

REPORT FROM

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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Date: April 15, 2016

CAO File No.  
Council File No. 15-1507  
Council District: All

To: The Council  
The Mayor

From: Miguel A. Santana, City Administrative Officer



Reference: C.F. No. 15-1507

Subject: **STREAMLINE CONTRACT PROCESS**

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### SUMMARY

The City Council (C.F. No. 15-1507) instructed the Department of General Services (GSD), City Administrative Officer (CAO), Public Works' Bureau of Contract Administration (BCA), Information Technology Agency (ITA), and any other relevant departments, to work with the Mayor's Operations Innovation Team (O-Team) to develop a comprehensive plan to streamline and improve the City's procurement and contracting practices and to prepare a report with specific actionable recommendations, including but not limited to:

- a. How the City can significantly decrease the length of time to process bids, reduce paperwork for both bidders and departments, and expedite the application process by allowing for one-time data entry to a central database, among other things.
- b. How to expedite payments to businesses that have been awarded contracts and performed their obligations.
- c. The type of resources and policy changes needed to advance a plan forward and achieve measurable progress.

The City's procurement environment and contracting practices are complex, and a significant effort has been dedicated to identifying opportunities for improvement. Some short term solutions can include developing a formal training program for contract staff, exploring technology solutions to improve vendor experience and City contract forms processing, and beginning the effort to standardize and collect procurement data to help facilitate comparison of contracting terms and conditions and procurement pricing analysis to begin to leverage this information to obtain favorable and competitive procurement terms and conditions. Larger scale reform efforts, such as the potential creation of a City Procurement Office will require further discussion, including feasibility, scope, expectations, and resources.

## BACKGROUND

As reported by the O-Team, the City's contracting process can take 432 days before a contract is executed and can result in higher pricing for services. The O-Team further identified the following City challenges to best practices in contracting:

1. No central shared database for active or pending service contracts;
2. Up to seven City entities needed to authorize service contracts (Attachment 1 - Procurement Responsibilities - Contracting in Los Angeles); and
3. Between 11 and 20 non-interactive compliance forms.

Each of these challenges contributes to the length of time required to execute service contracts. Accordingly, the O-Team has worked with City departments and outlined the following objectives for procurement:

- Develop a cost-analysis of the City's procurement practices and spending across all departments and purchases.
- Implement actionable steps to achieve savings, increase supplier participation and diversity, and reduce time needed to buy goods and services.
- Implement coordinated management and optimization of the City's contract and commodities spending to drive long-term procurement excellence.

The following priority initiatives have been identified to begin to address those objectives:

1. Develop vendor intelligence and procurement performance;
2. Improve procurement programs and vendor experience; and,
3. Establish Procurement Leadership for the City.

The City is not alone in its efforts to address procurement challenges. In February 2016, the Governing Institute reported on a year-long survey and assessment of 39 states on the following 10 factors impacting procurement:

- **Relationship Management** - establishment of an effective relationship between the purchasing agent and customer departments;
- **Sourcing** - availability of a variety of sourcing methods and the flexibility to try new methods;
- **Contract Administration** - a clear outline of responsibilities for those charged with managing contracts and managerial accountability for the success of each contract;
- **Use of Technology** - improvement of outcomes through data analysis, enabling better management of vendors and agencies and making procurement more flexible and innovative;
- **Information Technology Procurement** - evidence of close collaboration between information technology and procurement staff;
- **Workforce, Training, and Certification** - availability of training plans and professional certification for procurement staff;

- **Organizational Structure and Authority** - the view of procurement as a strategic function with performance measures and opportunities for innovation;
- **Pre-sourcing and Procurement Planning** - a clear understanding of business objectives and expectations through market and risk analysis;
- **Organizational Culture and Leadership** - an effective delegation of authority with clear qualifications for employees and vendors and well-defined procurement methods and procedures; and,
- **Performance Measures** - clear identification of goals, whether they are being met and customers are satisfied, and understanding of what works effectively.

Several recurring themes emerged from this study:

1. **Data and analytics tools are valuable.** This data can identify market metrics and purchasing and spending trends, which can help structure future solicitations to get more favorable pricing. It can also be used to identify staff performance gaps and training needs resulting from any repetitive errors that may occur.
2. **Training for procurement staff is critical.** Training can help staff retain skill and institutional knowledge as retirements and other attrition occurs. Staff are better equipped to track procurement from start to finish, which then results in better contract administration and enforcement ensuring that both parties adhere to the contract terms. Several governmental entities have also implemented certification programs for those staff who have attained a high level of training. Such certification is then tied to delegation of contracting authority. In addition to having a training program, those governmental entities with efficient contracting operations also highlight the importance of communication among contract administrators and the availability of pertinent reference material such as an updated contract administration manual.
3. **Technology is also a useful management tool.** It can improve communication and expedite processes, thus improving contract outcomes. It can also broaden competition and help promote diversity among suppliers.

These themes are consistent with the O-Team findings and can inform next steps for the City.

## CITY PROCUREMENT ENVIRONMENT

The City's procurement environment and contract processes are complex, governed by State law, the City Charter, several administrative ordinances, and varying rules and regulations depending on the type of contract (construction, commodities, or personal services). Besides the Mayor, City Council, and the department that awards contracts, several departments play key support roles in the contract development and execution process:

- GSD, as the City's Purchasing Agent, handles commodity purchases and oversees the City's supply management system.
- ITA manages communications, electronics, and technology purchases.
- BCA administers the City's Contract Compliance program, which includes minority business enterprise utilization, prevailing and living wage compensation, and local worker and business participation.

- The CAO (1) reviews insurance and indemnification provisions, (2) maintains the Contract Clearinghouse, a database of anticipated contracts and amendments in all City Departments (except the Department of Water and Power) that provides current and timely notification to labor organizations about proposed City contracts, and (3) reviews and reports on proposed contracts at the request of the Mayor or City Council.
- The Personnel Department reviews proposed contracts to determine whether the scope of work can be performed by City employees in accordance with Charter Section 1022.
- With limited exceptions, no contract is valid without the signature of the City Attorney.

The City's contracting practices are further complicated by being decentralized in terms of awarding and tracking processes. Each department has a designated contract coordinator, but many are administrative staff assigned to manage contractor solicitation and evaluation, contract negotiation, and contract execution as an ad hoc responsibility. BCA conducts periodic meetings for these DCCs (department contract coordinators) to disseminate information, share knowledge, and provide support. While these meetings are a useful tool, department contract staff could benefit from additional support.

The O-Team provided the attached Contracting Process Flowchart (Attachment 2), which outlines the process followed by a Public Works consultant contract and is provided for informational purposes.

## **ETHICS CONTRACT DATABASE**

Until recently, City departments have not been required to create lists of their bidders and contractors. In 2013, the Mayor and City Council directed the Ethics Commission to provide an official, electronic City database for all City bidders and contracts labeled as restricted sources (C.F. 13-1082, codified in Los Angeles Municipal Code Article 9.5 Section 49.5.11(B)). The Ethics Commission is now creating and will maintain a searchable Citywide database of all City bidders and contractors. The database will provide City officials and the public with information about City contracts and those involved with them. Once the database is in place, City agencies will need to enter all contracts, vendors, and bidders that were active for the first two quarters of 2016 (January 1 through June 30, 2016) by August 1, 2016. Moving forward from there, information must be entered into the database every quarter. The Municipal Code contains sanctions for departments that fail to comply.

## **NEXT STEPS**

Meaningful procurement reform will require discussion and action on policy and legislative options. Some items can be addressed immediately, while some may require additional resources, a feasibility review, or a policy debate. Items that the City can begin to address now include development of a training program, exploration of feasible technology tools, and baseline data collection as described below.

### **Procurement Process and Administrative Training**

As highlighted by the Governing Institute survey, training can provide significant and

potentially immediate benefits. As an initial step, BCA, Personnel, GSD, CAO, and the City Attorney can develop training curriculum for City department contract coordinators. This training should include information on the different types of contracts that are awarded, the competitive bidding and selection process, business registration, and the administration and review of contracts for compliance with the City's contracting requirements, policies and procedures, with a goal of offering a voluntary certification opportunity for those employees interested in contracting as a professional specialty. While BCA requested staff resources in 2016-17 to develop training programs and online training modules, using existing Personnel Department resources to develop and implement this program would enable the training to be incorporated into the City's Online Training Academy.

The Personnel Department manages the City's Online Training Academy which offers a range of training courses, including supervisory and safety training online to City employees. A City contracting course which would encompass online training modules and provide employees an opportunity to achieve certification could be hosted on the Online Training Academy at a minimal cost. It is, therefore, recommended that Personnel, GSD, BCA, CAO, and the City Attorney create a training curriculum for City department contract coordinators, which may include the creation of a Citywide Procurement Manual and the method and frequency by which the training would be conducted, and report in four months on the status of this effort. It is anticipated that BCA will take the lead in developing the training content. In addition, as part of the effort to improve overall communication among contract administrators, the CAO will ensure its contracting resources intranet site is updated with applicable reference material and made available to City DCCs.

### **Technology Tools and Improved Vendor Experience**

The City's outward facing Business Assistance Virtual Network (BAVN) provides a consolidated listing of contracting opportunities, allows users to register in the network and then automatically notifies those users of contracting opportunities of interest, and provides other helpful links. According to ITA, the Mayor's Office of Small Business, the Office of Finance, ITA, and BCA have developed a new business portal that will provide a "wizard" application that can walk a person through the steps to "start a business" in Los Angeles, with access to LATAX for applying or paying for necessary permits, as well as links to external governmental organizations (County and State). The portal will also provide general information on doing business in Los Angeles. The business portal will be beta tested to gather feedback prior to a full site launch.

While the business portal is an important next step, it does not tie together all of the systems that are touched by City contracts. Attached is a diagram of procurement lifecycle and current gaps that shows those elements of the contract lifecycle that will still require manual processing (Attachment 3). To determine the most feasible approach to address those manual elements and the corresponding gap in systems, the City will need to define and map out the scope and function of what should be included in a contract management system. To accomplish this effort, it is recommended that ITA act as the

project manager with involvement from various City business owners: notably, GSD, City Attorney, and BCA. ITA has indicated that consulting services will also be needed at an estimated cost of \$200,000 to \$300,000. This funding is not recommended as part of this report. Should the City Council act to move forward with this effort, funding would need to be identified.

### **Data and Analytics Tools**

The collection and reporting of procurement data across all City departments is integral to the improvement of the City's procurement practices. Standardizing the City's procurement data will help to facilitate comparison of contracting terms and conditions and procurement pricing analysis. The City could then leverage this information along with the size and scope of its collective entities to obtain favorable and competitive procurement terms and conditions.

Data analytics tools are available to assist the City in collecting and standardizing the large volume of its procurement data. Before such tools can be implemented effectively, the City must first identify the type and quantity of data that is available for collection and reporting and establish a baseline set of data with which to measure the procurement process, including the costs of current city procurement practices. The BCA, with the assistance of the O-Team, could research data collection methodologies and provide a recommendation on standardization of the City's procurement data. Once this baseline is established, specific data analytics tools could be utilized to facilitate analysis and comparison of various components of the procurement process including bidding, pricing, awarding, executing, and evaluation of City contracts. This data analysis could inform the contract awarding process, resulting in more competitive contract pricing and ultimately cost savings.

### **Longer Term Item for Discussion: Centralized Procurement Office**

The O-Team has proposed the creation of a centralized Procurement Office led by a Chief Procurement Officer. This office could offer contract concierge service to assist departments with contractor solicitation and evaluation, contract negotiation, and contract execution. It could also be responsible to identify, collect, and analyze spending and performance data that can (1) support "strategic purchasing goals" and performance metrics to create accountability, and (2) help structure future solicitations so that the City can get more favorable pricing. As discussed by the Governing Institute, procurement offices are demonstrating that it is possible to maintain accountability and spend public money responsibly while also pursuing new technology innovations and promoting stated policy goals. Nonetheless, such an approach would require further discussion that would need to include strategic goals of the office and a clearly articulated expectation of what success would look like, long-term placement of roles and responsibilities, and the most feasible and affordable path for implementation of initiatives.

## **PAYMENT PROCESSING REVIEW**

The Council action included an instruction on how to expedite payments to businesses that have been awarded contracts and performed their obligations. However, a recommendation to address contractor payment processing requires an understanding of the nature of any payment delays. The Controller's input is especially necessary to identify and assess any recurring trends or systemic problems that may impact timely contract payments. In this way, a solution can be fashioned to address those concerns specifically since they could arise from a variety of factors, such as incomplete information from the contractor, delay in department approval of contract deliverables, or temporary staffing issues. The Controller's office may find it necessary to follow up with key departments as deemed appropriate.

## **LETTER OF AGREEMENT (LOA) ON OUTSOURCING OF UNIT WORK**

In December, the Mayor and City Council, as part of a Settlement Agreement with the Coalition of Los Angeles City Unions, approved a Letter of Agreement (LOA) on Outsourcing of Unit Work (C.F. 15-1423). While this LOA has some elements in common with the procurement reform effort it also differs in some respects as outlined below. The LOA directs the Bureau of Contract Administration with the assistance of GSD, Bureau of Engineering, and CAO to study and provide recommendations on best practices for municipal government contracting of services to include the following key elements:

1. Review of decisions to contract out
2. Prescreening contractors for responsibility
3. High standards for wages and benefits
4. Incentives to raise wages and benefits above the legal floor
5. Performance standards and measurement
6. Strong post-award enforcement
7. Increased data collection and transparency
8. Consistency of procedures applicable to departments outsourcing bargaining unit work (e.g. new contracts; extensions; amendments to existing contracts and the use of pre-qualified on-call/bench lists; and required information, including the nature of the work, duration, amount of work, estimated cost of contract, wage rates and benefits paid by contractor, expected overtime, local hiring, prior performance by contractor, record of compliance with applicable laws, performance standards, and reporting requirements).

The LOA includes a request that the Controller establish, maintain, and make available to the public a central online database on City contracts covering bargaining unit work, beginning with the Bureaus of the Department of Public Works and the Departments of General Services, Transportation, Recreation and Parks, and all other departments, excluding the Department of Water and Power and the Housing Authority of the City of Los Angeles.

Further, the LOA contains an agreement between the parties that the Union may file a grievance regarding the Charter 1022 notification as follows:

- A. A grievance challenging the 1022 notification shall be filed within 15 calendar days of the

- Union's knowledge of the alleged deficient notification.
- B. The grievance will be submitted to an expedited informal arbitration process. The arbitration shall be conducted within 30 days of the filing of the Union's grievance. The arbitration fees shall be shared equally between the Union and the City.
  - C. The arbitrator shall determine if the City has violated the 1022 notification procedures. The arbitrator's remedy shall be limited to ordering the City to reissue the 1022 notification. In no event will the arbitrator have the authority to void a Council-approved contract. The arbitrator's decision is binding on the parties.

Finally, the LOA states that the City shall propose amendments to the Public Infrastructure Stabilization Ordinance to expand the Department of Public Works Project Labor Agreement to all Council-controlled departments. Prior to proposing amendments, the City will negotiate in good faith the proposed amendments with the Los Angeles/Orange Counties Building and Construction Trades Council. BCA has begun work on this portion of the LOA. Rather than potentially duplicating a central online database on City contracts, the City should explore the Ethics database as a means to address the information required by the LOA. The remainder should be undertaken as outlined in the LOA with a follow up report to the City Council in four months.

## RECOMMENDATIONS

That the Council,

1. Instruct the Personnel and General Services Departments, Public Works Bureau of Contract Administration, and City Administrative Officer, with the assistance of the City Attorney to create a training curriculum for City department contract coordinators, which may include the creation of a Citywide Procurement Manual and the method and frequency by which the training would be conducted, and report in four months on the status of this effort.
2. Instruct the Information Technology Agency, as the project manager, General Services Department, Public Works Bureau of Contract Administration, and City Administrative Officer with the assistance of the City Attorney and Mayor's Operations Innovation Team to define and map out the scope and function of what should be included in a contract management system, and report in four months on the status of this effort.
3. Instruct the Public Works Bureau of Contract Administration with the assistance of the Mayor's Operations Innovation Team to research data collection methodologies and provide a recommendation on standardization of the City's procurement data, and report in four months on the status of this effort.
4. Request the Controller to identify and assess any recurring trends or systemic problems that may impact timely contract payments, and report in four months on the status of this effort.
5. Instruct the Public Works Bureaus of Contract Administration and Engineering, City Administrative Officer, and Personnel Department with the assistance of the Controller and

the City Attorney to report in four months on the efforts made to comply with the Letter of Agreement on Outsourcing of Unit Work, and report in four months on the status of this effort.

### **FISCAL IMPACT STATEMENT**

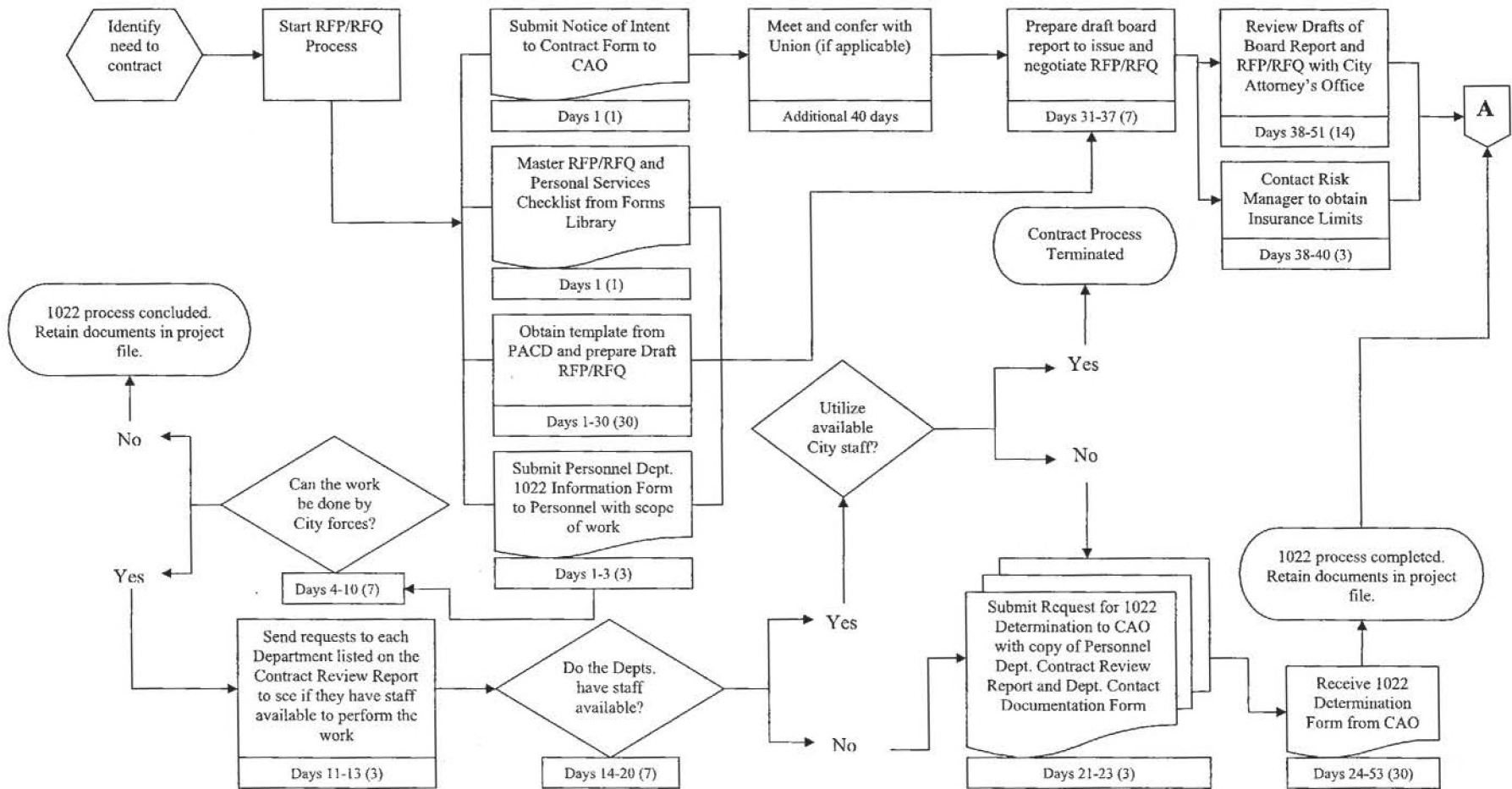
Investing in procurement reform may result in future year costs based on the actions undertaken to implement this effort. Future year costs will likely increase the General Fund costs as more detailed work plans are developed and implemented. Ongoing costs could be offset by potential savings resulting from procurement reform due to efficiency in processes and reduction in operating costs.

#### *Attachments*

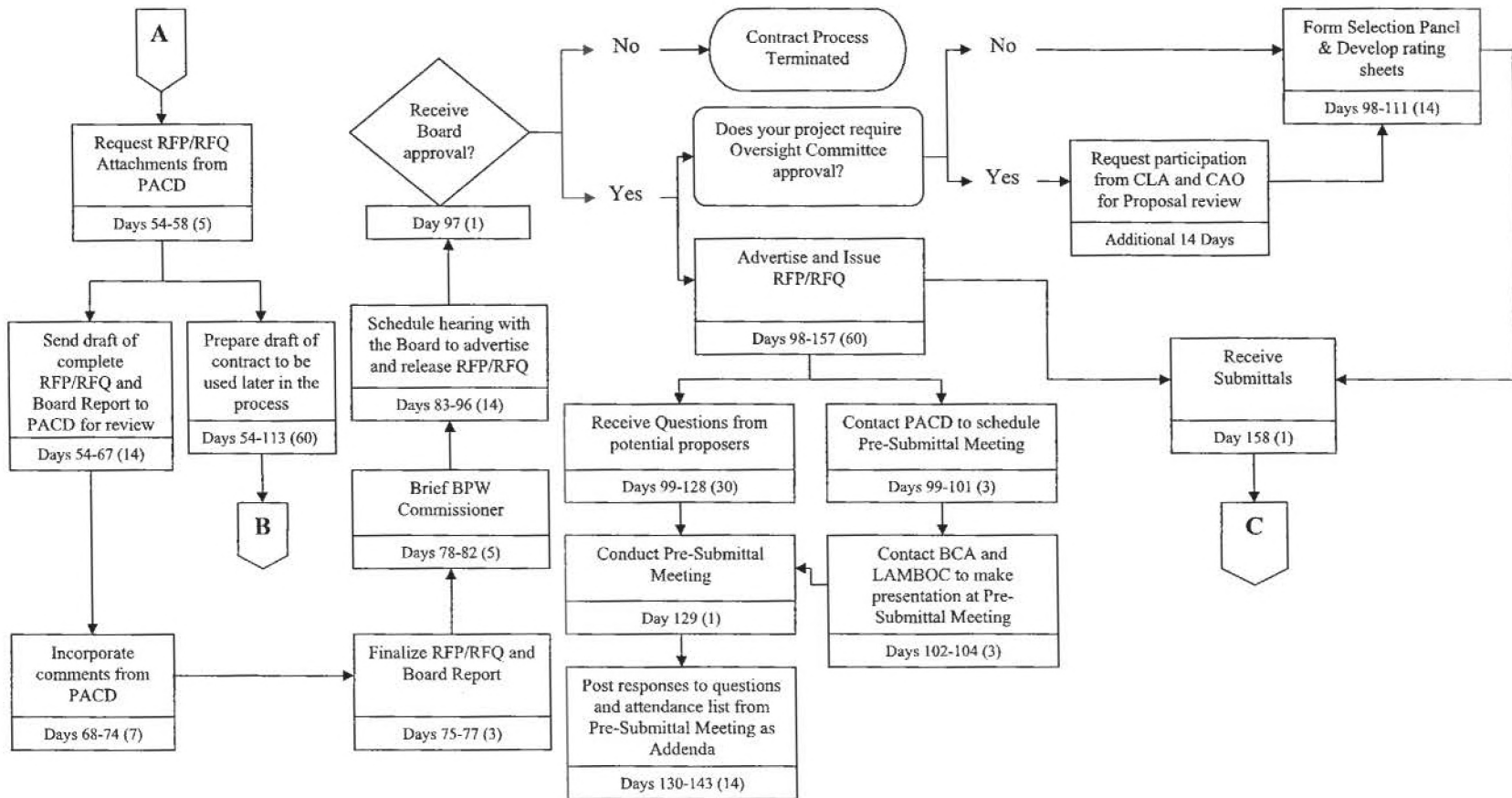
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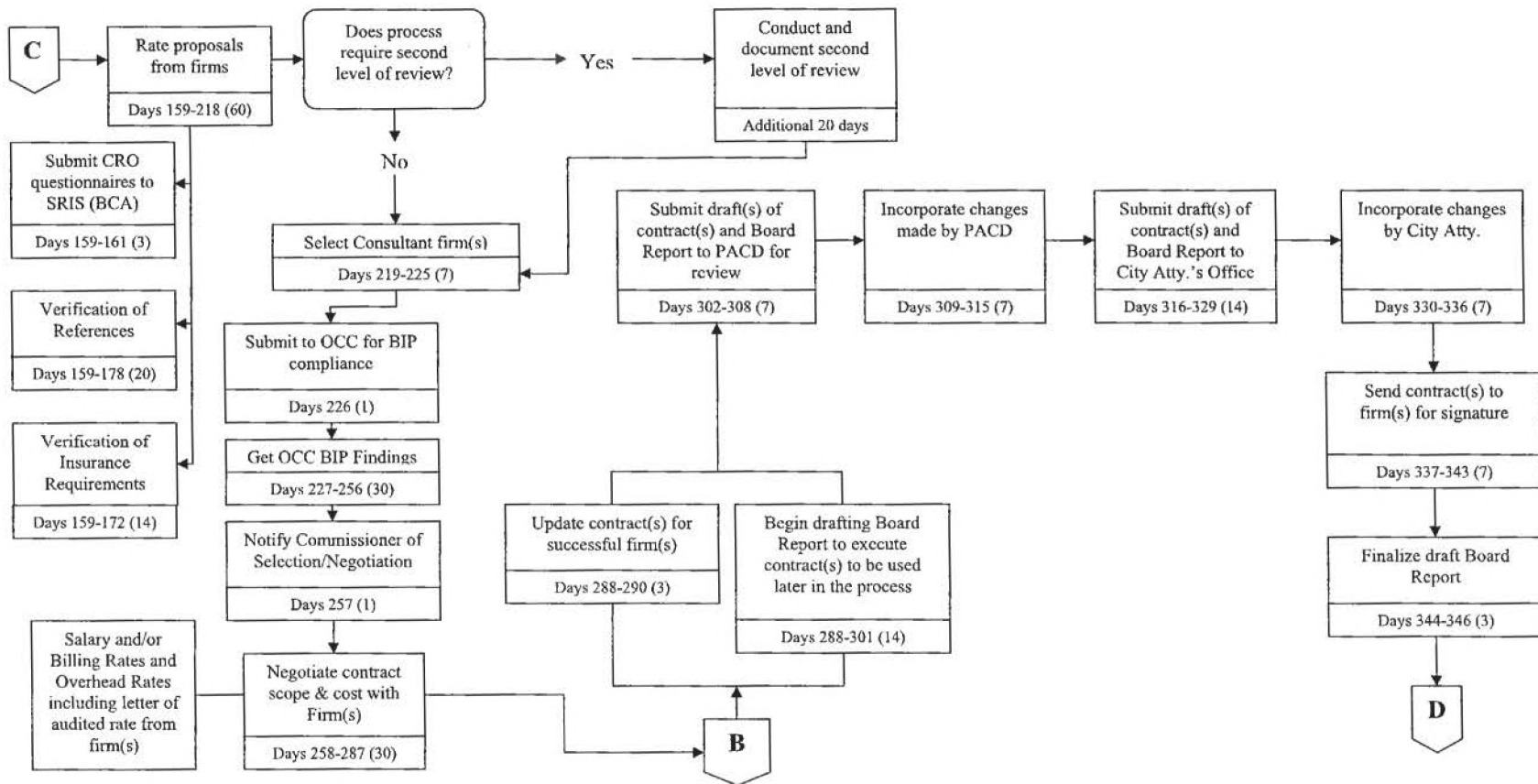
CONTRACTING PROCESS FLOWCHART



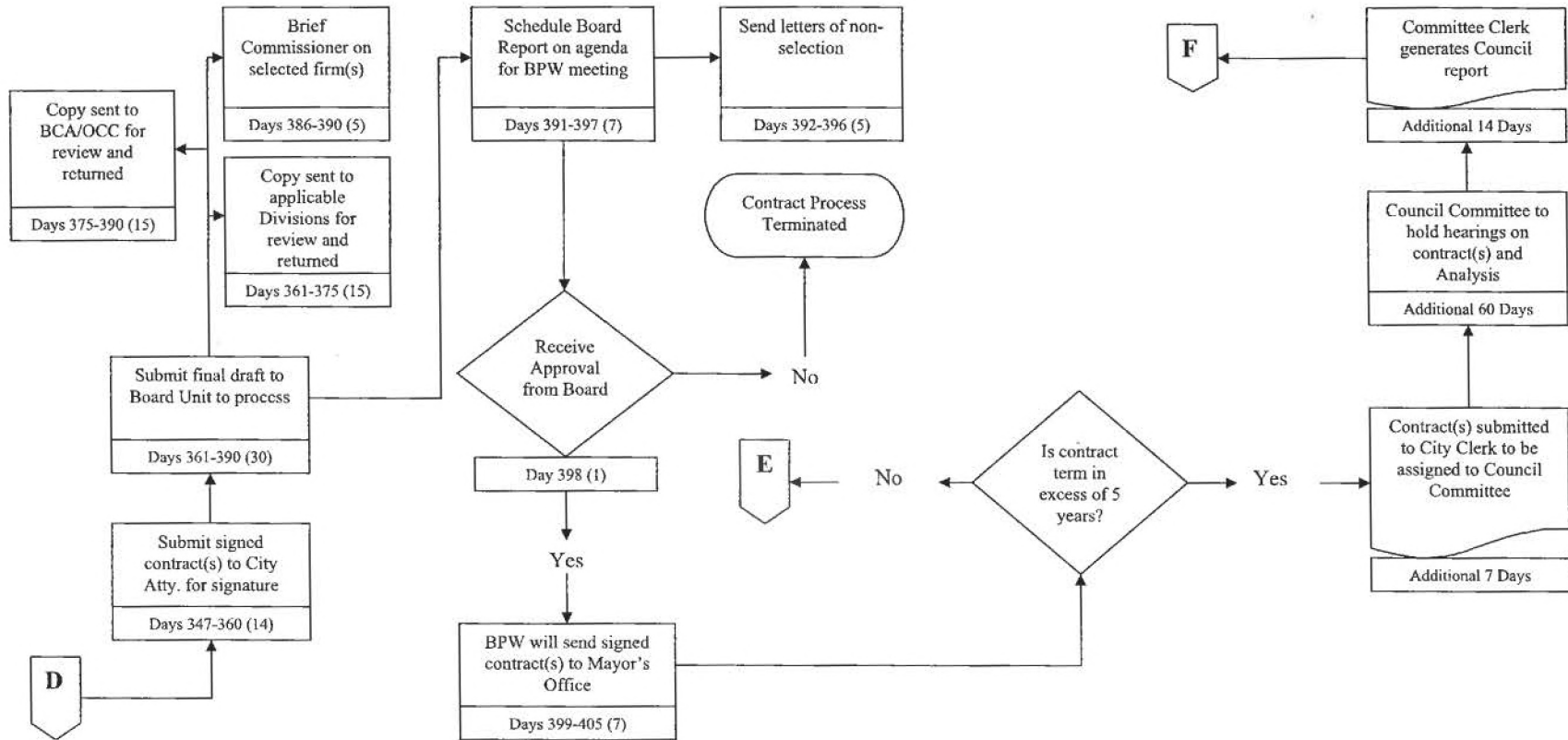
### CONTRACTING PROCESS FLOWCHART



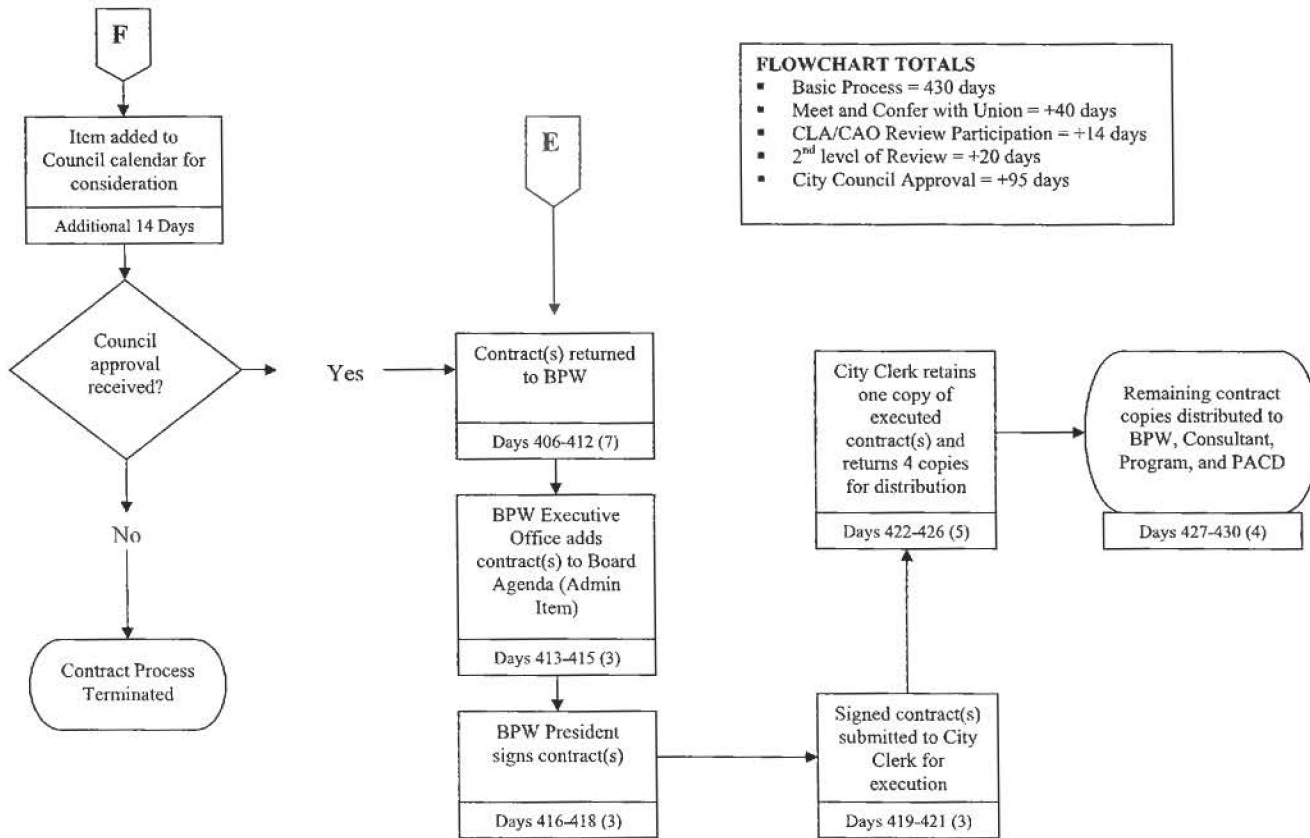
### CONTRACTING PROCESS FLOWCHART



### CONTRACTING PROCESS FLOWCHART



## CONTRACTING PROCESS FLOWCHART



**FLOWCHART TOTALS**

- Basic Process = 430 days
- Meet and Confer with Union = +40 days
- CLA/CAO Review Participation = +14 days
- 2<sup>nd</sup> level of Review = +20 days
- City Council Approval = +95 days

GLOSSARY	
BAVN	- Business Assistance Virtual Network
BCA	- Bureau of Contract Administration
BIP	- Business Inclusion Program
BPW	- Board of Public Works
CAO	- Office of the City Administrative Officer
CLA	- Chief Legislative Analyst
LAMBOC	- Los Angeles Minority Business Opportunity Center
OCC	- Office of Contract Compliance
PACD	- Project Award and Control Division
RFP	- Request for Proposal
RFQ	- Request for Qualifications
SRIS	- Special Research & Investigation Section

**Contract Lifecycle**

Manual	BAVN	Manual	Manual	FMS 2.0	Vendor Self Service (VSS)
<ul style="list-style-type: none"> <li>Decision to Contract</li> <li>1022 Process</li> <li>Identify Financing/Budget</li> <li>Build Templates for RFPs, Bid Evaluations and Contracts</li> <li>Draft RFP</li> <li>Edit/Review/Approve</li> <li>RFP Document Repository</li> </ul>	<p><b>City:</b></p> <ul style="list-style-type: none"> <li>Upload and Publish RFPs</li> <li>Automatic Email Notifications to Registered Vendors (RFPs, Amendments, Status Changes)</li> <li>Calculates BIP Outreach Requirements</li> <li>Monitor &amp; Reports on Vendor BIP Participation</li> <li>Review and Verify Vendor Compliance Docs</li> </ul> <p><b>Vendor</b></p> <ul style="list-style-type: none"> <li>Vendor Registration</li> <li>Submit Compliance Docs Online</li> <li>Maintain Vendor Profile including Certifications</li> <li>Download RFP</li> <li>Prime Contractors Outreach to Subcontractors</li> <li>Completes BIP Outreach</li> <li>Submit BIP Summary Sheet Online</li> </ul>	<ul style="list-style-type: none"> <li>Bids are submitted and received</li> <li>Bid Evaluation (Evaluated, Scored, Selected, Appealed)</li> <li>Bid Repository</li> </ul>	<ul style="list-style-type: none"> <li>Dept Selects Vendor</li> <li>BCA verifies Vendor's Compliance Documents in BAVN</li> <li>Award Vendor</li> <li>Draft Contract</li> <li>Negotiate Contract</li> <li>Edit/Review/ Approve</li> <li>Execution of Contract</li> <li>Contract Document Repository</li> </ul>	<ul style="list-style-type: none"> <li>Establish Vendor in FMS (if necessary)</li> <li>Enter Contract into FMS</li> <li>Contract Attachments</li> <li>Contract Amendments</li> <li>Contract Reporting</li> <li>Control/Monitor Spending</li> </ul>	<p><b>City:</b> <b>VSS Features Not Implemented</b></p> <ul style="list-style-type: none"> <li>Upload, Publish RFPs</li> <li>Automatic Email Notifications to Potential Bidders</li> <li>Commodity Solicitation</li> <li>RFP Response Tracking</li> </ul> <p><b>Vendor:</b> <b>VSS Features Implemented in 2017</b></p> <ul style="list-style-type: none"> <li>Maintain Vendor Profile &amp; User Accounts</li> <li>View Contract Information Online</li> <li>Online invoice submission</li> <li>Review Payments/Invoices</li> <li>Maintain Financial Account Info</li> </ul> <p><b>VSS Features Not Implemented</b></p> <ul style="list-style-type: none"> <li>Vendor Registration</li> <li>Download RFP</li> <li>Online Bid Submittal</li> </ul>
<b>Pre-Solicitation</b>	<b>Solicitation /Opportunities</b>	<b>Bid Evaluations</b>	<b>Contracting</b>	<b>Monitoring and Managing Contracts</b>	

Green: Functionality in a Current System

Red: Performed Manually

Purple: System Available 2017

Black: VSS

Features Not Implemented