



CITY AUDITOR'S OFFICE
FINAL REPORT



PROCUREMENT PERFORMANCE AUDIT

July 2, 2024

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I. EXECUTIVE SUMMARY

A. INTRODUCTION

As part of the City of Modesto's (the City's) fiscal year 2024 internal audit program, Moss Adams LLP (Moss Adams) conducted a performance audit to review procurement policies, procedures, and processes and evaluate opportunities to streamline and enhance efficiency. We conducted this performance audit between March 2024 and June 2024 using a four-phased approach consisting of project planning and management, fact-finding, analysis, and reporting.

B. SUMMARY OF FINDINGS AND RECOMMENDATIONS

Findings and recommendations are grouped into two categories: (1) People and (2) Processes and Systems. Detailed findings and recommendations are provided in [Section IV](#) of this report. An implementation plan is included in [Appendix B](#).

FINDINGS AND RECOMMENDATIONS		
People		
1.	Finding	High turnover in fiscal years 2022 and 2023 reduced Purchasing's capacity, which impacted operations and services to other departments.
	Recommendation	<ul style="list-style-type: none"> A. Continue to build team trust through collaboration and support. B. Continuously monitor and assess staffing and workload needs to anticipate any potential issues and proactively address concerns. C. Continually solicit feedback from staff to proactively anticipate and understand potential retention issues.
2.	Finding	Despite appropriate staffing when compared to peers, some Purchasing staff reported high workloads and limited capacity. This is likely due to unbalanced workloads across buyers, recent turnover, and process and system inefficiencies.
	Recommendation	In addition to implementing other recommendations throughout this report related to turnover and process efficiency, perform a workload analysis to support balancing workloads appropriately across Purchasing buyers.
Processes and Systems		
3.	Finding	The City's small purchase threshold is lower than peers, which may be inefficient. Additionally, staff reported approval processes can be cumbersome.
	Recommendation	<ul style="list-style-type: none"> A. Consider whether adjustments to the small purchasing threshold are appropriate for the City to streamline its approval processes. B. Review approval processes to determine if any can be streamlined such as by removing unnecessary approvals, clarifying unclear processes, or addressing system limitations.

FINDINGS AND RECOMMENDATIONS

4.	Finding	The Purchasing Procedures Manual is lengthy and difficult to navigate, which can reduce efficiency and effectiveness and increase the likelihood of noncompliance.
	Recommendation	<p>A. Update the Purchasing Procedures Manual to improve the navigability of the document.</p> <p>B. Continue to develop additional resources such as checklists, stand-alone flowcharts, decision trees, or one-page quick reference guides to support departments involved with procurement processes.</p>
5.	Finding	Expectations between Purchasing and departments are not always clear because Purchasing has not established clear service level standards.
	Recommendation	Establish service level standards to clarify expectations between Purchasing and other City departments.
6.	Finding	Some purchasing processes at the City are highly manual, time-consuming, and inefficient due to the City's systems environment.
	Recommendation	Ensure implementation of OpenGov is supported by an effective implementation, communication, and training plan to increase the likelihood of successful implementation and adoption.
7.	Finding	Purchasing lacks comprehensive standard operating procedures (SOPs), which are important to promote staff knowledge, consistency, and accountability; and reduce risk.
	Recommendation	Develop comprehensive procurement SOPs to guide staff on procurement processes.

II. INTRODUCTION

A. BACKGROUND

As part of the City’s fiscal year 2024 internal audit program, Moss Adams conducted a performance audit to review procurement policies, procedures, and processes and evaluate opportunities to streamline and enhance efficiency.

The City’s procurement processes are managed by the City’s Purchasing Division (Purchasing or the Division). Purchasing reports to the City’s Finance Department. Purchasing coordinates the procurement of goods and services for all departments and divisions within the City. This includes conducting various competitive procurement processes as required by the Modesto Municipal Code, managing contract compliance management, vendor relations, and City central stores functions. Purchasing is overseen by a Purchasing Manager and includes two senior buyers, four buyers, two assistant buyers, one part-time assistant buyer, and one part-time clerk. The central store’s function includes a stores supervisor, two senior storekeepers, two storekeepers, and two part-time storekeeper staff.

B. SCOPE AND METHODOLOGY

This performance audit was conducted between March 2024 and June 2024. The performance audit examined procurement policies, procedures, and processes and evaluated opportunities to streamline and enhance efficiency. This project consisted of four phases that are detailed below.

PHASE		DESCRIPTION
1	Project Initiation and Management	This phase concentrated on comprehensive planning and project management, including identifying employees to interview and documents to review, communicating results, and providing regular updates on project status.
2	Fact-Finding	<p>This phase included interviews, document review, and peer benchmarking.</p> <ul style="list-style-type: none">● Interviews: We conducted interviews with Purchasing staff and department directors. We also conducted 10 focus groups with staff from departments involved in procurement at the City. Overall, we spoke to 50 City employees. The purpose of the interviews was to gain insights into the current operational environment, strengths, and opportunities for improvement related to procurement at the City.● Document Review: We reviewed a variety of documents, data, and information provided by the City, including procurement policies and manuals, how-to documents, purchase order (PO) listings, job descriptions, departmental procurement authority matrices, key performance indicators (KPIs), procurement update and training materials, customer survey results, and forms and templates.● Peer Benchmarking: We analyzed procurement information including staffing and purchasing approval thresholds for six cities who are considered peers to the City. The peer cities analyzed include the City of Bakersfield, City of Fresno, City of Riverside, City of Sacramento, City of San Bernardino, and City of Stockton.

PHASE		DESCRIPTION
3	Analysis	Based on the information gained during our fact-finding phase, we conducted and consolidated research on relevant industry standards and best practices. Based on this research, we identified potential areas for improvement and developed practical recommendations.
4	Reporting	We communicated the results of our analysis with findings and recommendations presented first in a draft report that was reviewed with management to confirm the practicality and relevance of recommendations before finalizing the report.

C. STATEMENT OF COMPLIANCE WITH GAGAS

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

III. COMMENDATIONS

- **Leadership:** Many interviewees reported that Finance and Purchasing leadership is strong, noting that leadership effectively supports departments and promotes strong procurement standards and practices. This exemplifies a strong tone at the top, which is an important factor in an effective control environment.
- **Updated Policies and Procedures:** The City updated procurement provisions in the Modesto Municipal Code in November 2023 with a goal of streamlining procurement processes while also maintaining necessary safeguards and internal controls. These changes included increasing the approval authority of the City Manager to \$100,000, allowing the City Manager to approve all emergency contracts, allowing bids to be accepted electronically, and clarifying some exemptions to formal bidding procedures. The Purchasing Policy and Purchasing Procedures Manual was also updated in November 2023 to align with the updated Modesto Municipal Code and clarify processes. Updating policies and procedures is a best practice to promote increased compliance and overall operational efficiency.
- **Training and Documentation:** It is helpful for centralized procurement functions to provide regular staff training to departments involved in procurement processes to build competency and promote consistency and compliance with procurement processes. Aligned with these best practices, Purchasing provides regular training and support to departments, including providing on-demand training through its online learning management system. Since 2018, Purchasing has also held monthly meetings with departments to provide procurement updates and training refreshers. Staff reported these monthly trainings and updates have been helpful. Procurement policies and procedures are also posted on the City's intranet, which makes them easy for staff to access.
- **Collaboration and Communication:** Relationships between Purchasing and other departments are reportedly strong, and many interviewees reported collaboration and communication with Purchasing has improved in recent years.
- **Procurement Card Controls:** The Procurement Card Policy and Procedures Manual was updated in September 2023 and provides detailed information on the procurement card program, including procurement card controls, restrictions, and consequences of noncompliance with the policy. The manual also describes card responsibilities, how to use the card, and the reconciliation process. Departments reported the procurement card process is clear and understood by employees. Departments also reported a sense that any violation of procurement card rules would be noticed, suggesting a strong control environment in this area.
- **Technology Purchases:** The City has acted to reduce risks related to technology purchases. Technology purchases can create risks for any city. New technology may not be compatible with existing systems or software and may introduce security risks. Additionally, technology can be expensive, and costs need to be managed across departments to avoid duplication and manage costs. To address these risks, the City has implemented processes to ensure technology purchases are reviewed by the Information Technology Department (IT). According to the Purchasing Procedures Manual, all hardware, software, and telecommunication technology related support services require coordination through IT and approval by the Chief Information Officer. Additionally, purchases over a certain threshold are required to be reviewed by the Technology Steering and Alignment Committee (the specific threshold is not included in the Purchasing Procedures Manual but is included in the Committee's charter). The Procurement Card Policies and Procedures Manual also provides guidance on what IT items can and cannot be purchased with a procurement card and when IT must be informed of IT purchases made using a procurement card.

IV. FINDINGS AND RECOMMENDATIONS

Findings and recommendations below are grouped into two categories:

- People
- Processes and Systems

A. PEOPLE

Turnover

1.	Finding	High turnover in fiscal years 2022 and 2023 reduced Purchasing's capacity, which impacted operations and services to other departments.
	Recommendation	<p>A. Continue to build team trust through collaboration and support.</p> <p>B. Continuously monitor and assess staffing and workload needs to anticipate any potential issues and proactively address concerns.</p> <p>C. Continually solicit feedback from staff to proactively anticipate and understand potential retention issues.</p>

Purchasing experienced high turnover in fiscal years 2022 and 2023. While turnover improved in fiscal year 2024, elevated turnover levels in recent years have impacted Purchasing operations and services to other departments. Stakeholders generally reported that Purchasing is supportive and collaborative but is still rebuilding its team and internal competencies after recent turnover. This has reportedly delayed some processes due to the need for extra reviews within Purchasing as newer staff complete their probationary periods. This has also likely contributed to inconsistency in the level of service provided by Purchasing to departments and reports of Purchasing staff providing inconsistent answers about required processes. Staff in Purchasing noted similar challenges as new staff are brought up to speed on procurement policies and procedures, which can be particularly complex in the government environment.

Gallup recommends that organizations aim for a 10% annual turnover rate. In the past three fiscal years, the Purchasing team's turnover rate has been an average of 24.6%. The following table details each year's specific rate:

FISCAL YEAR	TURNOVER RATE
2022	25%
2023	38%
2024	11%

High turnover rates can lead to lower quality of work, decreased morale, and lost productivity. Organizations with high turnover often spend more time, money, and energy on recruitment, hiring,

onboarding, and training. Alternatively, when turnover is low, organizations benefit from employees who are experienced and familiar with the organization’s policies, procedures, and culture.

Staff reported that turnover within Purchasing has largely been the result of camaraderie challenges, interpersonal relationship difficulties, and high workloads within the Division. Within the last year, the Purchasing team promoted a new manager and several new buyers. Staff report these changes have benefited the existing team’s workload and culture. While the Purchasing team’s turnover rate decreased in fiscal year 2024, it is important that efforts to maintain appropriate levels of turnover continue. To continue to stabilize the department and maintain appropriate levels of turnover, Purchasing should:

- **Continue building team trust through collaboration and support:** Purchasing leadership should continue encouraging collaboration among team members by promoting a sense of shared ownership and accountability in the team’s success. Leadership should also continue to provide support through open communication and providing needed resources. Such efforts will support continued improvements in employee belonging and retention.
- **Continue assessing staffing needs and workloads:** Continued staffing and workload monitoring can aid in anticipating when additional staffing is needed to handle workload needs (see also [Workloads](#)). This will help reduce the risks associated with capacity issues that previously led to burnout and retention issues on the team.
- **Continue soliciting feedback from staff to proactively anticipate and understand if there are potential retention issues:** Feedback is an important tool in gaining insight into employee experiences and identifying potential retention issues. Feedback can be collected through a variety of methods, such as surveys, focus groups, and one-on-one meetings.

Workloads

2.	Finding	Despite appropriate staffing when compared to peers, some Purchasing staff reported high workloads and limited capacity. This is likely due to unbalanced workloads across buyers, recent turnover, and process and system inefficiencies.
	Recommendation	In addition to implementing other recommendations throughout this report related to turnover and process efficiency, perform a workload analysis to support balancing workloads appropriately across Purchasing buyers.

In comparison to peers, the City’s Purchasing function appears appropriately staffed. The following table compares the City’s purchasing staff against peer city staffing. It is common for staffing to vary somewhat amongst organizations depending on factors such as purchasing volume, the complexity of purchases, and process efficiency.

City	Population	FY24 GF Revenue	FY24 GF Expenditures	FY24 Total FTE	FY24 Total Purchasing FTE	Staffing Ratio per 100 FTE
Modesto	218,069	\$178,110,000	\$184,300,000	1,370.5	10*	0.73
Bakersfield	410,647	403,852,000	403,852,000	1,997	3	0.15

City	Population	FY24 GF Revenue	FY24 GF Expenditures	FY24 Total FTE	FY24 Total Purchasing FTE	Staffing Ratio per 100 FTE
Fresno	545,567	\$485,017,000	\$461,646,000	4,579	10	0.22
Riverside	320,764	\$318,229,147	\$311,113,181	2,628	8	0.30
Sacramento	528,001	\$775,573,000	\$767,061,000	5,075	8	0.16
San Bernardino	220,328	\$193,200,000	\$191,900,000	756	4	0.53
Stockton	321,819	\$305,323,776	\$289,715,631	1,790	7	0.39

**For purposes of comparison, Modesto total purchasing FTE excludes storekeeper staff; Riverside total purchasing FTE excludes storekeeper staff; and Stockton total purchasing FTE excludes materials staff.*

The City also added staff to its Purchasing team to accommodate increased purchasing demand in recent years. Purchasing demand has increased at the City since fiscal year (FY) 2022. This is partially due to the passing of a one-cent sales tax measure to fund general City services that passed in November 2022 (Measure H). In both FY23 and FY24, PO volume increased by about 10% each year. ¹ The City added one full-time assistant buyer in FY24 and has proposed shifting its part-time assistant buyer to a full-time assistant buyer in FY25 to accommodate this increased demand.

	FY22	FY23	FY24
Total PO's per year	21,602	23,794	26,062
Percent Increase in Total PO's from the prior year	4%	10%	10%

Despite appropriate staffing, some Purchasing staff reported high workloads and limited capacity. This is likely due to recent turnover (see also [Turnover](#)), process and system inefficiencies (as described in other findings throughout this report), and the need to balance workloads across buyers. In addition to continuing efforts to address turnover and process efficiencies, the City should conduct a workload analysis to support better balancing of workloads across buyers. It is important for the City to address these challenges because elevated workloads can impact service levels, accuracy, employee morale, and overall process efficiency.

Workload Analysis

Each Purchasing Buyer is currently assigned to support a set of City departments. Staff within Purchasing and other City departments reported the current distribution of departments among Purchasing Buyers is not balanced. In particular, it was noted that Purchasing Buyers who support departments with the highest volume and more complex procurement needs, like police, fire, and

¹ We analyzed purchase order volume as an indicator of overall purchasing workloads. While this metric is a general indicator of purchasing volume at the City, it does not fully account for the volume of Purchasing's work, since this metric does not consider the difference in time different purchases can take. For instance, formal bids require more effort and time than smaller purchases.

fleet, have much higher workloads than other buyers, which can make it difficult to support these departments timely. Purchasing leadership reported they know the distribution is not proportional, but they have not had time to do a workload analysis to determine the appropriate assignments given the focus on rebuilding the department and training new staff.

Purchasing should conduct a workload analysis to support balanced workloads across buyers. The purpose of a workload analysis is to assess the workload of individual buyers and the purchasing team as a whole to ensure the team is able to effectively manage its responsibilities. A workload analysis can help identify areas where workload is excessive or insufficient and can help inform staffing decisions and workload management.

The workload analysis should be conducted by management, with input from individual buyers. Workload analyses typically include the following steps:

- **Identifying roles and work activities:** Management should identify the relevant roles to be analyzed. After determining relevant roles to be analyzed, management should collaborate with staff to create a comprehensive list of major activities, tasks, and responsibilities for each role. This includes routine tasks such as processing POs or posting bids, special projects, and any additional responsibilities.
- **Collecting data:** Management should collect data on the workload of individual buyers over a set period (e.g., one or two months). This data may include, for instance, the number of POs processed, the number of formal bids and proposals processed, the number of supplies managed, and the time spent on administrative tasks. Staff should also track their time over the course of two to four weeks using a worksheet that lists each major activity. This will support a deeper understanding of time estimates for workload activities. It can also be helpful for staff to report the tasks they were unable to accomplish during the timeframe due to bandwidth constraints.
- **Analyzing activities:** Once tracked, the data can be aggregated to get a sense of overall workloads across the team, time associated with specific tasks or case types, and activity gaps.
- **Taking action:** Once the analysis is complete, it should provide actionable data about areas of success, workload challenges, and staffing gaps.

Although performing a workload analysis as outlined above provides information about potential resource needs, it does not take the quality of work into consideration. As such, it should not be used as a stand-alone metric, but rather part of a wider conversation around staff capacity and team performance. The results of the workload analysis should be used to determine how to balance workloads across buyers, and department assignments should be adjusted accordingly.

Managing buyer workload is not a one-time activity. Purchasing should continuously monitor data on purchasing volume across buyers, such as the number and timeliness of POs processed and the number and timeliness of formal bids and proposals processed. Purchasing recently started tracking such data, and these efforts should be continued to support maintaining balanced workloads over time. Additionally, Purchasing should conduct a more detailed workload analysis, as described above, on a regular basis (e.g., every one or two years) to ensure buyer workload is regularly assessed and proactively managed.

B. PROCESSES AND SYSTEMS

Approval Processes

3.	Finding	The City's small purchase threshold is lower than peers, which may be inefficient. Additionally, staff reported purchasing approval processes can be cumbersome.
	Recommendations	<ul style="list-style-type: none">A. Consider whether adjustments to the small purchasing threshold are appropriate for the City to streamline its approval processes.B. Review approval processes to determine if any can be streamlined such as by removing unnecessary approvals, clarifying unclear processes, or addressing system limitations.

Staff reported approval processes are slow and cumbersome due to too many approvals being required for purchases and approval thresholds reportedly being too stringent. While strong controls are important to ensure the City's resources are used effectively and that risks are managed appropriately, there may be opportunities to streamline processes while still maintaining an appropriate level of control.

Approval Thresholds

We compared the City's approval thresholds to peer cities. Detailed results of the peer city comparison are included in [Appendix A](#).

We found the City's small purchase threshold is lower than its peers. Small purchases are purchases that can be purchased without informal bids (e.g., three written quotes). The City allows small purchases for purchases under \$3,500. Three of the other cities reviewed (Bakersfield, Fresno, Sacramento) allow small purchases under \$5,000 and three of the cities reviewed (Riverside, San Bernardino, and Stockton) allow small purchases under \$10,000.

Thresholds should be set based on the City's unique needs and may understandably vary from other cities. However, the City should consider whether threshold adjustments would be helpful to streamline its processes. Revising the small purchase threshold might also reduce the number of required bid waivers. Currently, the City requires three written quotes or a bid waiver form for purchases between \$3,501 and \$24,999. If the small purchase threshold was revised, these requirements would apply to a smaller subset of purchases.

When determining whether to make an adjustment to its small purchase threshold, the City should analyze recent purchases to understand the impact of the change (i.e., the average number and dollar amount of purchases such a change would impact). This can help the City evaluate risk. If the City revises its approval thresholds, it is especially important to maintain other controls to support an effective control environment, such as requiring purchase requisitions and approvals for all purchases, regularly auditing purchases for compliance with policy, and providing consistent and regular training on purchasing requirements.

Approval Processes

Staff reported approval processes can be cumbersome. This includes but is not necessarily limited to processes for formal bid processes, change orders, and bid waivers. This may be due to too many approvals being required for purchases. For example, the City's bid waiver form requires five approvals (or six if it is a technology purchase), including the Division Manager, Department Director, Chief Information Officer (if applicable), Buyer, Purchasing Manager, and Director of Finance. It may be unnecessary for three individuals within Purchasing to approve all bid waivers. The City's reportedly cumbersome approval processes may also be due to inefficiencies, such as those due to system limitations (see also [System Limitations](#)), unclear processes, or a lack of automation. As a result, the purchasing process may be delayed, which can weaken relationships with vendors, impact morale, and ultimately impact public service.

The City should review its approval processes to determine if any can be streamlined. To do so, the City should analyze each of its approval processes to identify inefficiencies, such as unnecessary approvals, unclear processes, or system limitations. Based on this analysis, the City can identify and implement opportunities for improvement. Changes should be incorporated into purchasing documentation. Approval processes should also be monitored over time to ensure they are effective, such as through regular solicitation of feedback from departments involved in purchasing processes. The City should analyze the risks in removing a position from the approval process when considering removal of an approval requirement. This will support the City in maintaining an effective control environment.

Purchasing Manual

4.	Finding	The Purchasing Procedures Manual is lengthy and difficult to navigate, which can reduce efficiency and effectiveness and increase the likelihood of noncompliance.
	Recommendations	<ol style="list-style-type: none">A. Update the Purchasing Procedures Manual to improve the navigability of the document.B. Continue to develop resources such as checklists, stand-alone flowcharts, decision trees, or one-page quick reference guides to support departments involved with procurement processes.

The Purchasing Procedures Manual, which guides departments on procurement practices, is nearly 100 pages and can be difficult to navigate. While most local government purchasing policies and procedures are typically lengthy due to the complexity of government procurement and the number of applicable statutes and rules, difficult to navigate manuals can impede staff's ability to complete tasks correctly and in accordance with purchasing regulations.

Purchasing manuals are an important part of establishing effective internal controls to safeguard the City, but manuals must be understood to be effective. Purchasing should consider improving the navigability and usefulness of the Purchasing Procedures Manual by considering the following elements.

- **Link to sections from the table of contents:** This will allow for quicker routing to a particular section and will allow staff to quickly find the section they need.

- **Link to relevant sections:** Linking can provide quick and easy access to information that may be relevant to a particular topic but included in a different section. For example, linking bid waiver information located throughout the manual would be helpful.
- **Include visual aids such as diagrams, flowcharts, and tables:** For instance, it would be helpful for the City to develop flowcharts for its informal and formal bid processes, rather than including this information in long bulleted lists. This will help users better understand complex processes. The City of Fresno’s Purchasing Manual has process flowcharts for different purchasing types like the RFP process. These diagrams help guide readers to understand the entire process, what decisions they need to make, and who is involved in the decisions.
- **Simplify the content:** The City should review its manual to ensure it is easy for users to find what they need, understand what they read, and use the information they read to meet their needs. For instance, it is unclear to some departments when a bid waiver is required. Based on a review of the Purchasing Procedures Manual the language around when a bid waiver is required could be clarified. The Plain Language Action and Information Network of federal employees created [plain language guidelines](#) that can be helpful to support writing complex documents more simply.

Purchasing has created some supplementary resources to support departments in interpreting and understanding procurement policies and procedures, such as a step-by-step guide for requests for proposals for professional services. Purchasing should consider developing additional resources to support departments involved in procurement. This may include additional checklists, stand-alone flowcharts, or decision trees. Purchasing could also consider additional quick reference guides that summarize key information into a one-page document. These resources would give readers an immediate and comprehensive snapshot of a process or activity and enable readers to understand the process or activity quickly and easily.

Service Level Standards

5.	Finding	Expectations between Purchasing and departments are not always clear because Purchasing has not established clear service level standards.
	Recommendation	Establish service level standards to clarify expectations between Purchasing and other City departments.

Staff reported expectations between Purchasing and departments (e.g., around timeliness) are not always clear because Purchasing has not established clear service level standards. Typically, service level standards for procurement include metrics such as response time, approval time, order fulfillment time, and clarity on the performance metrics that will be used to measure the effectiveness and efficiency of purchasing activities. Service level standards help provide transparency related to the timeframes and processes customer departments can expect to experience. Without clear service level standards and expectations, services may be inconsistent and may not fully meet the needs of departments.

The City should establish service level standards to clarify expectations between Purchasing and other departments. Typically, establishing service level standards involves the following steps:

- **Identifying KPIs:** Purchasing should identify the KPIs that will be used to measure performance. Typically, public sector procurement performance metrics include metrics related to efficiency (including cycle time), effectiveness, and equity. Purchasing should prioritize timeliness metrics for the various stages of procurement, since timeliness was a common concern from departments in interviews. The Harvard Kennedy School Government Performance Lab developed a [framework for procurement excellence](#) that includes essential [procurement performance metrics](#) that Purchasing offices should track to improve their operations. These resources may be helpful for the City as it determines useful performance metrics. Purchasing should consider input from other departments when developing performance standards to promote alignment on expectations, support effective collaboration and communication, and ensure procurement activities are effectively supporting the needs of the City as a whole.
- **Defining performance targets:** Once KPIs have been identified, Purchasing should define performance targets for each metric. Targets should be specific, measurable, achievable, relevant, and time-bound (SMART) and be based on the needs of Purchasing and the departments it serves.
- **Communicating service level standards:** Purchasing should communicate service level standards to departments through a formalized service level agreement (SLA) or other formal documentation that outlines performance targets and expectations. This promotes transparency and accountability.
- **Monitoring performance:** Purchasing should monitor its performance against its defined service level standards on an ongoing basis and continuously improve its processes and procedures based on the results. Additionally, Purchasing should report on results to departments on a regular basis to further support transparency and accountability.

System Limitations

6.	Finding	Some purchasing processes at the City are highly manual, time-consuming, and inefficient due to the City’s systems environment.
	Recommendations	Ensure implementation of OpenGov is supported by an effective implementation, communication, and training plan to increase the likelihood of successful implementation and adoption.

The City’s formal bidding and contracting processes are manual, time-consuming, and inefficient due to the City’s systems environment.

- **Formal bidding:** The City uses PlanetBids to support the formal bid process, but this system is used only to upload final bids and proposals. PlanetBids does not comprehensively support the City’s bid processes and is reportedly cumbersome for the City’s vendors to use. The City Council approved the replacement of PlanetBids with OpenGov in June 2024.
- **Contracting:** The process for developing and approving contracts is also manual. The City does not have a system for processing contracts, so contract drafts are routed and revised through email, resulting in multiple versions and difficulty tracking approvals. Staff report the goal is for OpenGov to also support contracting processes.

Now that the City has selected a new bid system, effective system implementation is important. It is common for systems to be poorly implemented, which reduces the likelihood that a new system improves efficiency and effectiveness. The City should be sure to create a detailed implementation

plan that outlines tasks, milestones, timelines, and responsibilities to provide a roadmap for the implementation process and support sufficient resource allocation. The City should also develop a communication and training plan to support effective system implementation. It is best practice to assign a single point person internally to manage the rollout and keep track of activities, roles, and responsibilities to ensure they are fulfilled.

Standard Operating Procedures

7. Finding	Purchasing lacks comprehensive standard operating procedures (SOPs), which are important to promote staff knowledge, consistency, and accountability; and reduce risk.
Recommendation	Develop comprehensive procurement SOPs to guide staff on procurement processes.

SOPs are a step-by-step set of instructions on how to complete a task or activity to guide team members to perform tasks in a consistent manner. While Purchasing has developed several internal how-to guides to clarify and provide guidance to Purchasing staff on detailed processes, Purchasing lacks comprehensive SOPs. Staff noted particular written procedure gaps related to formal bidding processes and cooperative agreements. Comprehensive SOPs are particularly important given that many Purchasing staff are new in their roles. Without clear SOPs, staff are more likely to approach procurement activities inconsistently, which was a concern noted by some departments. A lack of SOPs also increases the risk of error, which can impact efficiency; create rework, waste, or delays; and impact the City's and Purchasing's reputation.

To develop purchasing SOPs, Purchasing should consider the following steps:

- Develop a comprehensive framework that outlines the structure and content of the desired SOPs to make sure all areas are covered
- Conduct a gap analysis to identify where SOPs are incomplete or missing
- Prioritize SOP needs based on those that will have the most impact and reduce the most risk
- Assign responsibility for developing SOPs
- Develop new SOPs based on the framework, gap analysis, and prioritization efforts

SOPs should be clear and concise. SOPs may include the following elements to enhance the readability and effectiveness of the document:

- Detailed checklists
- Process flowcharts
- Diagrams
- Forms, including information on how to fill them out
- Definitions
- Roles and responsibilities
- Examples

- Links to other relevant procedures

SOPs, like the Purchasing Procedures Manual, should be reviewed and updated regularly. Due to the level of detail in SOPs, they may need to be updated more frequently, including when process changes occur. After SOPs are documented, they should be communicated to all Purchasing staff and easily accessible for all staff to reference as needed.

APPENDIX A: PEER BENCHMARKING

The following table compares the City's approval thresholds to the City's peers, including the City of Bakersfield, City of Fresno, City of Riverside, City of Sacramento, City of San Bernardino, and City of Stockton. Data was pulled from publicly available information, including public-facing websites and available policies and procedures.

	Modesto	Bakersfield	Fresno	Riverside	Sacramento	San Bernardino	Stockton
Population (2022)	218,069	410,647	545,567	320,764	528,001	220,328	321,819
FY24 General Fund Revenues	\$178,110,000	\$403,852,000	\$485,017,000	\$318,229,147	\$775,573,000	\$193,200,000	\$305,323,776
FY24 General Fund Expenditures	\$184,300,000	\$403,852,000	\$461,646,000	\$311,113,181	\$767,061,000	\$191,900,000	\$289,715,631
Small or Micro-Purchase Threshold (Direct Purchase Permitted/No Bid Necessary)	\$3,500	\$5,000	Under \$5,000	Under \$10,000	\$5,000	\$10,000	\$10,000
Informal Bid Threshold	\$3,501–\$24,999 (requires three written quotes or bid waiver form) \$25,000–\$100,000 (requires three written quotes and invitation for bid)	\$5,001–\$40,000 (requires three written quotes)	\$5,000–\$50,000 (requires three written quotes)	\$10,000–\$50,000 (requires three quotes)	\$5,001–\$25,000 (requires three written quotes) \$25,000–\$249,999 (requires invitation for bid)	\$10,001–\$40,000 (requires informal quotes)	\$10,001–\$100,000 (requires three written quotes)
Formal Bid Threshold	\$100,001	\$40,001	Over \$50,000	Over \$50,000	\$250,000	Over \$40,000	\$100,001

APPENDIX B: IMPLEMENTATION PLAN

Recommendations are listed in order of priority (critical, high, medium, or low). Consideration has been given to both the impact and urgency of each recommended activity. This implementation plan should be viewed as a living document that leadership will discuss, reorganize, and adjust to create a feasible timeline. All items, including those listed as low priority, will be important to execute eventually. Recommendations that are necessary to begin with are categorized as critical priority. The party listed under Primary Responsibility is the leader in coordinating activities to accomplish the line item. This party may or may not directly execute the work detailed but will be responsible for moving the work forward.

Rec. #	Category	Recommendation	Priority	Effort Level	Primary Responsibility
2	Workloads	In addition to implementing other recommendations throughout this report related to turnover and process efficiency, perform a workload analysis to support balancing workloads appropriately across Purchasing buyers.	Critical	Medium	Purchasing Manager
6	System Limitations	Ensure implementation of OpenGov is supported by an effective implementation, communication, and training plan to increase the likelihood of successful implementation and adoption.	Critical	Medium	Director of Finance, Purchasing Manager, Chief Information Officer
5	Service Level Standards	Establish service level standards to clarify expectations between Purchasing and other City departments.	High	Medium	Director of Finance
1A	Turnover	Continue to build team trust through collaboration and support.	High	Medium	Director of Finance, Purchasing Manager
3A	Approval Processes	Consider whether adjustments to the small purchasing threshold are appropriate for the City to streamline its approval processes.	Medium	Low	Director of Finance, Purchasing Manager
3B	Approval Processes	Review approval processes to determine if any can be streamlined such as by removing unnecessary approvals, clarifying unclear processes, or addressing system limitations.	Medium	Medium	Director of Finance, Purchasing Manager
4A	Purchasing Manual	Update the Purchasing Procedures Manual to improve the navigability of the document.	Medium	Medium	Purchasing Manager
4B	Purchasing Manual	Continue to develop additional resources such as checklists, stand-alone flowcharts, decision trees, or one-page quick reference guides to support departments involved with procurement processes.	Medium	Medium	Purchasing Manager
7	Standard Operating Procedures	Develop comprehensive procurement SOPs to guide staff on procurement processes.	Medium	High	Purchasing Manager
1C	Turnover	Continually solicit feedback from staff to proactively anticipate and understand potential retention issues.	Low	Low	Director of Finance, Purchasing Manager
1B	Turnover	Continuously monitor and assess staffing and workload needs to anticipate any potential issues and proactively address concerns.	Low	Medium	Director of Finance, Purchasing Manager



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