office of the Controller, as well as the audit report submitted by JF Smith & Associates. The Department accepts the findings and recommendations noted in the report. However, there are some points of clarification that should be addressed.

With regard to technology, the report states that the implementation of an e-procurement system could potentially garner nearly \$12.2 million annually in savings. While the Department generally agrees with the findings regarding technology, it is unclear how the figures on savings were achieved, where specifically the City will realize these savings, and we respectfully request information that supports these findings. The Department is poised to implement and reengineer systems and workflow as funding becomes available.

With regard to staffing, at the time of this report, the figures noted were accurate and up to date. Currently, within the Procurement Department, the percentage of employees who are retirement eligible is 16.6%, and the percentage of employees in the City's Deferred Retirement Option Plan (DROP) is 14.5%. The Department has worked diligently to fill vacant positions, and continues to work with Human Resources to restructure and implement our succession plan.

In addition, we feel the inclusion of the 15 Procurement Specialists, noted in the report as part of Procurement's overall staffing numbers, is misleading at best. These 'specialists' are not Procurement Department employees, and the Department has no oversight in their contribution to the Procurement workflow. It should also be noted that the specific job classification of many of these employees does not necessarily represent their job functions or day-to-day assignments. Additionally, the Department has one suggested modification to the report:

Mr. Alan Butkovitz, City Controller  
March 1, 2013  
Page 2 of 2

1. In the 'Introduction' found on page three of the report, the paragraph should state the following: "This performance review was conducted to assess and report on the City of Philadelphia's (City) purchasing processes and procedures currently in place **subject to purchases under City Charter 8-200**, and to identify potential areas of process and performance improvement and savings.

The Procurement Department appreciated working with the Office of the Controller and JF Smith & Associates on this review.

Sincerely,



Hugh Ortman  
Procurement Commissioner

/mr

cc: Joan Markman, Chief Integrity Officer, Mayor's Office  
Fiona Greig, Deputy Budget Director, Finance Office  
Rebecca Rhynhart, Budget Director, Finance Office  
Konstantinos Tsakos, Audit Administrator

### **SECTION III**

#### **CONTROLLER'S OFFICE EVALUATION OF MANAGEMENT'S RESPONSE**

## **CONTROLLER'S OFFICE EVALUATION OF MANAGEMENT'S RESPONSE**

While city management has accepted the findings and recommendations noted in the report, it raised points in its response that we believe require the City Controller's Office comment. These points included management's: (1) request for clarification of \$12.2 million in annual savings; (2) objection of including 15 Procurement Specialists outside the department when considering staffing; and (3) preference for adding the words "subject to purchases under City Charter 8-200" in the introduction section.

### **Clarification of \$12.2 Million Annually in Savings**

As the report indicates, the savings would be achieved as follows:

<b><u>Estimated Savings</u></b>	<b><u>Explanation of Savings</u></b>
\$ 750,000	Staffing reductions that would be achieved through implementation of an eProcurement system. The dollar estimate assumes at least \$50,000 in salary and fringe benefits multiplied by 15 people that will be replaced by the new system.
7,424,000	Replacement of ADPICS and SPEED Systems with a new eProcurement system would generate estimated savings of 5.27 percent multiplied by \$140,961,337 in Services, Supplies & Equipment (SS&E) spend.
4,000,000	Changes in contract terms and conditions would allow for multi-year agreements and result in greater vendor competition that would yield spend savings in Services, Supplies & Equipment ranging from \$2,819,227 (2% x \$140,961,337 SS&E) to \$7,048,067 (5% x \$140,961,337 SS&E). We averaged the range outliers to \$4,933,647 and conservatively rounded down to the nearest million dollars.
<u>\$12,174,000</u>	Total estimated savings

### **Objection of Inclusion of 15 Procurement Specialists Outside Department**

The City Controller's Office believes it is appropriate to include the 15 Procurement Specialists outside the Procurement Department because the scope of the review was intended to be citywide and not isolated to the Procurement Department.

### **Preference for Adding Reference to City Charter in the Introduction Section**

Prior to receiving its written response, management gave no indication to the City Controller's Office of its preference for adding the City Charter reference.