

Management Audit

of the

**The City and County of San Francisco's
Commodity Purchasing Process**

Prepared for the

**Board of Supervisors
of the City and County of San Francisco**

by the

San Francisco Budget Analyst

December 7, 2009

CITY AND COUNTY



OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET ANALYST

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December 7, 2009

Supervisor David Chiu, President,
and Members of the Board of Supervisors
City and County of San Francisco
Room 244, City Hall
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4689

Dear President Chiu and Members of the Board of Supervisors:

The Budget Analyst is pleased to submit this *Management Audit of San Francisco's Commodity Purchasing Process*. In response to a motion adopted by the Board of Supervisors in April 2009 (Motion No. 09-65), the Budget Analyst conducted this management audit, pursuant to the Board of Supervisors powers of inquiry as defined in Charter Section 16.114 and in accordance with U.S. Government Accountability Office (GAO) standards, as detailed in the Introduction to the report.

The purpose of the audit has been to evaluate the efficiency, economy, and effectiveness of the Citywide purchasing processes for commodities, including materials and supplies, vehicles, information technology materials and supplies, and Department of Public Health medical supply and pharmaceutical purchases through the group purchasing organization (described below). This transmittal letter to the *Management Audit of San Francisco's Commodity Purchasing Process* summarizes the Budget Analyst's findings and recommendations.

The management audit report contains 16 findings and 66 recommendations. The Budget Analyst's recommendations are attached to this report.

The audit report findings include (1) the Citywide commodity purchasing process under the oversight of the Purchaser; (2) purchases of information technology materials and supplies through OCA's Technology Store; (3) purchases of vehicles; and (4) the

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Honorable David Chiu, President,
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Department of Public Health's purchasing processes through the group purchasing organization.

The Budget Analyst estimates that implementation of the audit recommendations would save the City approximately \$3.7 million annually. These savings are based on our estimates of reduced commodity costs by increasing the competitiveness of the purchasing process.

We would like to thank the management and staff of OCA, the General Services Agency, Office of Public Finance, Department of Public Health, Department of Technology, Controller, and other City departments for their cooperation during this management audit.

Respectfully submitted,



Harvey M. Rose
Budget Analyst

cc: Supervisor Alioto-Pier	Purchaser
Supervisor Avalos	Director of Health
Supervisor Campos	Director of the Department of Technology
Supervisor Chu	City Administrator
Supervisor Daly	
Supervisor Dufty	
Supervisor Elsbernd	
Supervisor Mar	
Supervisor Maxwell	
Supervisor Mirkarimi	
Clerk of the Board	
Cheryl Adams	
Controller	
Greg Wagner	

not complied with OCA's purchasing guidelines. In FY 2008-09, City departments generated 8,956 direct vouchers for commodity purchases, totaling \$3,722,077.

City departments sometimes use direct vouchers to compensate for purchases that do not conform with OCA guidelines. In a sample of 60 direct vouchers greater than \$200, City departments used direct vouchers in 16 instances because they failed to comply with OCA guidelines. These exceptions to OCA's purchasing guidelines occurred because City department staff purchased commodities without issuing purchase orders; did not tell the appropriate managers that invoices or deliveries had been received; or made errors in requisitions, purchase orders, or commodity specifications.

Delays in OCA or Human Rights Commission approval processes for sole source vendors can also result in the need for direct vouchers if the City department requires the commodity or associated maintenance service prior to obtaining sole source approval. For example, one department issued a direct voucher for \$122,542 to pay a sole source vendor for routine software maintenance two years after the original invoice, in part because the Human Rights Commission's review of the vendor's compliance "extended over a year's term". Another department issued a direct voucher for \$59,589 for the maintenance of software during a time period when the vendor's contract was still awaiting liability insurance, sole source, and Equal Benefits Ordinance waivers. The vendor was the sole service provider for Jail Health Services medical charting software.

8. Information Technology Purchasing

Citywide planning and purchasing for information technology (IT) supplies has been historically uneven due to the decentralized and short term nature of IT funding. Numerous efforts have been made over the last three years to enhance IT planning collaboration among City departments with some progress toward coordinated resource planning.

The Committee on Information Technology (COIT) has initiated departmental IT plans with a review of proposed IT projects. Although the plans provide a framework for citywide IT planning, such plans are not fully and consistently completed by departments and often do not include performance measures.

The City continues to lack centralized IT equipment inventory management tools although the 2007 Budget Analyst's management audit of City IT practices found that departments had an inconsistent level of inventory accountability. The Budget Analyst recommended that COIT develop citywide policies on maintaining computer inventories and implement a quality control process to ensure adequate compliance with such policies.

The City also lacks Citywide agreements with large manufacturers of goods and services, such as Oracle, although City leaders have agreed on the need for these agreements. For example, the Controller reported that the City has 40 individual contracts with Oracle resulting in the purchase of \$17 million in licenses from Oracle over a 10-year period. The Controller recommended that the Director of the Department of Technology convene

a four to five person negotiation team to negotiate Citywide agreements with large manufacturers of information goods and services to be led by the Department of Technology with a representative from OCA to assist with contract compliance. While four positions were included in the Department of Technology FY 2009-10 budget, the Mayor's Office has not yet approved the position requisitions.

The Chief Information Officer (CIO) of the Department of Technology, at the direction of the Mayor, began reviewing all IT-related purchases to address FY 2008-09 mid-year budget reductions and the Mayor's IT environmental goals. According to the CIO, the review is now "to gather very specific data and information on technology procurements and to identify opportunities for consolidation and standardization." Continued CIO review of IT requisitions is justified if OCA and the CIO develop procedures for standardizing IT equipment and batching purchases from multiple departments for volume purchasing, as discussed in Section 4. However, the CIO should develop written criteria for reviewing requisitions, establish review timelines, and measure the impact of the CIO-review on the purchasing process.

9. Technology Store Purchasing

The City's Technology Store consists of 14 separate as-needed contracts, awarded by OCA through a competitive Request for Proposals process, for the procurement of information technology (IT) goods and services. The Technology Store is intended to provide an expedited IT purchasing process for City departments with discounted rates from Technology Store vendors. In FY 2008-09, City departments purchased \$28.1 million in IT commodities through Technology Store vendors, or 48 percent of Citywide IT commodity purchases of \$58.5 million.

While the Technology Store is structured to encourage competitive pricing, the controls in place are inadequate to ensure that vendors provide goods at prices consistent with contracted discount rates. Specifically, OCA does not have a structured review (or post audit) process to verify that Technology Store pricing is consistent with the contracted rates.

According to OCA policies, City departments should solicit a minimum of three price quotes for Technology Store commodity purchases greater than \$100,000, but City managers are often not able to obtain three quotes. OCA policy encourages City departments to solicit more than one price quote for Technology Store commodity purchases under \$100,000, but a review of 10 Technology Store purchase orders under \$100,000 found that 8 of these purchase orders had only one vendor quote.

OCA has implemented a pilot program to increase participation of small local businesses in the purchase of information technology supplies, although purchases from these small businesses (Micro Local Business Enterprises, or Micro-LBEs) have been significantly less than the contract not-to-exceed amount. As of June 2009, \$11,913 in commodities had been purchased directly from Micro-LBEs under a pilot program initiated in January 2009. This amount is only 17.9 percent of expected purchases of \$66,667 under contracts

with four separate Micro Local Business Enterprises for products for the six-month period.

The Administrative Code allows the Technology Store to assess an administrative fee for all purchases. COIT and OCA have not adjusted this fee and the current fee of 1.9 percent of purchase price exceeds OCA's costs for administering the Technology Store by an estimated \$330,000 annually. Further, City departments are charged for the costs of OCA's Purchasing Division, including Technology Store costs, through the Countywide Cost Allocation Plan, resulting in City departments paying directly for Technology Store purchases through the administrative fee and indirectly for the Technology Store through allocation of OCA's Purchasing Division costs, including Technology Store costs, through the Countywide Cost Allocation Plan (COWCAP).

10. Vehicle Management and Procurement

How the City manages its general purpose vehicle fleet impacts the demand for and procurement of vehicles in the City. The City maintains a total of 1,645 vehicles in vehicle fleets managed by five City departments. The City's Director of Fleet Management, under the General Services Agency, oversees approximately half of this fleet, with the remaining vehicles under the independent fleet management of the SFMTA, Port, Airport, and the PUC. While the City's Director of Fleet Management and the four City departmental fleet managers do meet regularly, vehicle fleet management is inconsistent across the City. In 2009, a vehicle fleet consultant found various shortcomings in the City's fleet management and procurement practices.

Vehicle replacement policies and practices are inadequate. Four of the five fleets have fleet replacement thresholds, though only two fleets have written replacement policies. Although deferred replacement exacerbates vehicle maintenance costs, only one of the City's five fleets is factoring maintenance costs into its vehicle replacement decision making.

The Director of Fleet Management charges General Fund departments a flat annual fee for each general purpose vehicle assigned to that department. This annual lease fee includes the cost of regular maintenance and repair, which are provided by Fleet Management, as well as a contribution to a vehicle replacement reserve. Cumulatively, however, the vehicle replacement reserve contribution is only sufficient to fund replacement of a vehicle when it is approximately 20 years old. This replacement rate lacks both financial and environmental justifications, failing to account for the maintenance or environmental costs of aging vehicles.

The City's five independent fleets consist of a wide array of vehicle make and models. While the Mayor has requested that departments standardize vehicles where possible, the City has not established policies or guidelines for implementing this request. The City has taken some steps toward standardizing vehicle specifications, such as standardizing the color of new general purpose vehicles in order to encourage vehicle sharing between departments. However, lack of standardization for all general purpose vehicles increases the City's vehicle purchase costs due to increased OCA costs for bidding separate

8. Information Technology Purchasing

- **Citywide planning and purchasing for information technology (IT) supplies has historically been uneven due to the decentralized and short term nature of IT funding. Numerous efforts have been made over the last three years to enhance IT planning collaboration across the City with some progress toward coordinated resource planning.**
- **The Committee on Information Technology (COIT) has initiated departmental IT plans with a review of proposed IT projects. Although the plans provide a framework for citywide IT planning, they are not fully and consistently completed by departments and often do not include performance measures.**
- **The City continues to lack centralized IT equipment inventory management tools despite the 2007 Budget Analyst management audit of City IT practices finding that departments had an inconsistent level of inventory accountability and recommendation that COIT develop citywide policies on maintaining computer inventories and a quality control process to ensure adequate compliance with such policies.**
- **The City also lacks citywide enterprise agreements with large manufacturers of goods and services, such as Oracle, although City leaders have agreed on the need for these agreements. The Controller reported that the City has 40 individual contracts with Oracle and purchased \$17 million in licenses from Oracle over a 10-year period, and recommended that the Director of the Department of Technology convene a four to five person negotiation team to be led by the Department of Technology with a representative from OCA to assist with contract compliance. While four positions were included in the FY 2009-10 budget, the position requisitions have not yet been approved.**
- **The Chief Information Officer (CIO) at the direction of the Mayor initiated a review process of all IT-related purchases to address FY 2008-09 mid-year budget reductions and the Mayor's IT environmental goals. According to the CIO, the review is now "to gather very specific data and information on technology procurements and to identify opportunities for consolidation and standardization." If the CIO continues to review all IT-related purchases, the CIO needs to develop written criteria, establish timelines, provide guidance to requesting departments, and solicit input from COIT and OCA. Additionally, the CIO needs to measure the impact of the CIO-review on the purchasing process, which had not been done at the time of the audit.**

Information Technology Purchasing Background

Information technology commodities are essential for the ongoing operations of City departments and agencies, but also present a large opportunity for cost savings. This is evidenced by the ubiquitous use of information technology in day-to-day tasks as well as by the massive volume of IT supplies purchased throughout the City. The commodity grouping that includes nearly all IT supplies represents the largest percentage of overall commodities purchased in the City by dollar volume (15 percent) and by number of purchase order lines (10 percent).

In FY 2008-09 \$58.5 million worth of IT supplies were purchased throughout the City through approximately 3,400 purchase orders (approximately 9,500 separate purchase order lines). This represents a decrease of 10.5 percent from FY 2007-08 when \$65.4 million was spent on information technology supplies.

IT purchasing is highly concentrated amongst a small group of departments. As shown in Table 8.1 below, 10 departments account for 87 percent of all information technology commodities purchased.

Table 8.1

Amount Spent on Information Technology by Department ¹

Department	FY 2008-09	Percent of Citywide IT Total
Public Health	\$11,188,602	19%
Public Utilities Commission	10,948,503	19%
Human Resources	6,353,335	11%
Technology	6,284,728	11%
Airport	6,283,065	11%
MTA	2,623,358	4%
Public Library	2,252,898	4%
Human Services	1,909,936	3%
Police	1,715,288	3%
Public Works	1,373,441	2%
Top 10 Subtotal	\$50,933,154	87%
All Other Departments	\$7,594,685	13%
Citywide Total IT Purchasing	\$58,527,839	100%

Source: ADPICS Purchase Order Data (Commodity Group 9205 Only)

¹ A large portion of (a) Department of Human Resources funding is related to the department's E-Merge project, and (b) Department of Technology funding is for Citywide information technology projects.

The top five commodities purchased in FY 2008-09 by dollar volume include technical support for personal computer based software and hardware, customized computer software, prepackaged software licenses, personal computer based networking hardware, and maintenance agreements for personal computer based hardware and software. Table 8.2 displays the top 15 IT commodities purchased in FY 2008-09 by dollar volume. Note that these codes are identified by the initiating authorized purchaser, which could be a delegated departmental purchaser or an Office of Contract Administration (OCA) staff purchaser.

Table 8.2**Top Information Technology Commodities Purchased**

Rank	Commodity Titles	FY 2008-09	Percent
1	Personal Computer Support for Hardware and/or Software (Installation and/or Maintenance)	\$9,448,090	16%
2	Mainframe, Mini and/or PC Based Custom Computer Software	7,352,184	13%
3	License Renewal (Prepackaged Personal Computer Software)	6,045,123	10%
4	Personal Computer Based Networking Hardware	5,033,906	9%
5	Personal Computer Hardware/Software Maintenance Agreement	4,614,443	8%
6	Desktop Computer System (PC Based, Packaged)	3,035,882	5%
7	Personal Computer Software (Standard Prepackaged)	2,698,934	5%
8	No Specific ADPICS Commodity Code Identified within IT Commodity Group Code	1,670,495	3%
9	File Server Computer System (PC Based, Packaged)	1,636,179	3%
10	Mainframe Computer Software	1,557,096	3%
11	PC Based Laptop Computer System	1,506,137	3%
12	Mainframe Computer Software License Renewal	1,085,464	2%
13	Personal Computer Hardware Technical Support	894,495	2%
14	PC Based Data Storage Drives	834,251	1%
15	Mini Computer Software	805,258	1%
	Top 15 IT-Related Commodity Codes Subtotal	\$48,217,937	82%
	All Other IT-Related Commodities Purchased	\$10,309,902	18%
	Citywide Information Technology Total	\$58,527,839	100%

Source: ADPICS Purchase Order Data (Commodity Group 9205 Only)

In FY 2008-09 City departments purchased IT goods from 328 individual vendors. Five of the top 10 vendors either have a current term contract through the Technology Store, which commenced on January 1, 2009 or had a term contract through the Computer Store which ended on December 31, 2008. Table 8.3 displays the breakdown of the top 10 vendors of IT equipment to the City including their status as a Technology Store or Computer Store vendor.

Table 8.3
Top Information Technology Vendors

Vendor Name	FY 2008-09	Percent of Total IT Purchases	Technology Store Vendor Status
Xtech	\$11,458,893	20%	Current Vendor
En Point Technologies Sales Inc.	9,370,722	16%	Current Vendor
Oracle USA Inc.	5,443,057	9%	
Ciber Inc.	5,151,089	9%	Former Vendor
Computerland Silicon Valley	3,355,302	6%	Current Vendor
Netsmart New York Inc. ²	2,580,000	4%	
Cornerstone Technology Partners JV	1,602,556	3%	Current Vendor
Moredirect Inc. ³	1,504,434	3%	
Dell Marketing LP	1,209,006	2%	
San Francisco Terminal Equipment Co. LLC ⁴	1,192,796	2%	
Top 10 IT Vendor Subtotal	\$42,867,856	73%	
All Other Vendors	\$15,659,983	27%	
Citywide IT Purchasing Total	\$58,527,839	100%	

Source: ADPICS Purchase Order Data (Commodity Group 9205 Only)

Information Technology Purchasing Structure- Process and Roles

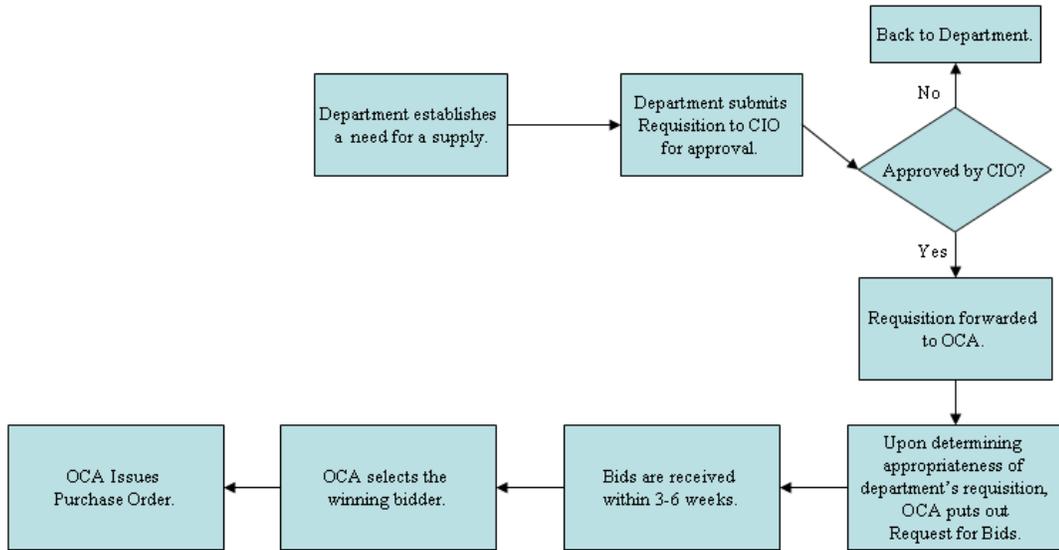
The flowcharts on the following page display the general steps in the IT commodities purchasing process. The first flowchart shows the standard IT purchasing process. The second flowchart depicts the Technology Store purchasing process.

² This vendor has a contract with the Department of Public Health for billing services.

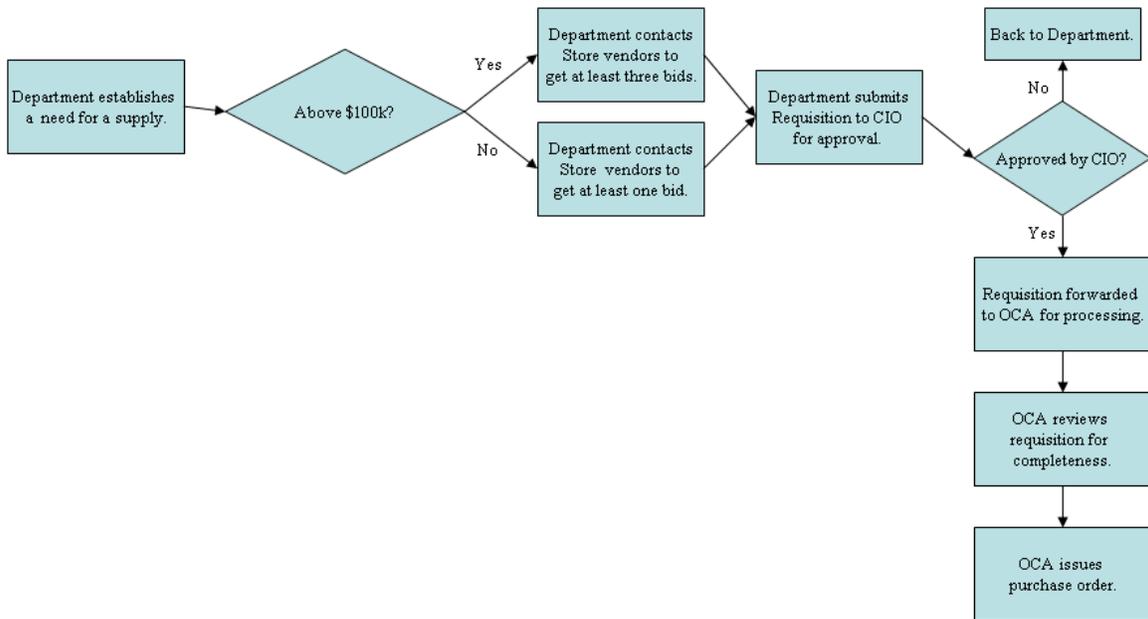
³ This vendor provides services to the Department of Public Health for the Novation purchasing program.

⁴ This vendor has a contract with the airport to provide common use terminal equipment.

Standard Processing for IT Product Requests



Technology Store Processing for Product Requests



The Role of OCA

OCA's role in IT purchasing as seen in the flowcharts above is dependent on whether the purchase request is processed through the Technology Store. OCA plays a smaller role in Technology Store purchases than through the standard purchasing process as Technology Store supplies are procured through pre-approved vendor contracts.

For Technology Store purchases, OCA is initially responsible for setting up the contracts through a formal Request for Proposals process. Once the contracts are set up, OCA's role is to issue purchase orders after reviewing requisitions for completeness. OCA processing generally takes one to five business days once it has received a requisition approved by the Chief Information Officer (CIO). OCA plays a more integral role in purchases outside of the Technology Store by putting out a Request for Bids and selecting the winning bidder. The standard process generally takes four weeks for informal bidding (\$10,000 to \$50,000) and four to six weeks for formal bidding (greater than \$50,000).

The Role of the City's CIO and the Department of Technology

Prior to January 2009, the Department of Technology formally had a role in reviewing all Computer Store purchases over \$10,000. The Department of Technology would generally respond to OCA within two business days.

In January 2009, the CIO, at the direction of the Mayor, assumed greater responsibility for the review and expanded it to all requests regardless of the transaction amount, and began to more actively approve or delay requests. From January through August 2009 OCA would assume that requests had been rejected, and return the requisition to the department, unless they were affirmatively approved within 10 business days. An analysis of requests reviewed by the CIO through July 2009 found that approximately 80 percent of requests had been affirmatively approved.

In July 2009 an approval path was created in ADPICS for the Department of Technology for IT purchases. Under this new process department-approved requests go through ADPICS to the CIO before being reviewed by OCA. Departments are still responsible for sending hard copies of supporting information for each request to the CIO.

The Role of the Committee on Information Technology

COIT initially operated the Technology Store (then known as the Computer Store) from its inception in the 1990s. In 2006 OCA assumed responsibility for managing the Technology Store while COIT's role shifted to focus more on the IT planning and governance rather than the day-to-day management of IT purchases. In the last two years COIT has instituted annual departmental IT Strategic Plans, developed a process to review and approve IT project requests for funding, worked on establishing enterprise agreements to maximize the City's leverage as a bulk purchaser, and assisted with a multi-departmental PC Lease.

CIO Review Process Initiated

In January 2009, at the direction of the Mayor, the CIO initiated a process to review all IT purchases (including professional services). According to the Mayor's directive, the purpose of the review process was to:

“meet a citywide FY 2009 mid-year target reduction and to meet the initiatives detailed in Executive Directive 08-01”.

The initiatives detailed in Executive Directive 08-01 are intended to (1) address the environmental impact of information and communication technology purchases; (2) implement a paper reduction pilot; and (3) reduce energy consumption by the City's information and communications technology.

The new review process lacks written criteria, established timelines, guidance to requesting departments, and input from COIT or OCA. Additionally, there has been no review or measurement of its impact on the purchasing process. Several City managers have stated that the new review has lengthened the purchasing process and in some cases resulted in a quote expiring before a purchase order could be issued, thus requiring departments to initiate new requisitions.

This review process was initiated without input from COIT, which, according to Executive Directive 07-09, is “the official technology governance body for the City and has the authority to develop policy and set the strategic technology vision for the City.” Further, the directive states that COIT should “develop policies and a strategic plan for the City that is supportive of the goals to consolidate, simplify, and optimize technology systems and operations” while the CIO and Chair of COIT “has the authority and responsibility to oversee the implementation of COIT policy for all City departments.”

The new review process was initiated with no stated criteria for how the CIO would determine whether to approve, delay, or reject procurement requests. Further, no explanation has been provided to OCA or requesting departments as to why certain requisitions have been delayed or disapproved. Several departmental managers have stated that this has led to additional confusion as to the purpose of the review.

According to the CIO, the purpose of the review is “to begin to gather very specific data and information on technology procurements and to identify opportunities for consolidation and standardization.” A review of the data collected by the CIO showed that of the 15 data fields with collected information, 12 fields contained data for non-administrative purposes, and 3 fields contained data that might not be readily obtained with the same level of detail from ADPICS. These three fields of new data include:

- Whether the request is grant funded;
- Whether the request is stimulus funded;
- A description of the products being requested.

In addition, the City's Technology Store contracts include a provision that requires Technology Store vendors to report on products and services sold on a monthly basis. Greater collaboration between the CIO and the Purchaser could have resulted in a less intrusive review process if the primary purpose of the review is to collect data on IT purchases. See Section 9 for more information on this requirement.

The data collected since January 2009 by the CIO has not yet been formally analyzed or presented to COIT, nor the Resources Subcommittee.

Information Technology Equipment Planning and Purchasing

Historically, IT planning and purchasing in San Francisco has been uneven due to the decentralized and short-term nature of IT funding as well as the vaguely defined roles of the City's stakeholders. This has resulted primarily in departments developing individual IT functions and systems over time to meet specific departmental needs. As noted in the Budget Analyst's 2007 audit of Information Technology Practices, the consequences of individualized systems development have been (a) inconsistent planning processes, (b) inconsistent project funding, which restricts departments' abilities to develop multi-year plans, and (c) cross-City redundancy in those IT systems and processes which are not department-specific. Over the last three years, there have been numerous efforts to enhance coordination of IT purchasing and planning as described below

Reconstitution of the Committee on Information Technology (COIT)

COIT, the City's official technology governance body, was reconstituted at the end of 2006 after a four year absence. COIT began meeting in late 2006 with four subcommittees forming shortly thereafter to focus on (1) architecture, (2) performance, (3) planning and budgeting, and (4) resource management.

COIT has provided a forum for communication and collaboration across City departments with some progress being made toward greater centralization of IT resource planning. Specifically, COIT has (1) adopted several Citywide policies to standardize hardware and software purchases; (2) drafted a Citywide IT strategic plan which has not yet been approved; (3) inventoried the One Market Plaza data center and plans to inventory other City data centers in order to consolidate the City's data centers; and (4) begun an annualized review of IT related projects across departments.

COIT Review of Departments' IT Plans

Beginning in FY 2006-07 the COIT Planning and Budget Subcommittee began requiring the submission of IT Plans from every department requesting IT project funding. This process was repeated in 2008-09 with the Planning and Budget Subcommittee reviewing 35 department plans. The plans consist of a template with 11 sections that departments fill out, including information on department mission and performance measures, financial and budgeting information, IT projects (future, proposed and approved), and security and business continuity plans, among others.

Although the plans provide a framework for citywide IT planning, they are not fully and consistently completed by departments and often do not include performance measures. A review of 20 FY 2008-09 IT plans found that 9 plans (45 percent) had one or more sections that were left blank while 14 plans (70 percent) had one or more sections with incomplete responses. Additionally, 12 of the 20 plans (60 percent) had no IT performance measures. To provide for effective multi-year planning, IT plans should include specific, quantifiable goals that can be measured against actual outcomes as recommended in the 2007 Budget Analyst management audit of San Francisco's IT practices.

Citywide Enterprise Agreements

For several years establishing enterprise agreements- a single citywide agreement with a vendor- has been identified by City leaders as a key step in reducing costs by aggregating information technology needs from across City departments. In 2008 an interdepartmental workgroup, led by the Purchaser, was convened to move the City forward on creating citywide enterprise agreements with large manufacturers of IT goods and services, primarily focusing on Oracle. The workgroup consisted of representatives from the Department of Technology, the Controller's Office, the Public Utilities Commission, the OCA, and the City Attorney. This workgroup had gathered project goals and requests from departmental chief information officers when the Controller's Office released an analysis of the City's agreements with Oracle.

In its report, the Controller's Office found that the City has 40 individual contracts with Oracle and purchased \$17 million in licenses from Oracle over a 10-year period. The City's expected renewal fees for Oracle licenses in FY 2009-10 are \$3.8 million. To achieve cost-savings, the Controller recommended (1) assess ongoing and future needs for Oracle products among City departments; (2) negotiate a citywide agreement with Oracle; (3) create negotiation guidelines for future Oracle contracts; and (4) consolidate management and administration of current Oracle contracts.

The Controller recommended that the Director of the Department of Technology convene a four to five person negotiation team to be led by the Department of Technology with a representative from OCA to assist with contract compliance. While four positions have been included the FY 2009-10 budget, the Mayor's Office has not approved position requisitions and no additional City staff members have yet been hired to participate in this negotiation team.

IT Equipment Inventory Management

Although COIT has conducted a study of citywide technology equipment and has inventoried the One Market Plaza data center, the City continues to lack policies, procedures, or standards for safeguarding and accounting for computer equipment, or for replacing computer equipment. The 2007 Budget Analyst management audit of City IT practices found that departments had an inconsistent level of inventory accountability and recommended that COIT develop citywide policies on maintaining computer inventories and a quality control process to ensure adequate compliance with such policies. To date, COIT has not established citywide guidelines on inventory management.

Citywide IT Plan

The City's IT leaders such as the CIO, the Committee on Information Technology, and departmental chief information officers are not following a consistent citywide IT plan despite direction from Executive Directive 07-09 for COIT to develop a citywide strategic plan. A proposed citywide IT Plan, drafted with input from departmental chief information officers was presented to COIT in April 2009, but has not been formally approved and implemented. The draft includes several purchasing related implementation plans, including standardizing hardware and software citywide, establishing enterprise agreements, and reforming the City's IT procurement processes.

Conclusions

IT equipment and supplies account for the largest group of commodities purchased by the City and therefore present one of the greatest opportunities for savings. The City's planning and purchasing for IT equipment and supplies has historically been uneven due to the short-term and decentralized nature of funding departments. There have been numerous efforts over the last three years to address this issue with some progress. These efforts have included the reconstitution of COIT, the initiation of department IT plans with a review of proposed IT projects, the initiation of an enterprise agreement workgroup, a study of the City's technology equipment, a draft IT strategic plan, and a CIO review of all IT purchases. However, the City continues to lack an adopted IT plan, IT enterprise agreements with large manufacturers that take advantage of the City's bulk buying power, or an IT inventory management program.

The purpose of the CIO review of IT purchases has morphed from addressing FY 2008-09 mid-year budget reductions and the Mayor's IT environmental goals to gathering data on technology procurements in order to consolidate and standardize these purchases. Continued CIO review of IT requisitions is justified if OCA and the CIO develop procedures for standardizing IT equipment and batching requisitions from multiple departments for volume purchasing, as discussed in Section 4. However, the CIO needs to develop written criteria for reviewing requisitions, establish review timelines, and measure the impact of the CIO-review on the purchasing process.

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Recommendations

In order to provide greater citywide collaboration of IT planning and purchasing, the Director of the Committee on Information Technology should:

- 8.1 Provide more guidance to departments, including clear written guidance, as to how to complete an IT plan and assist departments in developing quantifiable goals within a timeline that the department can check against actual outcomes.
- 8.2. Develop IT inventory policies and standards and present to COIT for approval.
- 8.3. Finalize the citywide IT Plan and present to COIT for approval.

In order to minimize confusion and unnecessary delay to the IT purchasing process, the Chief Information Officer should:

- 8.4. Work with COIT and the Purchaser to develop criteria and timelines for approving, delaying or rejecting IT commodity requests.

Costs and Benefits

Implementation of these recommendations would result in more administrative time spent on improving processes and issuing guidance. However, these recommendations, if implemented, could potentially save millions of dollars in long term costs if they lead to the establishment of multiple enterprise agreements that leverage the City's volume purchasing power.

9. Technology Store Purchasing

- The Technology Store consists of 14 separate as-needed contracts, awarded through a competitive Request for Proposals process, for the procurement of information technology (IT) goods and services. The Technology Store is intended to provide an expedited IT purchasing process for City departments with discounted rates from Technology Store vendors. In FY 2008-09, City departments purchased \$28.1 million in IT commodities through Technology Store vendors, or 48 percent of Citywide commodity purchases of \$58.5 million.
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- According to OCA policies, City departments should solicit a minimum of three price quotes for Technology Store commodity purchases greater than \$100,000, but City managers sometimes have trouble receiving three quotes. OCA policy encourages City departments to solicit more than one price quote for Technology Store commodity purchases under \$100,000, but a review of 10 Technology Store purchase orders under \$100,000 found that 8 had only one vendor quote.
- OCA has implemented a pilot program to increase participation of small local businesses in the purchase of information technology supplies, although purchases from these small businesses (Micro Local Business Enterprises, or Micro-LBEs) have been significantly less than the contract not-to-exceed amount. As of June 2009, \$11,913 in commodities had been purchased directly from Micro-LBEs under a pilot program initiated in January 2009. This amount is only 17.9 percent of expected purchases of \$66,667 under commodity contracts with four separate Micro Local Business Enterprises for the six-month period.
- The Administrative Code allows the Technology Store to assess an administrative fee for all purchases. COIT and OCA have not adjusted this fee and the current fee of 1.9 percent of purchase price exceeds OCA's costs for administering the Technology Store by an estimated \$330,000 annually. Further, City departments are charged for OCA purchasing costs, including Technology Store costs, through the City's Cost Allocation Plan, resulting in double-charging for the Technology Store.

Technology Store Purchasing

History and Structure of the Technology Store

In the 1990s the City created what was then known as the “Computer Store” to facilitate the purchasing of IT products. The Committee on Information Technology (COIT) and the Department of Technology operated the Computer Store until August of 2006 when management responsibilities were transferred to the Office of Contract Administration (OCA). In January 2009 OCA changed the name to the “Technology Store” to reflect the need for a wider array of technologies and expertise for the City and expanded opportunities for local businesses.

The Technology Store consists of 14 separate as-needed contracts, awarded through a competitive Request for Proposals process, for the procurement of IT goods and services. The current Technology Store contracts¹ began on January 1, 2009 and are set to run until December 31, 2011. The City has sole discretion to extend the contracts for up to two additional years.

One of the primary benefits of the Technology Store is that it provides an expedited purchasing process for City departments to obtain technology that is essential for day to day operations. Since the contracts have already been approved by OCA, departments can avoid the longer, more complex Request for Bids process. According to the Purchaser, procuring commodities outside of the Technology Store generally takes from four to eight weeks while Technology Store procurements are generally processed by OCA in three to five business days.

Just over 48 percent² of all City money spent on information technology commodities in FY 2008-09 were through the Computer Store or the Technology Store, or \$28.1 million of \$58.5 million. The combined total of goods purchased through the Technology Store (January 1, 2009 through June 30, 2009) and the Computer Store (July 1, 2008 through December 31, 2008) in FY 2008-09 is \$28,154,004. Purchases outside the store tend to be less numerous by transactions, but higher in dollar value. Table 9.1 displays the breakdown of commodities purchased through the Computer Store and the Technology Store in FY 2008-09.

¹ Five of the seven category three vendor (Micro LBE Set-Aside vendor) contracts began on February 1, 2009 while two of the seven began later than February.

² This is a percent of all commodities purchased in the 9205 commodity group.

Table 9.1**Computer Store vs. Technology Store Breakdown in FY 2008-09**

	Commodities Total	Percent of Total
Computer Store Subtotal (Jul.-Dec. 2008)	\$10,688,159	38%
Technology Store Subtotal (Jan.-Jun. 2009)	17,465,845	62%
Total	\$28,154,004	100%

Source: ADPICS Purchase Order Data (All Commodity Groups)

Technology Store Vendors

The contracts for the current Technology Store are divided into three categories: (1) Services and Products; (2) Products Only; and (3) Micro-Local Business Enterprise (LBE) set-aside vendors.³ Table 9.2 displays the breakdown of Technology Store purchases by all three vendor categories. Since these categories were introduced with the new Technology Store contract, the purchases only occurred in the second half of FY 2008-09 (January 2009 to June 2009). Micro-LBE contracts are each limited to \$100,000 thereby limiting the amount that can be purchased from Micro-LBE vendors.

Table 9.2**Technology Store Commodity Purchases By Vendor Category**

Vendor Category	January 2009 to June 2009	Percent of Technology Store Purchases
Category 1 Vendors: Products and Services	\$3,774,801	21.61%
Category 2 Vendors: Products Only	\$13,679,131	78.32%
Category 3 Vendors: Micro-LBE Set-Aside	\$11,913	0.07%
Technology Store Subtotal	\$17,465,845	100%

Source: ADPICS

³ Micro LBEs are a subset of LBEs as defined by the Human Rights Commission (HRC). The criteria HRC uses to define Micro LBEs includes a maximum three year gross annual receipts average of \$3,500,000 for goods/materials/equipment and general services.

Micro LBE Set Aside

The division of contracts into three categories was initiated with the Technology Store contracts in January 2009 to provide more opportunities for local and small vendors to directly compete for business with the City and to more effectively target LBE subcontracting goals. While the second category (Products Only) does not contain subcontracting goals because little is to be gained from subcontracting commodities, the first category (Services and Products) includes LBE subcontracting goals. For the nine-month period from January 2009 through September 2009, City departments had purchased approximately \$1.7 million from LBEs, primarily for IT services.

The third category (Micro-LBE set-aside vendors) is a pilot program aimed at providing micro businesses with an opportunity to directly contract with the City for goods and services. The seven Micro-LBE contracts are each limited to \$100,000 over a period of three years, totaling \$700,000 over three years. Four of these contracts are for products while the remaining three contracts are for maintenance services. According to the Purchaser, OCA will extend these contracts in \$100,000 increments if and when these vendors reach the maximum contracted dollar threshold. .

Currently, Technology Store purchases from Micro-LBE commodity vendors are significantly less than the not-to-exceed amount allowed in the Technology Store contracts. City departments can purchase up to \$400,000 in commodities from four Micro-LBE vendors over a three-year period, equivalent to \$66,667 for the six-month period from January 2009 to June 2009. However, City departments purchased only \$11,913, or 17.9 percent of \$66,667.

According to the Purchaser, OCA has met with the Human Rights Commission and Micro-LBEs to identify ways to increase Micro-LBE participation in Technology Store purchases. In August 2009, OCA began meeting monthly with department IT personnel and Micro-LBEs to introduce them to each other and to discuss City department purchasing from the Micro-LBE contracts.

Technology Store Commodities

As seen in Table 9.3, the most commodities purchased through the Technology Store are computer hardware and software based. Less than two percent of Technology Store commodity purchases consist of other types of commodities.

Table 9.3**Technology Store Purchases By Commodity Group**

Commodity Group Code	Commodity Group Title	Total	Percent
9205	Computer Hardware, Software, Supplies & Support Services	\$27,640,522	98.2%
9125	Publications & Subscriptions; Audio/Visual, Computerized & Printed Media	\$135,811	0.5%
9345	Health & Safety Equipment, Parts, Access, Materials & Supplies	\$123,365	0.4%
9725	Telecommunications Systems, Equipment, Parts, Access, Materials	\$79,529	0.3%
9840	Audio/Visual Systems, Equipment, Parts & Supplies	\$72,882	0.3%
9990	Security Systems, Equipment, Parts, Materials & Surveillance	\$36,838	0.1%
9680	Law Enforcement Equipment, Parts & Supplies; Police, Sheriff	\$24,905	0.1%
9700	Reprographics Equipment, Parts & Supplies (Also Chemicals, Office & Printing)	\$14,815	0.1%
	All Other Commodity Groups	\$25,338	0.1%
Grand Total		\$28,154,004	100%

Source: ADPICS Purchase Order Data (All Commodity Groups)

Technology Store Controls on Vendor Pricing

Although the Technology Store is structured to encourage competitive pricing, the controls in place are not sufficient to ensure that vendors provide goods at prices consistent with contracted discount and mark-up rates. The Technology Store is set up to encourage vendors who are compliant with the City's Equal Benefits and other requirements to compete with one another to provide the lowest price from a variety of manufacturers and purchasing agreements. The mechanisms in place to encourage competitive pricing include the competitive bidding process for Technology Store contracts, a policy requiring a minimum of three bids for purchases over \$100,000, and a preference for more than one bid for purchases under \$100,000. In practice, City managers sometimes have trouble receiving three quotes from Technology Store vendors and there is no structured review process to ensure vendors comply with contracted rates.

While purchasers have performed random spot checks on vendor prices, OCA does not have a structured review program to ensure vendors provide contracted discount and

mark-up rates. Although Technology Store contracts include a clause requiring vendors to provide evidence of the manufacturer's list price or the actual cost of products sold if requested, there have been no audits of purchases to verify pricing. Further, while multiple quotes are encouraged for purchases under \$100,000, there is no tracking to measure the extent to which departments are able to acquire more than one quote. A review of 10 Technology Store purchase orders under \$100,000 found that 8 only had one vendor quote.

Technology Store Administrative Costs Are Not Properly Assessed

The fee structure used to pay for the costs of the Technology Store is inaccurate and redundant. For more than 10 years departments have been charged an administrative fee of 1.9 percent of the total purchase price of commodities and services procured through the Computer and Technology Stores in order to pay for the costs of managing the multiple contracts. This fee amount is higher than what is necessary to cover such costs and is redundant as departments are already charged for these administrative costs through the City's Cost Allocation Plan.

The current administrative fee is too high and has not been managed in accordance with City Code. Section 21.8 of the City's Administrative Code states that the Computer Store administrative fee shall be used solely to pay for actual costs of administering the Computer Store contract for the benefit of City departments. Further, the Code states that

Beginning in Fiscal Year 1999-2000, COIT shall annually review the administrative costs from the previous fiscal year and may reduce the administrative fee to conform to projections of actual administrative costs for the succeeding fiscal year. Any excess funds collected during one fiscal year shall be applied by COIT to reduce the administrative fee in the following fiscal year.

COIT has not adjusted the fee to conform to projections of actual administrative costs. Further, responsibility for the Technology Store was transferred from COIT to OCA in 2006.

A review of the actual administrative costs found that departments are charged approximately \$330,000 more than what is incurred to manage the Technology Store contracts based on personnel costs. OCA has three positions assigned to focus entirely on IT purchases. Table 9.4 shows the approximate maximum amount incurred by OCA to operate the Technology Store.

Table 9.4**FY 2008-09 Technology Store Costs**

FY 2008-09 Salaries	Step 5 Salary With Benefits
1952 Purchaser	\$101,688
1956 Senior Purchaser	123,607
1958 Supervising Purchaser	150,242
Total	\$375,537

Source: FY 2008-09 Annual Appropriation Ordinance

As illustrated in Table 9.4 the purchaser positions assigned to the Technology Store cost a maximum of approximately \$376,000 annually. This is significantly less than the \$601,000 to \$707,000 raised in recoveries from the administrative fee in the last three fiscal years.

Technology Store Costs Accounted for in City Cost Allocation Plan

Technology Store administrative costs are assessed to departments in a redundant manner. According to the Controller's Office, the Technology Store administrative fee revenues were not offset in the City's Cost Allocation Plan⁴. Therefore, City departments are being charged for Technology Store costs through general citywide cost allocations as well as through the 1.9 percent administrative fee. The administrative costs of the Technology Store should be recovered in an accurate and non-redundant manner.

Conclusions

The Technology Store provides an expedited process for City departments to purchase information technology commodities from vendors who are fully compliant with City vendor requirements. While the Technology Store is structured to encourage competition, OCA does not have sufficient controls in place to ensure that Store vendors comply with contracted discount and mark-up rates. Specifically, there is no structured audit program of Computer or Technology Store vendors to verify that prices are provided at contracted rates.

⁴ According to the Controller's Office, the Technology Store administrative fee is included as an "offset" or reduction to the respective departments' expenditure allocation charges for the Countywide Cost Allocation Plan (COWCAP) A-87 in accordance with the federal Office of Management and Budget (OMB) Circular A-87. For the City's Full Cost Plan, which allocates overhead costs to City departments and programs and is based on budgeted rather than actual expenditures, the Technology Store administrative fee is not offset.

The fee structure in place to recover the administrative costs associated with operating the Technology Store contracts is inaccurate and redundant. The Administrative Code stipulates that the administrative fee charged on all Technology Store purchases should only cover actual administrative costs and that the Committee on Information Technology should review the fee on an annual basis. In practice, the Committee on Information Technology has not adjusted the administrative fee and does not at present manage the Store. It may no longer be appropriate for COIT to be responsible as management of the Technology Store has shifted to OCA. As a result of the lack of reviews, the fee is set at a rate that brings in more revenue than is necessary to cover actual administrative costs. Further, the fee is a redundant method for recovering costs of Technology Store purchases as departments pay for the costs through the City's Cost Allocation Plan.

OCA has implemented a pilot program to increase participation of small local businesses in the purchase of information technology supplies, although purchases from these small businesses (or Micro Local Business Enterprises, or Micro-LBEs) have been significantly less than the contract not-to-exceed amount. As of June 2009, \$11,913 in commodities had been purchased directly from Micro-LBEs under a pilot program initiated in January 2009. This amount is only 17.9 percent of expected purchases of \$66,667 under contracts with four separate Micro Local Business Enterprises for products for the six-month period.

Recommendations

In order to create a structured control to ensure that Technology Store vendors are providing the appropriate discount and mark-up rates, the Purchaser should:

- 9.1 Institute a program of periodic audits of Technology Store vendors, as proscribed in Appendix A of the Technology Store contracts.

In order to ensure that the Technology Store administrative fee only covers actual Technology Store administrative costs, the Director of the Committee on Information Technology, the Purchaser, and the City Administrator should:

- 9.2. Recommend to the Board of Supervisors that (1) Administrative Code Section 21.02 be amended to transfer responsibility for the Technology Store from COIT to OCA, and (2) Administrative Code Section 21.8 be amended to transfer responsibility for review of the Technology Store administrative fee to the City Administrator.

AND the City Administrator should:

- 9.3. Set up an annual review process, consistent with the Administrative Code, to set the administrative fee at a rate that covers actual administrative costs of managing the Technology Store contracts.

AND the Controller should:

- 9.4. Review the City's Cost Allocation Plan to ensure that it does not include costs already covered by the funds collected through the administrative fee charged on all Technology Store purchases.

Costs and Benefits

Implementation of these recommendations would result in a modest increase in administrative time spent on improving processes and implementing stronger controls. However, Recommendation 9.1, if implemented, would ensure that City departments receive the discounted pricing rates that vendors are obligated to provide.

Implementation of Recommendations 9.2, 9.3, and 9.4 would reduce the nominal costs to City departments of approximately \$330,000 per year for purchasing from the Technology Store by (a) reducing the administrative fee to OCA's actual administrative costs, and (b) eliminating allocation of the same charges through the City's Cost Allocation Plan. However, the City would not achieve overall savings because actual costs and recoveries would be reassigned rather than eliminated.