

Government Procurement Transformation:

How to Create a Practical Strategy for Success

Modernization veterans share their lessons for maximizing the gain of transformation projects, while minimizing common challenges.



“Where does all the money go?” It’s a question that used to plague household budgeters who lacked sufficient tools for tracking paychecks that never seemed to stretch far enough. No more. A host of technology innovations — from smartphone apps that track every penny to personal finance software that turns bank statements into informative pie charts — help consumers clearly understand their spending habits and find ways to get more for their dollar.

The state of Michigan is among a surprisingly small group of public sector entities benefiting from similar capabilities for their procurement operations. Seeing where the money goes — in the form of complete, line-item data — had been a perennially difficult question for Michigan officials to answer. “Knowing exactly how many widgets we buy, which departments were buying them and what they were paying had historically been a struggle for us,” says Jeff Brownlee, Michigan’s chief procurement officer.¹

Officials knew that better data would have a far-reaching payoff for the state. Not only would spending and budgets be reconciled more accurately, but the state could make smarter buying decisions. In 2012, the procurement office took the first step in a modernization program by subscribing to a cloud-based eProcurement service that offers sophisticated tools for tracking and analyzing state spending. Michigan is already seeing positive results. “In one of our spending categories, we discovered 96 separate contracts throughout the state for the same service,” Brownlee says. “Until now, we just didn’t have a system in place that could alert us to that fact.”

Armed with this information, the state is in the process of consolidating redundant contracts and negotiating volume agreements with the remaining service providers, two important actions Brownlee expects will avoid millions of dollars in unnecessary spending in the future. “The more information we have, the more informed our purchasing decisions will be,” he says.

Unfortunately, many state and local procurement departments can still only dream of such budget scrutiny. Purchasing officers know that many current procurement operations are sorely in need of modernization. But over the last two decades, most

public sector organizations have only made incremental improvements at best, with few attaining the full benefits of a truly modernized procurement operation.


What’s needed is procurement transformation, not simply reforms to current systems. That takes a concerted effort that involves procurement professionals, finance and accounts payable departments, IT experts, end users and legislators. Vendors also have an important role to play in contributing to modernization.

There are clear reasons why transformation is worth the effort — government agencies with modern procurement capabilities reduce costs for goods and services, increase the productivity of the central procurement department and business staff, make more informed sourcing decisions, and provide greater transparency into spending for legislators and the public. Modern procurement practices also help promote the integrity of the procurement process. But turning aspiration into reality through procurement transformation isn’t easy.

“A huge effort is needed to understand what is required and to put the right infrastructure and people skills in place,” says Sharon Maynard, sourcing director for the state of Michigan.² “But once you do that, you can start working more quickly, more intelligently and more efficiently.”

Where to begin?

This comprehensive handbook outlines a detailed strategy for a practical journey to procurement transformation. It shows how to create a new operating model for procurement, offers advice for translating key elements of the federal digital services playbook for state and local government, and recommends how to avoid common stumbling blocks associated with transformation.



The State of Government Procurement

Interviews with senior purchasing professionals across the country show that problems with legacy procurement systems are widespread. For example, agencies hunger for accurate data about spending and vendor performance, which is essential for strategic sourcing and other modern procurement practices. When the Governing Institute surveyed state procurement leaders in 2015, 62 percent said data collection and analysis are crucial to improving procurement outcomes. Yet only one-third of the survey respondents said they maintain an up-to-date database of spending information, market metrics, benchmarks and other quantitative information to support sourcing programs.

In addition, only 28 percent of the respondents said their online portal and eProcurement system includes data analytics and business intelligence software to assist in projections, spend analysis and customer satisfaction. Other areas are also lacking. Just 29 percent of states have a repeatable and consistent way of tracking contract performance by vendors that is shared with contractors, project managers and key stakeholders. This may explain why only 6 percent of the respondents have seen a noticeable improvement in overall contractor performance compared to previous years.

An underlying roadblock to collecting and analyzing enterprise purchasing data is the fact that individual departments within a state or municipality often use separate procurement systems. Problems arise not only from pulling and combining information from multiple systems, but also from data-entry errors and non-standard policies. Some staff members may enter a supplier's full name, while others use its initials. The result is a vendor database with scores of incomplete, redundant or inaccurately identified companies.

Procurement Maturity: How Leaders Differentiate Themselves

Modern procurement organizations set themselves apart from less-advanced peers with some of these characteristics.

THE BEST

THE REST

Workforce, Training and Certification

- ✓ The agency offers comprehensive, role-based training programs for procurement staff with basic to advanced courses
- ✓ The agency requires relevant certifications and accreditations for all central procurement staff and department chief procurement officers
- ✓ The agency has created defined career paths within procurement with an established competency framework
- ✓ The agency allocates budget for the training and up-skilling of procurement staff

- ✓ Skills and competencies are not tied to roles and jobs
- ✓ Responsibilities and authorities are not included in employee job descriptions
- ✓ Training is non-existent or inadequate to prepare staff to analyze changing and evolving markets

Relationship Management

- ✓ An online market is available to connect government buyers and vendors
- ✓ A procurement customer service help desk serves employees and vendors
- ✓ Formal recruitment and onboarding of vendors is standard practice
- ✓ Debriefings are available to all interested bidders after a contract is awarded
- ✓ There is a formal, structured supplier relationship management program with assigned roles and defined cadence of activities depending upon supplier criticality

- ✓ The agency practices exception-based supplier management
- ✓ The agency has tactical interactions with vendors instead of building strategic relationships
- ✓ There is no formal tracking of vendor performance
- ✓ The agency doesn't take advantage of challenge competitions to engage civic innovators in providing new solutions

Pre-Sourcing and Procurement Planning

- ✓ Teams use a formal methodology for strategic sourcing
- ✓ The procurement department is involved in defining customer needs at least 9 to 12 months before a contract is awarded
- ✓ Business problems and objectives are well-defined prior to solicitations

- ✓ Important projects aren't supported by standard processes for assessing and managing risk through the life of a procurement
- ✓ The agency lacks an up-to-date database of spending information, market metrics and benchmarks

Sourcing

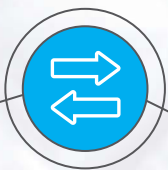
- ✓ The agency manages a strategic sourcing framework with a wide variety of sourcing options
- ✓ The agency can develop solicitations with terms and conditions that are specific to category and market conditions

- ✓ Solicitations are prescription-based versus solution-based
- ✓ The agency doesn't rely on independent third-party ratings or evaluations
- ✓ There is a lack of support for multi-step RFP processes, which limits strategic sourcing

Post-Award Contract Administration

- ✓ An electronic market center connects business to government
- ✓ Contract administrators are supported with a help desk
- ✓ Contract administrators have their responsibilities and authority defined in writing
- ✓ Professionals give attention to high-risk contracts
- ✓ Communication with vendors helps solve problems quickly

- ✓ The agency lacks sufficient guidance for managing contracts
- ✓ The agency does not have repeatable & consistent methods for tracking contractor performance
- ✓ There is limited compliance with negotiated statewide contracts (i.e., "maverick spend")



The Case for Transformation

There is a clear need for procurement transformation. But to garner long-term internal and political support, justify the necessary cultural changes and attract the necessary funding, proponents must demonstrate that the effort will bring far-reaching, strategic benefits to an organization rather than just solving one-off problems.

For example, the state of California is improving transparency and compliance with its Financial Information System for California (FISCAL) and the cloud-based eProcurement module, which the state added in early 2016. So far, procurement staff in approximately 126 state departments have used the module to advertise bids and certify small businesses and companies owned by disabled veterans, among other activities. In addition, the module gives authorized users mobile access to the system through smartphones and tablets. “When they input data from their mobile devices, it goes directly into the underlying financial system,” says Jim Butler, the state’s chief procurement officer.³

With the modern financial and procurement system, government managers can quickly monitor whether statewide contracts are being utilized to yield their full cost-savings potential, and can easily see when agencies are not using mandatory contracts. In addition, legislators and the media can access state and local contracts to review spending.

Procurement users in California are also spending less time filling out forms and navigating manual workflow processes. “All the information is in the system now, so people can just go to the system, find the contract and make their purchases,” Butler says. “And they can rest easy knowing the price is correct because it has been

preloaded in the system. We want internal customers to do as little procurement work as possible because they have missions to fulfill.”

Better supplier management is another benefit of modernization. The state of Georgia has been adding a series of modernizations for more than a decade, including the implementation of Team Georgia Marketplace. The electronic marketplace — which replaced a collection of procurement solutions and policies that varied across state agencies — offers standardized processes and audit trails of all purchases.

“Because we clearly see what we’re buying and at what volumes, we can negotiate better contracts,” says Gina Tiedemann, Georgia’s deputy commissioner of operations.⁴ “Now we have a system that can take an acquisition from the initial requisition, to the purchase, to the receipt of the product or service. Everything is matched up. In the past, that happened manually on paper, and it was difficult to analyze transactions.”

Procurement organizations also are increasing value by relying more on negotiated agreements instead of low-bid contracts. With traditional bid requests, an agency defines the specifications for the item it needs to buy, and waits for suppliers to respond. But this method can be more costly in the long run.

“The lowest-priced response then gets the contract, but if ‘best value’ innovations or variations to the product come along that you need, then you’re not likely to get anything more than you bid for,” says Robert Gleason,

“We want to equip our acquisition staff with the best analytics tools possible so they have the proper information and benchmarks to make data-driven decisions. This will tell us in detail where we’re spending.”

– Betsy Hayes, Chief Procurement Officer,
State of Minnesota

director of the Division of Purchases and Supply for the Commonwealth of Virginia.⁵ “By contrast, with negotiated agreements, you can mutually define outcomes that you need conceptually, and include language that says, ‘Here are the goals or objectives we must meet today, but if something new or better arises that becomes integral to the organization’s strategic needs or the specific product or services over the life of the contract, then we want to have a capability to modify the agreement and address incorporating that, too.’ The contract must be able to accommodate change, incorporate innovation and meet leadership goals — otherwise you will miss the mark.”

For the past five years, the state of Minnesota has run an enterprise resource planning (ERP) suite with a variety of integrated procurement-related modules for strategic sourcing, supplier contracts and other functions. Officials there are now looking to build on the platform’s capabilities by using data and analytics more effectively, including the implementation of advanced data visualization features.

“We want to equip our acquisition staff with the best analytics tools possible so they have the proper information and benchmarks to make data-driven decisions,” says Betsy Hayes, the state’s chief procurement officer.⁶ “This will tell us in detail where we’re spending. Also, it will help us target small businesses and minority- and women-owned companies. We want to use analytics to understand how many suppliers in these groups are submitting bids in particular areas. Having all that data at our fingertips is essential for strategic sourcing activities.”

The New Procurement Professional

The procurement profession is changing, fueled by new technology, methodologies and resources. “The single largest change I’ve seen in our industry is the greater focus on data,” says California’s Butler, chief procurement officer for California. “Modern procurement professionals are people with analytical skills that enable them to look at data and draw conclusions about new sourcing opportunities or noncompliance with the existing contracts.”

Procurement professionals also play greater roles as teachers and collaborators, helping state personnel use the procurement system more effectively. “Some government entities consist of dozens of departments, each with unique requirements,” says Michigan’s Brownlee. “Procurement professionals need to understand not only what the state has bought, but what the state should buy, and what’s available in the marketplace.”

As a result, procurement professionals are also being asked to become category management specialists. “Bringing subject matter experts within procurement together with business owners is especially important for fast-changing IT products and services, such as cloud computing,” Brownlee says.

Collaboration skills are also important when working with suppliers so today’s procurement professionals can accurately assess the potential of innovative practices or technology to help government.

Key Steps to Modernization

State and local officials may see a clear need to overcome the drawbacks of outdated legacy systems and capitalize on the potential of modern procurement. But what's the best strategy for undertaking a transformation effort that demands new investments and will trigger disruption of existing work practices? Leaders say the answer is an ongoing effort that includes a focus on a handful of important areas.

1 Develop a clear image of a modern future state — and be open to disruptive solutions.

Moderate change may yield modest results at best, which in turn may not sustain the financial commitment and leadership support required for a large-scale transformation effort.

Start with a clear business case. Document potential financial benefits available from volume agreements and other sourcing improvements that come about with more accurate spending analyses. Agencies also use personnel resources more effectively when they replace manual, paper-based procurement processes with electronic

workflows. The vision of the future should address growing complexity in the types of products and services that will fall within the responsibilities of procurement professionals. This will mean hiring and training people who approach procurement as a strategic activity that helps government run more efficiently and economically.

2 Look beyond the procurement department when designing the future state.

Draw on the insights of stakeholders from across the enterprise, including procurement professionals, senior executives, department managers, legislators and even vendors.

Look Outside When Defining the Future

Procurement modernization starts with a clear vision of the future and how to embrace it. But mapping that journey can be a complex process that sometimes requires expertise beyond what may be available internally. So, when the New York State Metropolitan Transportation Authority (MTA) decided to upgrade its procurement function, it partnered with the consulting firm KPMG.



“We first looked at a new, future-state operating model from a people, process, tools and organizational perspective that would truly drive sustainable value,” says **Samir Khushalani, Americas practice leader for Procurement and Operations at KPMG.**

“We saw opportunity for change, based on new methodologies, a new organizational structure,

standardization of processes, new technology and other areas,” says **Angel Barbosa, chief procurement officer for the MTA,** which operates subways, buses, and railroads providing 2.62 billion trips annually to New Yorkers.⁷



But Barbosa also understood that modernizing procurement practices would be a sensitive subject for many agency leaders, who naturally value having their own procurement functions. “We didn’t come with a sledge hammer to force change. It was a collaborative effort,” he explains. Together, they defined core categories that would continue to be procured by the agency procurement departments versus non-core categories, which would be centralized for cost savings and efficiency. Sometimes these definitions weren’t obvious.

“Early involvement of users is key. If you find yourself acclimating users to the system after it’s up and running, you’re already a step behind,” says Minnesota’s Hayes. “They not only need to be involved, but the communications throughout the development and implementation process has to be over the top.”

Michigan focused closely on cultivating input from multiple sources as it defined new procurement capabilities. “I think we’ve done a good job of ensuring that all of our stakeholders from a procurement perspective are involved,” says Brownlee. “We had giant work teams that eased the move to the current system.”

Involving suppliers in these discussions can ward off future problems. When California rolled out its new ERP platform, some vendors reacted unfavorably to the out-of-the-box functionality. In particular, it was hard for vendors to search for bids. The state is now reconfiguring the search tools. “We convened a series of meetings with suppliers, where we invited them to come in and talk to us about the problems

For instance, procurement of fuel used by the massive public transit agency was centralized and categorized as non-core after careful review.

“Any agency president would consider fuel core, and thus something that shouldn’t be centralized,” Barbosa says. But when Barbosa’s department and agency stakeholders evaluated fuel from a strategic perspective, they agreed on a centralized purchasing approach. “It took some time for all of us to become comfortable with the idea of thinking about things in a new way,” he says.

Working with KPMG helped build agency buy-in for the transformation effort by offering third-party validation of the project’s potential benefits, Barbosa adds. The firm provided external benchmarks and assistance with developing the business case for transformation, and broad support for the execution of the transformation program.

they’re having,” Butler says. “We’re also giving them mock-ups of changes that we’re planning and getting their reactions.”

3 Create a new operating model.

Top reorganization goals should include creating efficient and effective outcomes, promoting competition, and fostering integrity and transparency for processes and actions.

Pre-sourcing and procurement planning are also key. The procurement office must recognize that planning, risk assessment and a thorough understanding of agency needs are fundamental for effective solicitation, award and contract activities. The procurement organization should be designed to work effectively with stakeholders and end users to define their business needs and successful outcomes in a contract. This activity includes end users and business owners in the development and execution of effective procurements.

Finally, procurement organizations should delineate the most effective sourcing method to acquire a product or service within a specific market. For example, procurement organizations may save money through volume agreements for commonly purchased goods and services, which may be obtained via a portfolio of contracts that expedite small procurements through electronic catalogs, procurement cards and other purchasing techniques.

In other cases, procurement offices may achieve greater value by negotiating contracts that balance cost savings and customer service. For example, Michigan operates several individual facilities that have specific requirements for janitorial services. These needs differ by the size of the facility, types of activities performed at the locations and other factors. “We’d get the most bang for the buck if we had a single provider of janitorial services across the state,” Maynard says. “But it may not be feasible to service a large geographic area or find one vendor that can address all the different customer expectations. So, it becomes very complex to source based just on cost.”

4 Set the right pace for change.

Depending on the organization, the best approach to transformation may be a moonshot to the modern world, or a series of incremental improvements that

eventually get to a desired end state. It's a fundamental decision, and each comes with tradeoffs.

Some caution against moving too slowly. "You can run into analysis paralysis that unnecessarily stalls needed change," Hayes says. "Also, an incremental approach may not keep up with the fast changes happening with technology."

Politics is another area of concern. "Given the reality of the political environment, it's very difficult to sustain and change incrementally," says Sid Johnson, commissioner of Georgia's Department of Administrative Services.⁸ "If you want people to buy into change and help you sustain it, you've got to be very smart about your change management efforts. There's a real trick to doing that — without the governor's sponsorship, it is tough to get the focus and the sustained effort that is required to be successful."

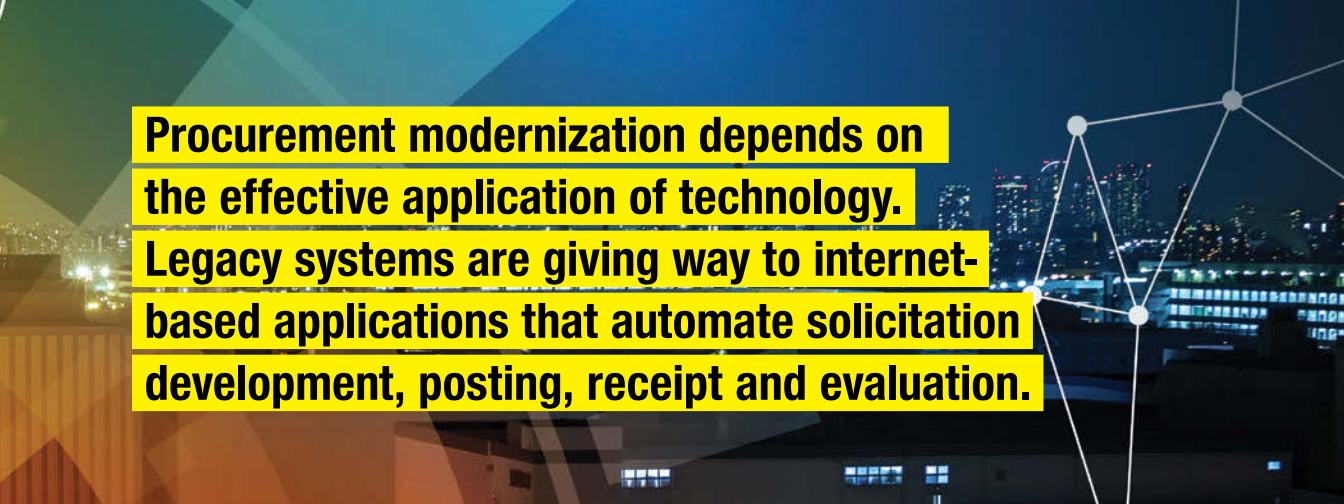
But he also acknowledges downsides to moving full-speed ahead. "If you come with a big bang, you risk overwhelming people," Johnson says. Georgia learned this lesson first hand. The first phase of the state's procurement transformation effort occurred under the administration of a governor who was pushing for government modernization across the state. "Most of the transformation had been done, processes were in place and the Team Georgia Marketplace was well on its way to being implemented," says Deputy Commissioner Tiedemann.

But the second phase came as a new governor arrived, which unleashed repressed opposition to change in certain areas. "This exposed our lack of consensus building throughout the process," Johnson says. "We had been in a hurry — we wanted to get this effort completed. As a result, we didn't always work with agencies long enough to build a solid consensus for change. We had taken a very purist approach to procurement that didn't consider political realities. The new administration had to deal with those political realities on day one."

It wasn't just some internal staff who recoiled, suppliers also were upset. That's because the change process included reducing the number of suppliers used by the state, and some small businesses were hit hard. In addition, suppliers felt some procurement policies and procedures were onerous to follow. "In the haste of transformation, we kind of shortchanged a lot of relationships with our agency customers," Johnson says.

Pushback came especially from the university system, which felt the brunt of dissatisfied suppliers who had been donating money to schools and supporting them by advertising at athletic events.

The department responded to the small businesses "in every way we could from an economic development standpoint," Johnson says. "We didn't entirely reverse ourselves, but we

A night cityscape with a network diagram overlay. The diagram consists of several white dots connected by thin white lines, forming a web-like structure. The background shows a city at night with lights from buildings and streets.

Procurement modernization depends on the effective application of technology. Legacy systems are giving way to internet-based applications that automate solicitation development, posting, receipt and evaluation.

landed somewhere in the middle using a new approach.” In contrast to Georgia’s aggressive approach, California’s strategy relies on a series of small wins. “We first brought up a group we called Wave Zero, because it was so small — about 12 small departments using only the procurement functionality in the ERP platform,” Butler says.

For a year, those departments used the system only to create purchase orders, temporarily putting aside other capabilities, such as advertising bids. “We got a lot of bugs worked out, and the next year we rolled out purchase orders for another dozen or so departments, including mine, which is one of the biggest users statewide of purchase orders,” he says.

After addressing a new series of problems that surfaced, the state implemented purchase order processing to more departments. “Every time we bring up another area, we find additional issues because each department has unique needs,” Butler says. “This shows me that if we had tried to implement the system all at once, it would have died.”

One area where moving too quickly could have meant disaster is in California’s two-step bidding process for some purchases. To win a bid for an IT project in the state, for instance, suppliers must first submit their technical qualifications. Everyone who meets the technical requirements is then allowed to submit the rest of their bid, including the proposed price. This contrasts with general purchases, which are done in one step. Problems arose when the state realized that its ERP platform didn’t adequately support a “two-envelope” process. “The documentation talks about supporting it, but we discovered that it would happen in a way that would have revealed prices to all the other bidders,” says Butler. “And that would be a violation of our law. This isn’t a problem that we’ve solved yet. But if we had tried to roll out the system for everyone across the state all at once, we would have had a massive pile up.”

5 Address how technology and digital services will dominate future procurements.

From spend management to providing easy access to information, procurement modernization depends on the effective application of technology. Legacy systems are giving way to internet-based applications that automate solicitation development, posting, receipt and evaluation.

Thus, the procurement office must invest in technology to improve procurement outcomes. These technology tools improve efficiency and allow the procurement office to use data and analytics to develop more advanced procurement solutions that result in better contract outcomes.

When addressing technology issues, also pay close attention to customization. “You’ve got to decide whether to revise your existing business processes to accommodate the system, or vice versa,” says Minnesota’s Hayes. “The prevailing wisdom would be leaning to the former because once you start customizing the system, it really becomes much more expensive and difficult to make upgrades down the line. My advice is to develop an inclusive and strong leadership core that’s cognizant and persuasive about making individual users and agencies open to changing their processes — and be ready for resistance when they’re not.”

The state learned this lesson the hard way, she says. “At the beginning, we attempted to keep the system vanilla — with few customizations to the out-of-the-box software. But users were fearful the system wouldn’t work for them. We ended up making more customizations than we originally anticipated. But over time, as people got used to the system, the level of angst diminished. We’re now at the point where we’re starting to get feedback about how wonderful the system is, thanks to e-signatures and other improvements from the past. But in some cases, we were perhaps too accommodating to customer individuality and didn’t mandate certain ways of doing things that would have been helpful, even though it would have been hard to adjust at first. That’s another reason to get people involved early on in the process.”

Changes in vendor relationships also will be necessary. As a profession, the procurement industry historically has maintained a distant relationship with suppliers. “Too often, the practitioners equated ‘competitive’ with ‘combative,’” California’s Butler says. “But this is changing going forward, especially in areas like information technology where at the start of the procurement process we may not know exactly what solutions we need.” To help, California’s technology agency convenes regular vendor meetings through an advisory council that gives suppliers an opportunity to talk about how to work

together more effectively. The agency also created an innovation lab where startups and the state can run pilot projects. “These things were unheard of in the past; it was very much an us-versus-them environment,” Butler says. “But now, technology is changing very quickly, and we need suppliers to explain what they offer before we can make an intelligent buy.”

6 Take a fresh look at workforce skills, training and certification.

Because the appropriate skill level is essential to successful procurement outcomes, procurement departments must devote significant resources to

category management, sourcing and other areas. Samir Khushalani, Americas practice leader for Procurement and Operations at KPMG, emphasizes that “the key to success is not just training the people but getting them to apply these skills in their day-to-day jobs,” which is a component of KPMG’s offering.

Virginia cultivated similar skill development using its internal certification program. While elements of the program had been in place for years, it primarily targeted purchasing professionals. More recently, the program expanded to include non-procurement business people who are authorized to

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— *Sid Johnson, Commissioner, Georgia Department of Administrative Services*

ongoing training of staff. This should cover all aspects of acquisition, contract administration, project management and group leadership skills. Training and certification should be available at various levels to develop and enhance the capability of individuals to execute their procurement and contracting authority consistent with the rules, business practices of the state and their delegated authority.

But as they embark on modernization, all agencies will likely be faced with talent management challenges and gaps in talent. “That’s why assessments must be conducted to define any shortfalls or, conversely, recognize where existing talent has more to offer than what’s currently being utilized,” says Barbosa of the New York MTA. To do this, the MTA’s assessment project asked procurement staff to rate themselves and solicited ratings from managers. Barbosa also performed his own assessments. When gaps were discovered, he relied on KPMG’s Procurement Academy to hone skills in

purchase certain small-dollar transitional items with a commonwealth-issued charge card, or P-card. “We teach them the fundamentals of state procurement law and policies,” Director Gleason explains. “So we ensure that enterprise-wide purchasing embodies fairness, competition and transparency in all of our procurement transactions.”

A new, advanced level for procurement professionals was added in 2015. Geared toward developing the skills for chief procurement officers, the two-week program includes training in best-value procurement achieved through negotiation- and procurement-oriented project management, risk management and strategic sourcing, as well as other high-level procurement tools.

In Minnesota, skill development includes online instruction guides and a dedicated help desk. Minnesota staffs this resource with two people — one to handle calls from agency personnel, the other for

calls from suppliers. “It’s important for people to be able to reach a human being when they need help,” Hayes says. “This is especially true for the small and out-of-state vendors we interact with. They sometimes struggle with computer-related issues or with how to submit responses. The last thing we want is for competition to be hindered because someone is scared off by the technology.”

7 Be alert to where things can go wrong. In particular, keep the modernization project from becoming a victim of its success. “Don’t create unrealistic expectations, especially in terms of cost savings associated with procurement transformation,” warns Georgia’s Johnson. “If you sell these transformations based solely on savings, the Legislature will look to sweep the savings. Then, if agencies lose funding, they’ll become angry, you won’t get buy-in from them anymore and they will undermine the changes.”

A better approach is to justify modernization plans based on a wider range of benefits. That way, if savings accrue, budget hawks might be more inclined to reinvest savings back into the agencies to speed up workflow, increase employee productivity or shift staff efforts to more strategic work, he says.

8 Apply accurate metrics to monitor the procurement performance. Procurement organizations realize that it is no longer enough to measure only outputs. They improve their overall effectiveness and efficiency by identifying key metrics, capturing the data and using business intelligence to better manage performance. Procurement organizations must understand the need for constant improvement in all aspects of the organization’s performance and strive for it by implementing key performance measures.

9 Create an environment for continuous improvement. For successful post-award contract administration, organizations should create a structured program for consistent administration and management of each contract. This requires monitoring for the agreed-to level of performance throughout the life of the contract. It oversees and manages contract performance through a documented and measured program and staff members who are trained for this discipline.

Contract Administration Deserves Close Scrutiny

Certain procurement activities are especially problematic. One area deserving of close attention is contract administration, the crucial post-award activities that ensure vendors meet the terms of agreements. Having a contract administration manual is critical for success because it provides guidance for state contracting personnel on administering agreements. But the Governing Institute’s 2015 State Procurement Survey shows this step is often overlooked. More than half of states do not provide these types of guide books.

Another best practice is the adoption of formal rules that guide contract administrators in disposition of contract claims, contract disputes, decision rights for contract actions and other areas. But gaps occur here as well — only 44 percent of states offer such rules.

Well-defined close-out procedures are essential for responsible contract management. In this final step, the procurement staff reviews whether vendors and the contracting organization have met all the terms of an agreement. But only about one-third of agencies use clear and audited procedures for this activity. Formal guidelines should spell out the acceptance processes, release of claims, appropriate certifications and other requirements necessary before agencies issue a final payment.



Shrug Off the Legacy Past

Organizations across all industries have the potential to benefit from modern, technology-driven procurement operations. But the payoffs may be especially significant for state and local governments. Many still struggle under the inefficiency of methods and manual processes developed a decade ago or more. A steady stream of technology innovations promise an alternative to outdated systems.

Fiscal constraints and conflicting demands to introduce expanded constituent services require government to optimize spending. And unique government requirements add complexity, including the fact that bids and awards must be open to public inspection. Many agencies also have a mandate to target small- and minority-owned businesses or meet a host of other social justice and environmental goals. This diverse mix of requirements sets the stage for transformation.

Many government officials understand the shortcomings of legacy procurement practices and systems and are already taking steps to address the problems. A strategy that incorporates the latest technologies and best practices, while successfully tackling change management issues, can lead the way to modernization and create a foundation for ongoing innovation.

This piece was developed and written by the Governing Institute custom media division, with information and input from KPMG.





Endnotes

1. All quotes and information from a phone interview with Jeff Brownlee conducted on October 4, 2016.
2. All quotes and information from a phone interview with Sharon Maynard conducted on October 4, 2016.
3. All quotes and information from a phone interview with Jim Butler conducted on September 23, 2016.
4. All quotes and information from a phone interview with Gina Tiedemann conducted on October 20, 2016.
5. All quotes and information from a phone interview with Robert Gleason conducted on September 30, 2016.
6. All quotes and information from a phone interview with Betsy Hayes conducted on September 29, 2016.
7. All quotes and information from a phone interview with Samir Khushalani and Angel Barbosa conducted on September 8, 2016.
8. All quotes and information from a phone interview with Sid Johnson conducted on October 20, 2016.

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