Best Practices in Urban Public School Procurement:

Guidelines, Standards, and Lessons

Council of the Great City Schools

October 2018

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TABLE OF CONTENTS

EXECUTIVE SUMMARY

Just what is meant by a **Best Practice?** A best practice is a procedure, a process, or a system, adopted by best performing districts, which has a noticeable long-term positive impact on the strategic objectives of the Procurement organization.

The concept of "best practices" is a fluid one. As technology, regulations and statutes, business requirements, and the marketplace of providers all change, so do the concept and nature of best practices.

Procurement is a perfect example of this type of changing environment. The evolution of technology has brought new purchasing and sourcing tools and techniques to bear, federal regulations (and many state statutes) have undergone significant revision or expansion, and the digital age and the advancement of logistics and communications industries have expanded the available market of suppliers for most requirements, as well as the opportunity to participate in cooperative purchasing initiatives.

Additionally, the functional mandates for Procurement have evolved from just ordering and delivering goods and services efficiently, to providing strategic contribution and guidance for cost management, supplier performance, and source identification and development.

To match the expansion of responsibilities, new purchasing practices have evolved. Of course, no two districts operate identically or have the same operational and strategic needs, so the best practices utilized by one district may be slightly different, or tailored differently, from those used by another district.

With that in mind, here is a partial list of Procurement best practices that are applicable today.

- Rapid identification and prioritization of savings opportunities and improvement initiatives

- Improved spend visibility

- Delivery of quick-win savings (when applicable)

- Organizational alignment and integration with the business

- Improved Procurement responsiveness and agility to realize growth strategies

- Ongoing value delivery

- Rapid procure-to-pay cycle time (typically 15 to 40 percent below national/peer averages)

- Implementation of e-Procurement applications

- Supplier and contract performance management, benefits tracking and risk control

- Trained and certified Procurement professionals

- Use of technology to drive bottom-line savings

- Reduced/mitigated contractual risk

- High level of purchase "capture" (reduced off-contract and rogue purchases).

Although the expanded responsibilities and expectations may be vast, there is a consistent unifying theme in them: *Procurement must be an "active" rather than a "reactive" department.*

Instead of simply ensuring that goods are purchased at the lowest price possible, Procurement must be involved in all aspects of acquisition, from planning to source identification and development to solicitation to post-

purchase performance. The strategies and practices of the district and Procurement must be aligned, and Procurement must understand the needs and intricacies of administrative, support, operational departments, and schools within the district.

Procurement departments are now expected to have intimate knowledge of their suppliers' business practices. Does a supplier's business philosophy match that of the buying organization? Does the supplier engage in any less-than-desirable practices? Does the supplier's product/service development roadmap align with the district's projected needs? These are just a few of the myriad questions a Procurement professional must answer about those suppliers that the district intends to do business with.

The whole concept behind identifying "best practices" is to help individual district Procurement Departments to excel quickly and not have to learn the best way by trial and error over a long period of time. Unfortunately, too often the management of the district's Procurement organization overlooks the critical need to identify and integrate best practices into their operations, in many cases because they feel they have limited resources for such actions. While there might be limitations regarding staffing, systems, and budgets, there should never be a shortfall when it comes to the strategic planning to make the Procurement organization the best it can be.

There is a popular misconception that implementing a best practice is a costly endeavor, in terms of time and/or expenses. That simply is not true, especially on cost. Many best practices just need a commitment of time.

This White Paper identifies and describes a number of best practices, both tactical and strategic. The complete list of tactical best practices provided in this Paper is extensive and therefore not provided in this summary. Strategically, however, the core areas listed below are essential to the success and value-added contribution that any Procurement organization can provide to its district, however large or small. Each of these is discussed briefly below and in greater detail in individual sections of the Paper.

- *Developing a Strategic Procurement Plan*

- *Identifying Process Improvements*

- *Establishing a Dynamic Savings Program*

- *Implementing Supplier Scorecards/Evaluations*

- *Expanding Stakeholders' Involvement*

- *Winning over Senior Management*

Developing a Strategic Plan. All <u>successful</u> projects or endeavors begin with some type of strategic plan. That is also the case when developing a way to identify and implement best practices for your Procurement department. This lets stakeholders (e.g., your staff, your customers, your suppliers, and your executive management) know who you are and what you plan to be in the future.

Discussing your strategic plan with your stakeholders will give both you and them a better insight into your role within your district. It will also help you coalesce internal support for your strategy and, equally important, it will help you identify obstacles/resistance points and form mitigation plans to deal with these.

Identifying Process Improvements. We are all sometimes too busy to investigate ways to improve how we do business. Some effective ways of identifying potential process enhancements are

- Supplier Councils

- Customer Councils

- Networking with other Procurement Organizations

- Brainstorming

- Staff Meetings

These are all excellent ways not only to encourage feedback about how your unit is doing today, but also to solicit ideas on how to improve your current procedures, processes, and systems.

Establishing a Dynamic Savings Program. Savings is an important part of any procurement professional's job. But that term "savings" can be a bit tricky when applied to public sector procurement. In the private sector, savings (reducing cost) directly impact a company's profitability, so the benefit is easily visible, understood, and supported. In the public sector, however, reducing costs often does <u>not</u> typically result in a reduction of expenditures – the current budget is not reduced and money is not refunded to the taxpayers.

So, what does "savings" really mean in the public sector, and why is it important? Fiscally, public school districts are bestowed with a sacred trust from their benefactors (taxpayers) – *get the maximum value possible out of every dollar spent, and apply those dollars strictly to the educational benefit of the students.* In a school district, reducing costs means more of the vital materials, infrastructure, and personnel development that contribute to student achievement can be obtained. This is a much higher calling than the role of Procurement in the private sector, especially in districts challenged by ever increasing needs for educational services and products, but without proportionately increased revenue allocations. To be effective in this role, Procurement must (a) be directly involved in the overall strategic planning and budgeting of the district and (b) develop a very, very different internal marketing and collaboration strategy from what would be effective in the private sector.

Implementing Supplier Scorecards/Evaluations. This best practice can be leveraged in several ways, such as its use with purchase/contract solicitations, as well as in effective contract performance management.

Developing scorecards in conjunction with solicitations need not be a complicated process. In determining the factors and weights to be used in selecting a supplier, get input from your strategic internal customers about what attributes are important to them. This minimizes the concept of suppliers being just another "vendor selling wares" and reinforces the selection of suppliers as business partners, providing products and services specifically tailored to the district's needs.

Using scorecards to monitor and evaluate the performance of strategic suppliers is a very effective tool for improving the value contribution of current suppliers, detecting (and documenting) performance deficiencies that need corrective action, and improving the source selection process by collecting objective prior performance data.

Expanding Stakeholders' Involvement. Procurement organizations fail to provide the value they're capable of when they operate in a vacuum. A team-approach to sourcing is a strong and effective best practice. Not only does it not cost much, but it can generate a good deal of savings, both in time and money. Cross-functional collaboration is by far the most effective and efficient way to apply the knowledge, perspective, and needs of your stakeholders and subject matter experts in planning, specification development, and creation of standards essential to Procurement Strategic Planning and the sourcing process.

The more you involve your stakeholders, the more effective and strategic your department will be, not just from your vantage point, but from the view of those stakeholders as well. You will gain a good deal of credibility, as well as "buy in" and shared ownership in outcomes, by working with them in a more strategic way. Stakeholders tend to be much more receptive when efforts are aimed at better understanding how their money is being spent and how you are trying to help their budgets to be more productive.

Winning Over Senior Management. How does your district's executive council view the role of Procurement in the achievement of the district's strategic objectives? Do they see Procurement as a vital value-contributor to, and enabler of, district strategies? Or, do they perceive Procurement to be a thorny obstacle to streamlining strategic execution, constantly slowing progress by injecting time-consuming and "unnecessary" processes for source selection, contract development, and tedious policy compliance? It is important to educate this group about (a) the value-add you can make, (b) the realities of regulatory and statutory compliance and consequences possible for ignoring them, (c) the tangible benefit (streamlining) of "pay me a little attention now with early involvement" vs. "be frustrated a lot later when the plan has to be extended in order to incorporate compliance or, worse, has to be delayed in order to compensate/correct for compliance deficiencies." This is an excellent way to let the key decision makers know what you bring to the party and how they can be a part of the solution (instead of the problem) with minimal investment.

This can be most directly accomplished by giving Procurement "a seat at the table", meaning elevating the participatory value and status of Procurement to a member of the executive staff of the district. At the very least, you need to pursue this best practice by ensuring that your manager and his/her superior knows exactly what your department does and what value your activity can (and does) bring to the district. Never assume that they are up to speed on what you and your department are doing, even when you might be sending in monthly reports.

Summary. Working on best practices can improve your Procurement Department's productivity quickly and significantly. It can lead to a more enjoyable and fulfilling work environment. The cost in time can be repaid many times over by the strategic benefits you and your district can gain. The size of your Procurement Department should not hinder you from implementing and benefiting from a number of these best practices. Select the ones that fit your organization and district culture. The team approach is a productive way to develop and use the best practices, as they will benefit more than just your staff.

PROCUREMENT ORGANIZATION AND STAFFING

INTRODUCTION

Achieving high-level performance and organizational value from any department requires department members that have a combination of functional skills, knowledge, and expertise and department leadership that has strategic vision, cultural acuity, and moral fortitude. This is true for the Procurement Department. However, even if these elements are present, the potential for Procurement's contribution to the district's success cannot be fully realized without the inclusion of Procurement in the highest level of strategic planning and governance of the district.

This section's primary focus is the message of the last sentence above. If the competence of your procurement professionals matches the criteria described above or can be quickly developed to that level, all that remains is appropriately defining the position and role of the department within your district. If there are professional competency gaps that cannot be closed by development (particularly in the leadership position), start recruiting efforts.

ORGANIZATION AND STAFFING

Historically (currently, in many cases), Procurement has been tasked as a transactional activity reporting to lower-level functional managers, and frequently populated by personnel charged with purely clerical responsibilities ("push the paper"). Public procurement professionals have become increasingly sophisticated in their understanding and application of methods to achieve best value, balancing multiple factors regarding costs, quality, risk, and other values. To optimize procurement decisions and align them with district goals, public procurement professionals now look at the total cost of ownership and other strategic areas of public procurement. Consequently, the procurement practitioners of today must master an understanding of the practices and methodologies that achieve best value outcomes. This change has evolved a higher-level of public procurement professional, with executive-level education, training, and capability for serving the district's business needs. Public procurement officers are increasingly examining the overall strategic needs, rather than the strictly transactional needs, of the district. To be effective in this role, the Procurement organization of a district must be staffed, structured, and positioned within the district as enablers of the district's mission and vision.

Establish a Governing Procurement Council

A Governing Procurement Council's purpose is to provide direction and help align the procurement strategy with the district's overall strategy. The Council's membership should include the chief procurement officer, district executives, and other influential district leaders. Ideally, the Council should hold regularly scheduled meetings. Even if it does not, its mere existence will indicate that Procurement management has the endorsement and commitment of senior leadership.

A good Council can provide critical support to Procurement in the following areas:

- Providing constant, consistent validation that the procurement strategy directly correlates with and supports the district strategy

- Removing barriers to success that exist within the district so that Procurement is given the opportunity to perform up to its potential

- Providing an effective forum for cross-functional communication.

Put Contract Responsibility Under the Procurement Function

Procurement teams are often able to negotiate significant potential savings during the sourcing process, only to see those savings never fully realized. The reasons for this vary, but they often include a failure to communicate contract terms to the affected organizations and a failure to monitor contract compliance.

More districts are moving responsibility for contract management to the Procurement organization rather than leaving it in Legal, Operations, or other departments. This shift ensures that contracts are collected and maintained in a central repository, are easily retrievable for reference and review, are systematically and consistently drafted with legal and statutory/regulatory compliance, and are monitored for expiration and renewal, performance compliance and deliverables, payment performance, and insurance/certification renewals. Placing contract management in the Procurement organization also allows the Procurement leader to more effectively leverage the district spend, particularly in the area of services, where there is a great opportunity for cost reduction and risk mitigation.

Include the Chief Procurement Officer on the Executive Staff

The placement of Procurement should be operationally distinct from other departments and divisions within the district. Best practice is for the chief procurement officer (CPO) to hold a position at the chief-level, reporting to the district Superintendent or chief of staff, where the CPO's influence and usefulness to the district can be maximized. This provides horizontal separation from other departments, which ensures organizational checks and balances and reinforces the public trust. Regardless of the size or structure of the district, the CPO should be positioned to maximize working relationships with other departments, including Finance, Human Resources, Budget, Information Technology, Operations, Academics, and Legal. The professional expertise of the CPO is critical to the success of the district and is best leveraged when Procurement is involved in the development of the district's strategic plan.

Following are justifications for positioning the CPO at the executive level.

Alignment with District Goals

Procurement's inclusion on a district's leadership team ensures that procurement strategies are aligned with district goals. It also enables Procurement to proactively identify and capitalize on opportunities that improve operational and financial outcomes as a result of:

- Gaining cross-functional knowledge of the challenges facing each department and opportunities for effective collaboration and strategic planning

- Collaboratively developing procurement strategies that align with the strategic plan of the district

- Providing a strategic perspective and authority to execute the responsibilities of Procurement and contribute value to districtwide planning, budget resolution, and project execution

- Enabling Procurement to leverage strategic knowledge of the district to maximize efficiency and effectiveness through timely planning of cost-effective purchases and identification of opportunities (e.g., economics of scale, cooperative purchasing)

- Providing authority for Procurement to make decisions that can manage risks to the district.

Success of the District's Strategic Plan

The professional expertise of the CPO is critical to the success of the district and best leveraged when Procurement is involved in the development of the strategic plan of the district.

- Procurement expertise contributes practical knowledge of available options for achieving the goals of the strategic plan (e.g., timing, competition among suppliers, alternatives for achieving sustainable [Green] procurement, cooperative purchasing opportunities).

- Procurement knowledge of internal and external stakeholders helps in aligning the strategy of the district with end-user needs.

- Procurement expertise and influence serve to communicate and assist in the achievement of the strategic plan of the district.

Function and Agenda Distinct from other Departments

Historically, Procurement has most frequently been located within the Finance Department (i.e., the department that handles the budget and other financial aspects of the district). Although Procurement works jointly with Finance to ensure that funds and authority are in place for procurements, Procurement does not perform a finance function (i.e., the processing of funds to support a procurement). The functions of Procurement are strategic and operational, more akin to Human Resources, Information Technology, Legal, and other departments that work with the budget to achieve district goals. Like those departments, Procurement maintains relationships with internal and external stakeholders that are critical to the accomplishment of the district's goals.

- Although Procurement and Finance staff may receive comparable education in effective communication, critical thinking, and analysis, Procurement training is specific to the profession and includes sourcing, life-cycle costing, managing contracts, negotiating, developing specifications, supplier relationship management, Procurement management, and contract law. In contrast, Finance training focuses on budgeting, financing, and accounting procedures.

- The day-to-day operations of Procurement require:

  ▪ Interaction with internal and external stakeholders such as company executives governing boards, elected officials, citizens, and the supplier community

  ▪ Protection of the public trust

  ▪ Knowledge of codified processes.

- To achieve the dual role of interaction with internal and external stakeholders and protection of the public trust, Procurement must:

  ▪ Maximize working relationships with colleagues in other departments, including Finance, Human Resources, Budget, Information Technology, Operations, Academics, and Legal.

  ▪ Achieve separation of duties — The action of soliciting bids and proposals must be separate from the functions of Finance to invoice and process payments.

  ▪ Establish and maintain procurement procedures that support departmental goals and comply with laws and policies.

- Separation of duties is a key concept of internal controls for protection from fraud, errors, and other potential risks.

- Keeping the Finance and Procurement Departments separate and positioning Procurement with C-level authority help to ensure that there is no undue influence on the agenda of Procurement, which is to serve in the best interest of the district and the public.

Potential risks from Procurement reporting to Finance include:

- Authority of Finance to impose an agenda on Procurement

- Lack of checks and balances

- Loss of potential savings or revenue generating opportunities

- Reluctance to recognize Procurement best practices.

The Association of Certified Fraud Examiners' Fraud Risk Assessment and Generally Accepted Accounting Principles (GAAP) provide support for separation between the Procurement function and the Finance function.

Although this Paper advocates positioning Procurement at the executive table, each district needs to consider the unique current context of the district (e.g., skills, culture, etc.) and plan for success before making this change in organizational structure. Here are some possible steps to take:

- Assess the current professional, technical, and leadership skills of the Procurement staff. If there are gaps, fill them by internal development and/or recruitment. The leadership competency and technical expertise of the chief procurement officer and the Procurement Department must merit, and impart credibility to, the elevation to an executive position.

- Build internal support for Procurement (e.g., executive management, department heads, directors, elected officials).

  - Establish, build, and maintain a credible reputation within the district that Procurement is service-oriented towards clients and end users.

  - Increase awareness of Procurement education, expertise, professional certification, and experience in delivering best value.

- Focus on the business case. At the executive level, Procurement is positioned to:

  - Maximize return on investment

  - Approach procurement matters strategically

  - Leverage purchase volume

  - Effectively lead standardization efforts and streamlining of processes

  - Maximize the accountability and transparency of the procurement process.

Organization Within the Procurement Department

It can be difficult to organize the Procurement Department in a way that will maximize its effectiveness and bring commensurate benefits to the district. Some districts are best served by embedding proficient procurement professionals directly into decentralized or remote business units. For others, a centralized model is the more effective approach. Some districts have adopted a hybrid approach that combines a centralized strategy to gain consensus with decentralized execution to improve service.

Whatever structure is used, correctly staffing the Procurement organization is vital to success. Developing the management skills and knowledge of Procurement staff members is always a priority, of course, but top leadership focuses more on strategy and is less concerned about transactional ability. For Procurement leaders to be effective members on their district's management teams, they must have additional characteristics. Best practice is to develop (or hire) Procurement leaders who have strong communication and relationship management skills (both internally and externally), the ability to think strategically, and a focus on value creation.

The organization of Procurement within a district may depend on various factors, one of which is district size. In smaller districts, administrators and support staff wear many hats and the Procurement leader may also be responsible for several other major functional areas. In larger districts, greater staffing levels allow personnel to be more specialized and perform a specific function, such as Procurement. Assignment of roles may vary according to the number of people employed in Procurement, but typical assignments include:

- *A chief procurement officer (CPO), procurement director or purchasing agent* is primarily responsible for the effective operation of the Procurement system. Typically, he/she:

  - Manages the procurement of goods and services in a timely and cost-efficient manner

  - Approves purchase orders and service contracts, including competitive procurement specifications and tabulations

  - Is responsible for the development, modification, and implementation of Procurement Policies and Procedures

  - Resolves problems encountered within the procurement system

  - Establishes and monitors supplier performance and accountability

  - Provides the main district communication interface for suppliers and approves communication protocols between suppliers and schools/department

  - Ensures that district staff are aware of, and compliant with, relevant procurement statutes, regulations, and policies through formal and informal training programs

  - Stays current on purchasing statutes, regulations, and practices through professional development and networking.

- A *procurement supervisor* or *deputy procurement director* assists the CPO by:

  - Managing assigned activities within the Procurement Department

  - Preparing competitive procurement specifications

  - Evaluating competitive procurement tabulations

  - Maintaining the supplier database and bidder lists

  - Supervising the process of approving and issuing purchase orders

  - Evaluating the performance of suppliers

  - Training and assisting users

  - Supervising buyers.

- *Contract officers, contract agents* or *contract buyers* are responsible for the purchase of goods and services for the district following state and federal laws and local board policy. They may:

  - Write, review and modify specifications for competitive procurements

  - Facilitate the evaluation of competitive procurements

  - Identify and qualify sources of goods and services needed by the district

  - Maintain an updated supplier list from which purchases can be made

  - Obtain and verify supplier price quotes.

- *Buyers* are responsible for the purchase of goods and services for the district, following state and federal laws and local board policy. They may:

  - Write, review and modify specifications for competitive procurements

  - Assist in the evaluation of competitive procurements

  - Identify sources to obtain competitive prices and terms

  - Assist in maintaining an updated supplier list from which purchases can be made

  - Obtain and verify supplier price quotes.

- The *clerical support staff* performs the daily clerical activities within the Procurement department, including:

  - Preparing competitive procurement specifications, solicitation documents, and competitive procurement award notices

  - Assisting in competitive procurement tabulations

  - Distributing purchase orders to suppliers

  - Performing other miscellaneous clerical support tasks

  - Assisting users.

Best practice is to require a minimum of a bachelor's degree for all positions listed above except for the clerical support staff, and to require CPPO or CPPB certification (either at the time of hire/promotion, or by a fixed deadline thereafter) for the positions requiring undergraduate degrees (CPPO certification is an appropriate minimum requirement for the CPO and Supervisor positions). An additional best practice is to financially recognize and give incentives to employees for achieving certification.

POLICIES AND PROCEDURES

INTRODUCTION

The most appropriate combination and content of Policies and Procedures for any specific district is likely to be unique. Therefore, it is not the purpose of this Paper to provide a one-size-fits-all set of governance documents suitable for any district. Rather, it provides a listing and brief description of the generic policies that are best practice to include in any district's full set.

Good examples of individual policy content and language are available by simple internet search. If your state has a Procurement Code established by statute, it would be prudent to start there in constructing your own. Additionally, the content of this White Paper can provide some excellent material for scope and content of policies.

POLICIES AND PROCEDURES

A Policy is a governing set of principles that establish the general parameters for an organization to follow in carrying out its responsibilities.

Procurement is a complex set of functions guided by numerous federal, state, and local regulations, statutes, and ordinances. A comprehensive Procurement Policy Manual (or Procurement Code) referencing these applicable laws is critical to ensuring that Procurement, other departments, schools, and all other district stakeholders follow proper procedures and rules and have a clear and consistent understanding of the governing regulations. In the absence of such guidance, inconsistent compliance and arbitrary interpretation result in frustration within the district.

The overall purpose of a Procurement Policy Manual should be to:

- Establish the legal authority of Procurement within the organization

- Simplify, clarify, and reflect the laws governing Procurement

- Establish uniform Procurement Policies throughout the organization

- Build public confidence in public procurement

- Ensure the fair and equitable treatment of everyone who deals with the procurement system

- Provide for increased efficiency, economy, and flexibility in public procurement activities and fully maximize the purchasing power of the district

- Foster effective broad-based competition from all segments of the supplier community

- Safeguard the integrity of the procurement system and protect against corruption, waste, fraud, and abuse

- Ensure appropriate public access to contracting and purchase information

- Foster compliance with legal requirements (e.g., equal employment opportunities, etc.) in the policies and practices of suppliers and subcontractors wishing to do business with the district.

Procurement management policies and procedures should follow an appropriate sequence and structure, and it is important to review them frequently (if not constantly) and bring them up to date. Keeping them realistic and easy to understand and follow will help to ensure compliance. Here are some examples of general areas to cover in the Manual.

- Definitions

    - Clearly define the terms used in the policy

    - Clearly define criteria for any procurement decision that may be unclear without further explanation (e.g., description of a responsive and responsible bidder)

- Applicable laws and regulations (citations)

- Authority, organization, roles, and responsibilities of the central Procurement Office

    - Authorities, roles, and responsibilities of personnel

    - Reporting and oversight requirements

    - Technical and professional qualifications for management and professional staff

    - Orientation and training requirements for new employees, and those that will be involved in the procurement process

    - Certification and educational requirements of professional staff.

- Authority of the chief procurement officer

    - Appointment and qualifications of the chief procurement officer

    - Tenure, removal, and compensation of the chief procurement officer

    - Authorities, roles, and responsibilities of the chief procurement officer

- Governing Procurement Council

- Ethics

    - Conflicts of interest

    - Gratuities and kickbacks

    - Contingent fees

    - Misuse of confidential information

    - Process for disciplining district employees who violate the Procurement policies or code of ethics

- Requisitioning

- Approvals (including School Board)

- Purchasing

- Purchases with federal funds

- Small purchase procedures

- Emergency purchases

- Sole source purchases (see Supplemental section below)

- "Pilot" program procurement

- E-Procurement

- P-cards

- Specifications

    - Development of specifications to ensure maximum competition

    - Monitoring of specifications to ensure that they are not overly restrictive

    - Use of appropriate specification type (design, performance) and description (functional, brand name, brand name or equal)

- Solicitations

    - Competitive sealed bidding

    - Competitive sealed proposals

    - Reverse Auctions

    - Competitive selection procedures for designated types of services.

- Contracts

- Joint or cooperative procurement, cooperative contracts, piggyback contracts

- Travel and reimbursement

- School activity funds

- Construction

- Charter schools

- Protests

- Surplus disposition

- Insurance/bonds

- Public records requests

- Debarment/suspension

- Social responsibility

    - Small, minority-owned, women-owned, and other disadvantaged or diversity business enterprises (as permitted by policy or law)

    - Local business preference

    - Sustainable procurement program (e.g., Green purchasing)

It is possible to go too far in establishing policies and procedures. That is why best practices include periodic review of policies and controls to ensure that they reflect regulatory changes, and technology advances and are not creating bottlenecks. The objective is to streamline procurement without sacrificing the controls that deter theft, fraud, and other problems.

Supplement: *Sole Source Procurement*

Noncompetitive sole source procurement is a sensitive topic in the public sector. While competition is the preferred basis for awarding a purchase or contract, sole source procurement is not categorically a bad thing and may be the appropriate method under certain circumstances. The sensitivity on this subject arises from users' tendency to default to a sole source declaration for expediency in obtaining goods/services, rather than defer to the procurement professional's commitment to legal compliance (competitive award) and good stewardship of public funds.

What is sole source procurement?

While there is no one, common definition used by all states, the term "sole source" can be generally defined as any purchase/contract entered into without a competitive process, based on a justification that only one known source exists to fulfill the requirements. Although federal regulations and state statutes generally do not permit non-competitive procurements, exceptions are allowed where competition is not feasible. Examples of acceptable exceptions from the competitive procurement process *may* include these situations:

- Only one known source exists for supplies or services as determined by documented research.

- No other reasonable alternative source exists that meets the district requirements (specification that is functionally and technically detailed, and not unnecessarily restrictive).

- Only one source meets the business needs of the district (e.g., infrastructure compatibility, unique feature to meet district's business need).

- Procurement of public utility services (where the service provider is locally mandated).

What is <u>not</u> sole source procurement?

- A district requirement for a particular proprietary product or service does not automatically justify a sole source procurement if there is more than one potential bidder or offeror for that item <u>or its equivalent</u>.

- A particular brand name preference does not justify a sole source procurement.

- A product's or service's "uniqueness" alone may not qualify the producer or supplier as a sole source, particularly if the "unique" feature is not one essential to the district's operation.

- An emergency condition does not, by definition, create a sole source justification. Federal regulations and most state and local laws require a competitive process, modified as necessary based on time available, for award of an emergency purchase.

What are acceptable considerations for sole source procurements?

District reasons for sole sources vary greatly but should fall within one of the following areas:

- Only one known source can meet the district's needs (e.g., due to timing, capacity needs). Lack of proper planning or delaying the purchase request do not survive this test.

- Unique requirement (commodity/service is unique/special in nature).

- Compatibility needs (e.g., with existing equipment or technology).

- Limited or proprietary systems (i.e., additional licenses, updates, specialized replacement parts, etc.).

- A professional expert is requested.

- Sales channel is dictated by geographic or industry boundaries (e.g., exclusive distributorship).

What are best practices for handling requests for sole source procurements?

- Provide a standard template for a written justification. The justification may require the requestor to provide information such as:

  - a description of the unique features that prohibit competition;

  - documented research conducted to verify the supplier as the only known source;

  - a description of the marketplace, including distributors, dealers, resellers, etc.;

  - known compatibility issues; and/or

  - timing/capacity issues.

- Centralize review and approval of all sole source requests.

- Publish all sole source requests for public notice.

  - Posting allows potential suppliers to view and indicate interest in bidding on the proposed sole source procurement, in which case a competitive process could be used.

  - Some districts allow for a protest process related to sole source procurements. Documentation provided by the challenging supplier is reviewed, and the protest can be sustained if the intended supplier for the sole source is indeed not the only supplier who can provide the service or commodity. A sustained protest negates the sole source request and a competitive procurement method must be used.

How can my district maximize the use of competitive procurement?

- Ensure that timely market research and acquisition planning processes are in place. This requires collaboration between Procurement and the requesting department to clearly identify needs far enough in advance of the procurement to allow time for market research.

- Include a requirement to post a notice of intent to sole source in your policies. For most districts, the notice is placed on the district website and/or email notifications are used through the district's e-Procurement or ERP system.

- Maintain a record listing all sole source purchases and contracts.

- Publish your record of sole source purchases and contracts, and/or submit a copy to your governing board or legislative body.

How can my district mitigate the risk of using sole source procurements?

- Limit the term of a sole source contract. Some districts issue a short-term (e.g., one year) contract for sole source procurements, after which a determination is made as to whether (a) a longer-term sole source contract is warranted, (b) competition is available, or (c) requirements have changed before the department provides a new justification.

- Educate departments about ending any unnecessary reliance on noncompetitive contracts.

ETHICS

INTRODUCTION

Policy and procedural guidelines on ethics are intended to protect the district not only from the social and legal consequences from outright "bad" behavior by employees, but also from actions that might be interpreted as "bad" if disclosed to the public. The traditional justification for having ethics standards is, "How would it appear if your actions were displayed on the 5 o'clock news?"

A natural reaction to restrictions imposed by an Ethics Policy is to the effect that, "this action has no effect on my ability to perform my job, treat people fairly, and be impartial in my business decisions." Best practice in setting ethics standards is to make them stringent enough for any action that is compliant with those standards to pass the scrutiny of public exposure at any level. This avoids the need for distracting "damage control" after a disclosure or for a judgement call to be made by the business' Ethics Officer prior to every contemplated action.

ETHICS

Ethics are the principles which define behavior as right, good, and appropriate.

The magnitude ($) of the transactions in the procurement process, along with pressures to lower costs, can provide a temptation for bribery, corruption, and other unethical practices. In the public sector, where goods and services are funded by taxpayers, it is imperative that procurement should operate ethically, with impartiality, transparency, and professionalism.

Public procurement professionals and stakeholders must adhere to a well-defined and established code of ethics. Ethical procurement prevents breach of the public's trust by deterring public employees from attempting to realize personal gain through conduct inconsistent with the proper discharge of their duties. The district should have a code of ethics and require all district employees to uphold the code.

Best practice is to establish a formal district Ethics Policy that clearly defines acceptable and unacceptable actions and activities, identifies a single central resource available to all employees for guidance on ethics questions and incidents, conducts ethics training for all employees at least once a year and requires annual signed affidavits of disclosure from all Board members, executive staff, and other key staff members regarding gifts and conflicts of interest.

Ethics in business dealings is expected not only of all employees, but also of suppliers doing business with the district. In that regard, it is also a best practice to have a formal, published, and posted Supplier Code of Ethics and to collect affidavits affirming observation of the Code from all suppliers performing work for, or responding to solicitations from, the district.

Conflict of Interest

District procurement personnel, as well as anyone else in the district who can direct or influence in any way the selection of suppliers or the award of contracts, must follow these practices:

- Avoid any private or professional activity that would create a conflict of interest or the appearance of impropriety.

- Avoid engaging in personal business with any supplier representative or similar person.

- Avoid lending money to or borrowing money from any supplier.

- Avoid all potential for nepotism.

- Observe and enforce traditional "separation of duties" principles in the organization structure and responsibility assignment.

- Safeguard the procurement process from political or other outside influence.

Conduct with Suppliers

Business dealings with suppliers must be fair and transparent. The district, and its employees, must follow these practices:

- Refrain from showing favoritism to, or being influenced by, suppliers through the acceptance of gifts, gratuities, loans, or favors.

- Safeguard supplier confidentiality to the extent permitted by law.

- Refrain from requiring suppliers to pay a fee to be included on an approved or preferred supplier list.

- Refrain from requesting suppliers to donate goods or services to the district.

- Select suppliers based on appropriate and fair selection criteria.

- Discourage the arbitrary or unfair use of purchasing leverage or influence when dealing with suppliers.

- Treat all suppliers fairly and equally.

Corruption

The district should not tolerate bribery or corruption in any form. Forms of corruption include, but are not limited to:

- *Bribery:* The offering, promising, giving, authorizing or accepting of any undue financial or other advantage, by or for any persons associated with the procurement process, or for anyone else to obtain or retain a business or other improper advantage. Bribery may include (a) kickbacks to government officials, Board members, or employees, their close relatives, friends, or business partners or (b) using intermediaries such as agents, subcontractors, consultants, or other third parties, to channel payments to any of the aforementioned parties.

- *Extortion or Solicitation:* The demanding of a bribe or other action favoring an individual/entity, whether coupled with a threat if the demand is refused.

- *Trading in Influence:* The offering or solicitation of an undue advantage to exert an improper real or apparent influence.

- *Laundering:* The concealing or disguising of the illegitimate origin, source, location, disposition, movement or ownership of property and/or money, knowing that such is the proceeds of crime.

- *Nepotism:* The use of authority or influence to show favoritism to relatives or friends without merit.

Any district employee who becomes aware of corrupt activity in the district has a duty to the general public and district to alert senior management and/or elected officials of the situation/event. The form and avenue for such notification should be clearly defined in the district's Ethics Policy and may be further enhanced or mandated by state statutes and/or federal regulations, as applicable.

Gifts and Hospitality

The offer and receipt of business gifts and entertainment are sensitive areas for districts. There should be a clear district policy to govern the acceptance of business gifts, consistent with other policies and prevailing laws. Minimal guidelines should include these:

- Do not solicit or accept money, loans, credits, or prejudicial discounts, gifts, entertainment, favors, or services from present or potential suppliers that might influence or appear to influence a procurement decision/ process; and

- Avoid meals or other hospitality from or with suppliers.

Best practice policies address the issue of gifts and hospitality by strict prohibition, regardless of the magnitude of the gift, meal, etc., to remove all doubt, ambiguity, and temptation. Typical policies address this subject, but provide less restrictive and subjective guidance (e.g., acceptable to receive gifts of "nominal" value), which still leaves the district vulnerable to at least the appearance of impropriety or undue influence.

Other Policies and Considerations

Best practice is to define and embed ethical considerations in other policies, procedures, and practices, such as those governing

- competition and anti-competitive practices;

- supplier diversity;

- social responsibility (SR);

- sustainability;

- anti-discrimination;

- risk management; and

- transparency.

Ensuring Compliance

Ensuring compliance, focusing on high risk areas, understanding suppliers' operations, and offering guidance and support when improvement is necessary or appropriate can and should ensure that the strategic and operational risks associated with unethical practices are minimized.

Districts need to focus on ensuring compliance with their Code of Ethics and the policies that it touches upon. This should be done in parallel with the development of monitoring procedures. If your district has not previously had a Code of Ethics, or you are significantly tightening previously vague or loose standards, you are initiating a cultural change in the district. These changes it will take time to become fully embedded; they might need to be introduced in phases with priority given to areas associated with ethical issues that pose greater risk to the organization.

STRATEGIC PLANNING

INTRODUCTION

Just about anyone who has worked in a management position at a large private or public enterprise has sooner or later been exposed to seminars, workshops, or books that define ideal time management as a blend of strategic and tactical thinking and actions. This Paper does not provide a "silver bullet" for finding time to devote to critically important strategic planning; it does deal with how to develop a strategic plan and what needs to be addressed in it.

The importance of strategic planning can be put in perspective by the simple phrase, "If you don't know where you are going, you won't get there." As you read this Paper, consider that either you can define where you (your department) are going, or someone else will. Which would you prefer?

STRATEGIC PLANNING

Strategic Planning is the documented process of creating alignment and consistency of action to establish the long-range objectives and overall strategy or course of action by which a district fulfills its mission.

Strategic Procurement Planning (SP2) is the transformation of a district's mission, goals, and objectives into measurable activities that will be used to plan, budget, and manage the procurement function within the district.

The strategic planning process for Procurement is divided into two parts. The first part is developing the strategic plan to align goals, programs, activities, and resources with the mission of the district. The second part allows Procurement to determine how it is going to accomplish the elements of the strategic plan. Ultimately, the goal of strategic procurement planning is to improve district culture, systems, and operational processes.

Best practice is for the Procurement Department to create and maintain a strategic plan and have that plan ratified by the Executive Committee and the Board.

Developing a Strategic Plan

All successful projects or endeavors begin with some type of strategic plan. Creating mission and vision statements for your department is a first step and will let stakeholders, such as your staff, customers, suppliers, and senior management, know who you are and what you plan to be in the near future.

An important task in the planning process is to perform some type of SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis. By truly knowing the initial pluses and minuses of your department, you can then focus on optimizing the strengths and opportunities, while minimizing the weaknesses and threats.

Discuss and share your strategic plan with your stakeholders. It will give both you and them a better insight into your role within your district.

Mission Statement: The plan should begin with a mission statement, which should be

- specific to the Procurement Department's purpose and role within the district; and

- a short statement of the reasons for the existence of the Procurement Department, reflecting the values of public procurement.

Vision Statement: This should

- identify where the Procurement Department wants to be in the future; and

- develop possible improvement paths that may be linked to the goals.

Values: These are core attributes held by the Procurement Department to exemplify its identity. Here are some examples:

- Problem solving

- Transparent

- Empathetic

- Adaptable

- Accountable

- Integrity

- Respect

- Innovation

Set Goals: The plan should have clearly defined goals. The goals for Procurement will vary based on external and internal factors and will change over time, thereby requiring constant monitoring, review, and revision as needed. At a minimum, goals should be

- aligned with the goals of the district;

- prioritized and aligned with the Procurement Department's vision, mission, and values;

- expressed in a communication medium (i.e., written or electronic) that is available to applicable stakeholders;

- whenever possible, expressed to include a quantifiable result;

- prioritized and aligned to meet the expressed needs of the community and key stakeholders;

- designed proactively with the involvement of all stakeholders;

- referenced when making resource allocation decisions; and

- specific enough to define the desired outcome, avoiding ambiguous language, so that the goal is easily and clearly communicated, and makes sense to those inside and outside the Procurement Department.

Establish Objectives: Once goals are prioritized, clear objectives should be established to aid in the attainment of each goal, considering all external and internal factors. Objectives should

- result in the attainment of the goal upon completion;

- be assigned to an individual or group for action;

- have clearly defined time frames for accomplishment;

- be measurable, preferably objectively, using easily obtained and unambiguous data and metrics;

- be tracked to monitor progress (best practice is monthly, to identify, justify, and support course correcting/recovery actions);

- be specific;

- be relevant; and

- be ambitious but achievable.

Identify Process Improvements. We are all sometimes too busy to see ways of improving how we do business. Here are some effective ways to identify potential process enhancements:

- Supplier councils

- Customer councils

- Networking with other Procurement organizations

- Benchmarking best practices of other districts through national organizations such as the Council of the Great City Schools (CGCS), The Institute for Public Procurement (NIGP), the Association of School Business Officials (ASBO), etc., and their regional/state/local affiliates

- Brainstorming

- Staff meetings

Creating supplier and customer councils is an excellent way to encourage feedback on how your department is doing today and to solicit ideas on how to improve procedures, processes, and systems.

Establish a Dynamic Savings Program. A frequent deterrent to adopting and executing a vigorous savings program in the public sector is the reality that reducing costs does not typically result in reducing spending or the annual budget (the number of items/services purchased will simply be increased to consume the existing budget). However, school districts spend taxpayers' money, so it is incumbent upon them to get the best value for the dollars spent.

Focus on total cost of ownership (TCO), not price. Shift the focus away from looking only at the purchase price, and expand it to understand the total cost of owning, using, and disposing of a product or service. Total Cost of Ownership mentality involves the team's understanding that the true cost of any product or service consists of:

> acquisition cost + operating cost + maintenance cost + training cost + warehousing cost, less any salvageable value

Price is important, but not as important as understanding Total Cost of Ownership. Cheaper is not always better—the evaluation scoring rubric should consider Total Cost and not just the lowest unit price. Consider that acquisition costs typically account for only 25 to 40 percent of the total cost of most products and services.

Identifying the Total Cost of Ownership requires looking at the entire process of procuring and consuming the product or service, something that can only happen with cooperation and input from both the buyer and the seller. Best-in-class organizations do not stop there, however. They also ask suppliers and internal stakeholders the following important question: "How can we work together to reduce the Total Cost of Ownership?"

All savings identification and reporting methods need to be re-evaluated every so often. When doing so, bring in some partners, such as Finance or your key customers.

Use a spend analysis to help in forecasting not only potential current savings, but additional savings in new areas as well. Achieving savings is an excellent way of demonstrating to senior management the capability of your Procurement Department. If you have been successful in achieving, savings in your traditional areas of involvement, the spend analysis can highlight new products, services, customers, etc., that can benefit from your staff's teaming with others to gain additional savings.

A strong savings program solidifies your unit's importance to the objectives of your district and provides a springboard to new strategic opportunities.

Implement Supplier Scorecards. This best practice can be achieved in several ways, such as use with solicitations (RFPs, etc.), as well as in the periodic evaluation of key suppliers.

Developing scorecards in conjunction with solicitations need not be a complicated process. In determining the factors and weights to be used in selecting a supplier, strategic internal customers should provide input and participate in making decisions. That minimizes the perception of suppliers being "Procurement's suppliers" and reinforces the sense that suppliers are indeed "district suppliers."

Over the years, using scorecards to evaluate the periodic (e.g., annual) performance of strategic suppliers has been a very effective tool for improving the productivity of Procurement Departments. A scorecard not only gives suppliers a quantitative measurement of how they are faring in support of your operations, but it also opens a dialogue for possibly creating long-term partnerships. This best practice is applicable to any size Procurement Department.

Expand Stakeholders' Involvement. Before you can increase the role your stakeholders play in procurement, you need to first identify who your stakeholders are. Here are some suggestions:

- Your staff

- Your customers

- Suppliers

- Support departments and personnel, such as Legal, Finance, IT, Maintenance, etc.

- Senior management

Procurement Departments fail when they operate in a vacuum. A team approach to sourcing is a strong and effective best practice. Not only does it not cost much, but it can generate a good deal of additional savings and avoid wasted steps and money.

The more you involve your stakeholders, the more effective, strategic, and credible your department will become in the eyes of the stakeholders. Here are some ways of broadening your interaction with your stakeholders.

- Supplier councils

- Customer councils

- Procurement planning sessions

- Customer and support departments' planning sessions

- Business sessions/luncheons with individual customer departments

Stakeholders are very receptive to better understanding how their money is being spent if you are trying to help their budgets to be more productive.

Win over Senior Management. Why is winning over senior management a best practice? It is an excellent way of letting the key decision makers in your district know that there is a dynamic entity within that has achieved some great district results.

What perception does your manager's manager have of you and your department? How does your district's Board or Executive Council view the role your department plays in the achievement of district objectives?

You need to start this best practice by ensuring that your manager and, perhaps, his/her manager knows what exactly it is that your department does. Never assume that they are up to speed on what you are doing, even when you might be sending in monthly reports. Show-and-tell demonstrations work just as well in the professional world as they do in elementary school! Invite senior management to your Procurement planning sessions, and include them at customer and supplier councils.

Procurement must understand its purpose in relation to the district and constituency that it serves. The purpose should be clearly stated, in written format, through the development of a mission, vision, and values statement.

Procurement should then develop a strategic plan that aligns goals and objectives in accordance with the mission, vision, and values, while fulfilling the obligation to meet the needs of the district and the public. The plan should be reviewed and/or updated annually.

SOCIAL RESPONSIBILITY

INTRODUCTION

Social Responsibility is the acceptance that more is required/expected of a school district, as a contribution to the well-being of society, than simply providing an education to our children. This Section of the White Paper discusses several of the areas of social responsibility that traditionally get addressed strategically as separate subjects, but in reality are all part of a district's commitment to advance and improve the social and physical environment within which it resides.

SOCIAL RESPONSIBILITY

Buyers and consumers are increasingly taking social responsibility into consideration when making purchases. It is playing an increasingly significant role in best-in-class districts' decisions, not just when it comes to Procurement but also regarding risk evaluation. A district that does not have a meaningful social responsibility program risks criticism from employees, parents, and taxpayers.

What Is Social Responsibility (SR)?

Social Responsibility consists of a framework of measurable policies and procedures that result in behavior designed to benefit the workplace, the individual, the district, the community, and the environment. It is not merely a marketing challenge; it is a management planning and performance challenge.

Principles of Social Responsibility are:

- Economic responsibility (to produce an acceptable return on investment)

- Legal responsibility (to act within the legal framework)

- Ethical responsibility (to do no harm to its stakeholders and operating environment)

- Philanthropic responsibility (proactive, strategic behaviors that can benefit the district or society or both).

Stakeholders are more positive when they see SR as being values driven and strategic. They think badly if the district's efforts are attributed to egotism or as merely accommodating.

At least four realities are ever present in management discussions and strategic planning regarding social responsibility:

- Every district operates in a multiple stakeholder arena where each stakeholder is likely to hold different expectations of how the district should operate.

- No absolute standards of social responsibility exist - they are re-defined (socially constructed) by each generation.

- How discussion takes place within a district (e.g., defensive response to issues) accounts substantially for its positive or negative impact on helping management to be reflective.

- Calls for operating in the public interest or the community interest often require profoundly complicated analysis to identify and accommodate the interlocking set of multidimensional determinants of the "interest" (the devil is in the details).

Why Is a Social Responsibility Program Important?

SR is important to a district's success for two primary reasons: (1) to enhance its reputation of moral integrity and (2) to advance its credibility and character in public policy battles and during the early stages of a crisis.

To address SR in a programmatic fashion, it is important to understand and manage the financial impact to the district. A well-conceived and managed SR program should result in both direct and indirect cost savings for the district.

How to Implement SR

How districts implement SR depends on how they define it: as a moral obligation, or as a rational approach to stakeholder satisfaction. It serves best when it is part of the districts' culture, planning, and management. It has implications for budgeting, return on investment, and measures of effectiveness.

Mutually beneficial SR standards exhibit the following characteristics:

- Openness and transparency: Letting others see whether the district has sound SR principles and whether it meets them.

- Trustworthiness: Demonstrating that the district uses SR principles seen as reliable, non-exploitative, and dependable.

- Cooperation: Collaborating on making decisions regarding what standards should be met and the measures needed to achieve them.

- Alignment: Showing that the district is responsible, responsive, and able to achieve moral integrity through shared interests, rewards, and goals with its stakeholders.

- Compatibility of views/opinions: Co-creating (socially constructing) through dialogue the standards and implementation of SR.

- Commitment: Planning and operating in ways that achieve a balance between the interests of the district and those of the persons whom the district affects and whose support the district needs for its success.

Plan of Action: SR implementation requires a comprehensive approach:

- Cognitive: Matters of identity and legitimacy that define what and how the district thinks. SR requires every discipline in a district to understand how the district can improve, how that improvement enhances stakeholder relationships, and how it can be communicated.

- Linguistic: Matters of justification, positioning, and transparency that define what the district says. Human experience can never free itself from the terminology that filters views of physical and social realities (including standards of social responsibility).

- Conative: Matters of posture, consistency, and commitment that define how the district behaves. Best practice districts believe transparency includes publicly stating their SR goals and then reporting how well they meet those goals.

Implementable Strategies and Tactics

However hard a district strives to meet high SR standards, that effort can be squandered if targeted stakeholders do not know of the district's accomplishments and commitment to SR. Reputation, crisis response, relationship development, and other benefits depend on how well the district can communicate its SR performance.

- Short-Term Strategies:

  - *Top Down Commitment:* The integration of SR into a district's operational culture should start with top management, preferably the Superintendent, who should collaboratively establish an effective policy and institutionalize it within the district—and use those standards for the assessment of individual, unit, and district effectiveness.

  - *SR Framework:* SR should be at the same executive level as other key governance issues. To gain visibility and sponsorship, ideally a Social Responsibility Officer position should be filled by a district executive and backed by the Superintendent.

  - *SR Position Statement:* This statement should involve the perspectives of key stakeholders and contain a conflict resolution process that seeks mutually beneficial solutions. It should also provide practical guidance by reinforcing the importance of SR through rewards and sanctions and by specifying how SR is to be implemented on a day-to-day basis.

  - *SR Audit:* An SR audit with published results will provide further awareness among internal and external stakeholders.

  - *SR Annual Report:* This report should incorporate triple bottom line thinking: financial, environmental, and social performance. The report could be included as an Appendix in the district's Comprehensive Annual Financial Report (CAFR) and should

    o be written from the perspective of the demand (stakeholders);

    o focus on management systems and not list too many detailed indicators;

    o not consist of more than 50 pages and should be complemented by the internet and special publications;

    o reveal its key messages within, at most, 30-minutes' reading time; and

    o be written in a businesslike fashion and sparsely illustrated.

    Financial stakeholders (e.g., taxpayers) appreciate the district's ability to reduce/contain costs in ways that demonstrate preferred standards of responsibility. Districts can tout the reduction in materials used, improved processes to lessen environmental impact, lowered accident rates, and other practices that mark financial and ethical improvements.

    Establish online reports of the district's SR standards and accomplishments, available by link on the home page of the district website. It is wise, as well, to continually report on progress and be willing to confront unsupported or biased claims to the contrary.

  - Employee Communication: Another means of communicating social responsibility lies in the array of messages, including executive statements and the intranet, used to reach employees.

  - Awareness Creation: Rewards and measures are key in creating a district culture that is sensitive to SR. Many articles report that key stakeholders are less aware of SR performance than the sponsoring district would prefer.

- Medium to Long-Term Strategies:

    - Stakeholder Involvement: Lack of awareness about a district's obligations to its stakeholders can produce a legitimacy gap. Therefore, stakeholders' engagement is more likely to lead to informed management thinking and decision making.

    - Corporate Governance: Transparency and accountability are the key words.

    - Manage the Message: Strategic SR requires that stakeholder expectations be met in reality (facts) and that excessive self-promotion should be avoided.

    - Measure Social Performance: Develop appropriate metrics - essential benchmarks for measuring social and environmental performance and goal setting.

    - Communicate Strategy Guidelines: Frame strategies for communicating about social responsibility, adhering to these guidelines: (a) Be realistic and do not promise what the district cannot deliver, (b) encourage districtwide input into the standards and the best means of accomplishing them (as well as the stumbling blocks), (c) allow diversity, (d) allow whistle-blowing, (e) provide ethics training, (f) recognize the ambiguity that is inherent in ethical standards and their implementation, and (g) integrate ethical decision making into employee and operating unit appraisal.

SUSTAINABILITY OR ENVIRONMENTALLY PREFERABLE ("GREEN")

Districts on the leading edge are responding to the global trends of accelerating expansion in business and population infrastructure with a new business paradigm that makes sustainability a performance linchpin for future existence.

Environmental, social, and governance issues must be seamlessly integrated into strategic planning and investment decision-making. District practices must reflect an understanding that they are dependent upon goods provided by nature, and that nature's limits and finite resources must be fully valued and managed for prosperity.

The Stakeholder Perspective

Investors

Local communities are now asking districts to detail and quantify sustainability risks and opportunities in their financial reporting. As the district's financial sponsors, they look to sustainability performance as an indicator of strong management, strong governance, and long-term thinking and planning.

Business Partners and Suppliers

Districts should expect their suppliers to adopt and follow the same standards that they do for integrating sustainability into their business. Business-to-business relationships increasingly incorporate sustainability standards and criteria, reflected in solicitations (RFPs) and procurement guidelines.

Employees

Current employees and talented job candidates seek work that is meaningful and demonstrate value to society. They seek out employers that have a clear vision of their contribution to a sustainable global economy, and, once inside, seek to influence that sustainability and drive improvements through their specific responsibilities.

Getting Started

Districts start by

- assessing the district's baseline environmental and social performance;

- analyzing district management and accountability structures and systems; and

- conducting a "materiality analysis" of risks and opportunities.

A district can then formulate its own route to sustainability, which will vary according to district culture and stakeholder influence.

Performance Operations

Districts should invest the necessary resources to achieve environmental neutrality and to demonstrate respect for human rights in their operations.

Energy Efficiency

- Assess Energy Use and Set Goals: A key first step in lowering a district's carbon-footprint is lowering energy use. Districts can begin this process with a systematic inventory of energy use in operations, after which the district can set absolute reduction targets and phased interim goals.

- Generate or Procure Renewable Energy: To reach the greenhouse gas reduction goal, districts will need to set specific targets for the procurement of renewable forms of energy generation (wind, solar, etc.) that have little or no carbon footprint. To overcome market capacity constraints, districts may find it advantageous to invest in projects on site or to promote local investment in cost-effective generation capacity.

Facilities and Buildings

- Assess, Analyze, Set Goals: Begin by conducting comprehensive audits to ascertain a baseline measurement of current resource use, efficiency, waste, and employee health and safety considerations in your buildings and facilities. Several guidelines exist to support this assessment, such as BREEAM and LEED, the rating systems developed respectively by the research agency BRE in the UK and by the U.S. Green Building Council.

  This analysis will inform and help prioritize strategic planning and capital allocation decisions regarding building retrofit projects, new technology investment, and the siting and construction of new facilities.

- Water Management: The nature and extent of district impacts on, and risks relating to, fresh water scarcity will differ by geographic region. Even so, in an environment where increasing numbers of people suffer from limited water availability, districts will face growing pressure to manage those impacts.

  - Assess, Analyze, Set Goals: As with energy efficiency, a comprehensive water audit will help districts identify "low-hanging fruit" opportunities to reduce water withdrawals, consumption, and discharges across their operations.

  - Reuse and Recycle: To improve efficiencies and decrease stress on freshwater sources, districts should find innovative ways to recycle or to reuse water across their operations.

- Eliminate Waste: Districts should design (or redesign, as appropriate) business processes such as closed-loop systems to reduce toxic air emissions and hazardous and non-hazardous waste to zero.

- Close the Loop: Undertake life-cycle assessments (LCAs), a process for evaluating current or new materials, inputs, and processes to continuously improve the efficiency of resource use. This can help districts move to lower impact and zero waste processes. Whenever LCAs show that key resources are at risk or are particularly scarce or harmful to the environment or human health, a district can work to find suitable substitutes. Districts usually start this process with one facility and then build from this experience to apply these concepts more broadly.

- Turn Waste into Wealth: Districts should identify new ways to use what has traditionally been considered waste. Think in terms of industrial ecology – the outputs of one industry are the inputs of another, thus reducing use of raw materials and pollution, as well as saving on waste treatment.

Procurement

For many districts, the largest opportunity for improving sustainability performance is in its supply chain. Districts should require their suppliers to meet the same environmental and social standards that the district has established for itself. By managing supplier engagement in a way that achieves the highest social and environmental standards, a district can achieve performance goals while creating a ripple effect that raises standards deep within the supply chain.

Sustainable supply chain performance begins with establishing supplier policies and endorsing industry codes or practices containing explicit references to social and environmental standards. These policies, codes and standards can only be realized when they are integrated into the solicitation processes, supplier selection criteria, procurement practices, and ongoing supplier engagement.

- Craft a Supply Chain Policy: Procurement policies should align with overall district environmental and social policies and standards and should address priority issues relevant to the industry, supplier base, geographic areas of operation, and stakeholder concerns.

  These policies should be put into effect through a supplier code of conduct, which mirrors the standards applied to the district's direct operations.

- Communicate Standards Clearly and Appropriately: Districts have the obligation to ensure that social and environmental standards are clearly explained and understood by workers and contractors. This practice should extend throughout the supply chain.

- Align Sourcing Practices: Procurement managers need to systematically integrate sustainability considerations into day-to-day procurement and contracting practices, alongside quality and cost concerns. In every procurement decision, districts need to meet baseline environmental and human rights standards before factoring in cost and quality concerns.

- Incentives and Rewards: In addition to rewarding suppliers for innovation, quality, and speed of delivery, a district can favor those suppliers that are operating to fair labor standards and meeting environmental performance targets. It can provide incentives to encourage workers across the supply chain to identify the best sustainability practices that can be replicated in other factories.

- RFP Process: The RFP processes should be enhanced to include supplier self-assessments, and the evaluation criteria should be expanded to cover the supplier's ability to deliver on social and environmental performance requirements.

- Engaging Suppliers: Districts should ensure that at least 75 percent of the district's Tier 1 and Tier 2 suppliers meet the district's standards for sustainability performance and should disclose a list of those suppliers and their sustainability performance.

  Suppliers should be required to set and disclose sustainability goals and to measure and collect data on their social and environmental performance using standardized indicators and measurement protocols. Data should cover noncompliance incidents, actions taken to remedy those incidents, and measures taken to contribute to the long-term prevention or mitigation of specific concerns.

- Communication is Key: To achieve improved performance, districts cannot simply enforce standards but must commit to communication, training and capacity development. Suppliers, in turn, must also commit to achieving the standards, to seeking continual improvement, and to disseminating these standards throughout their own supply chain.

  The monitoring and verification of compliance with supply chain sustainability standards remains a crucial strand of the communication loop. Districts should ensure that their suppliers have established effective mechanisms for capturing worker feedback; that their employees have access to independent, fair, and confidential grievance mechanisms for raising human rights and environmental concerns; and that there is protection for whistleblowers.

- Address Priority Issues: Strategies and implementation plans should be weighted according to the issues posing the greatest challenges across the supply chain, recognizing regional vulnerabilities, the scarcity of resources, and other prioritized constraints. Energy efficiency may be the guiding concern of one district, while water scarcity may be the challenge in another district. Supply chain planning and procurement processes should also take into consideration how to maximize local economic development opportunities, and mitigate known social and environmental risks.

- Make Monitoring Meaningful: In order to be productive, the monitoring and auditing process must be based on open dialogue, honest analysis, a mutual commitment to continuous improvement, and incentives for performance. Suppliers should be made aware not only of standards and the consequences of noncompliance, but also of the potential for capacity development through collaboration with buyers and industry groups, and for improved performance to benefit to their own bottom line.

- Commit to Remediation Before Termination: In instances of noncompliance, districts should engage in strategic and genuine remediation efforts with a supplier before terminating the relationship. The goal is to improve practices across and within industries, not simply to pick winners.

Transportation and Logistics

In the United States, transportation accounts for nearly 30 percent of total greenhouse gas (GHG) emissions, placing that activity second only to electric power generation as a contributor to climate change. Districts should systematically prioritize low-impact transportation systems and modes and address business travel and commuting.

- Assess, Analyze, Set Goals: One of the first steps districts can take to improve transportation sustainability is to quantify air emissions (greenhouse gases, NOx, SOx) produced by the current and planned transportation modes.

- Leverage IT: Districts should adopt sophisticated information systems that automate the analysis necessary to optimize vehicle use, route selection and use of space.

- Plan for End of Life: Where does a product go when it is no longer useful to the consumer? Reverse logistics is focused on ensuring that a product at the end of its life is collected by or returned to the producer, sorted, and then recycled into new products, reused, or reconditioned.

- Transportation Modes: Districts should review logistics to prioritize low-impact transportation modes.

  - Adopt New Vehicle Technologies: Move towards low-carbon fuels and more fuel-efficient vehicles.

  - Carbon emissions can be directly reduced by switching to alternative vehicle technologies, including flexible fuel vehicles using advanced biofuels, vehicles powered by hydrogen fuel cells, electric vehicles using stored electricity produced from renewable sources, and plug-in hybrids.

  - Business Travel and Commuting: Districts should decrease greenhouse gas emissions from business travel and employee commuting by 50 percent within 10 years.

  - Provide Alternatives to Business Travel: Districts should employ better planning to reduce the frequency and number of trips. When possible, districts should discourage business travel by using teleconferencing technologies, saving costs and reducing stress on employees and the environment. Users can hold virtual meetings and collaborate without having to meet at one physical location.

  - Prioritize and Incentivize Sustainable Transportation: Where business travel is necessary, districts should choose lower-impact modes of transport. Trains, for example, have a lower impact than flights for shorter distances and often have a comparable door-to-door transit time. Districts can also support the use of hybrid taxis or mass transit for business journeys within metropolitan areas. Examine your annual employee business travel needs, and reward departments that use virtualization and low-carbon travel modes to reduce carbon emissions.

  - Support Low-Carbon Commuting: Just as with business travel, districts can provide employee programs to encourage sustainable commuting practices or to enable working from home or other convenient locations. These types of programs are fairly common and are growing in their creativity and impact.

Employees

Districts should make sustainability considerations a core part of recruitment, compensation, and training and should encourage sustainable lifestyle choices.

The commitment of employees and other workers will continue to be a critical resource in moving a district towards sustainability – especially if sustainability is going to drive a competitive advantage for the district.

Beyond treating its people properly, obtaining the engagement of employees means demonstrating to them that sustainability is embraced at the core of the district. Demonstrating such commitment entails embedding sustainability deep into the district culture. That culture begins with each new hiring decision and extends to training, performance management and the values that bind the district together as a community.

Where districts demonstrate a firm commitment to sustainability, they benefit from improved recruitment and retention rates, employee morale and productivity, and lower healthcare costs.

- Recruitment and Retention: Districts should incorporate sustainability criteria into recruitment protocols, employee performance processes, compensation, and incentives.

  If sustainability is to be more than a district talking point, then sustainability criteria should be embedded in each employee's goals, job responsibilities, and performance incentives – not just in the incentive plans for senior executives.

- Reward Sustainable Job Performance: Many districts now include sustainability criteria in job descriptions and performance assessments. In addition, credible sustainability programs help districts stand out from the crowd as employers of choice to attract top talent.

- Inspire Innovation: Just as districts have continuous improvement systems in place to engage workers in identifying and addressing quality and productivity issues, districts should have formal systems in place to offer incentives and capture employee ideas and feedback on the sustainability vision and goals and on innovations that will help the district to achieve them.

- Training and Support: Districts should develop and implement formal training on key sustainability issues for all executives and employees and facilitate coaching, mentoring, and networks for sustainability knowledge sharing.

  The district should undertake training needs analysis and set training goals and strategies in the same way that it does for other aspects of an employee's job. Results should be assessed and the program improved based on feedback.

- Promoting Sustainable Lifestyles: Districts should promote sustainable lifestyle choices across their community of employees through education and innovative employee benefit options.

- Provide Tools and Resources: Districts should devote resources to employee education on sustainability and tools that empower them to take action at work and outside of work. Results from these efforts should be tracked and quantified to identify effective programs and to support continuous learning.

- Offer Incentives for Sustainable Choices: Where information alone does not promote action, incentives can fill the gap. Districts should look at innovative ways to encourage people to act in ways that promote sustainability.

Human Rights

Districts should (a) regularly assess key risks related to human rights throughout their entire operations and (b) employ management systems that are aligned with internal policies and that support the implementation of universal standards.

- Integrate Human Rights into the Sustainability Management System: Districts will most effectively protect their own interests, as well as the interests of their employees, contract laborers, and host communities, by integrating a strong, clear human rights policy systematically across the district.

- Address Indirect Impacts: While there are limits to a district's direct impact and control of its entire supply chain, district policies and practices should recognize the rights of supply chain workers, including contract workers, as well as those directly employed by the district. Society increasingly expects the district's obligation to respect human rights to extend beyond direct operations and apply throughout the supply chain.

- Communicate Rights and Address Grievances: Districts should ensure that policies and processes are clearly explained and understood by employees, host communities, and other relevant stakeholders. Policies should be readily available in various formats, languages, and locations and should be written in a way that is understandable and meaningful for those to whom they apply. Those covered by the human rights policy should also have clear, well-publicized channels for raising an issue or seeking a remedy in relation to human rights issues. Grievance mechanisms should incorporate an objective, third party communication channel to allow open and transparent communication and to avoid intimidation or fear of reprisal.

Governance for Sustainability

Sustainability begins with Board oversight and commitment, and it follows through into management systems and processes that integrate sustainability into day-to-day decision making. It is this chain of accountability, stretching from the boardroom to the classroom, that drives home the importance of achieving truly sustainable performance.

- *Inform Directors:* To enable informed oversight and long-term planning, school boards should receive regular training and education on key sustainability issues.

- *Make a Board Committee Responsible:* In order to ensure that sustainability issues are overseen in sufficient depth, they must become the focus of a specific Board committee. The committee charter should spell out specific sustainability-related responsibilities and accountability structures, including the responsibility to oversee the content and effectiveness of policies, to review the district's sustainability targets, strategy and performance, and to review the adequacy of the district's transparency on that performance.

- *Engage the C-Suite:* When the size of the district warrants it, the Superintendent should appoint a publicly identifiable C-level executive to act as a focal point for efforts driving the sustainability agenda.

  A management committee chaired by the Superintendent or chief Sustainability Officer and comprised of senior-level managers from across the district can provide a strong mechanism for leading and coordinating the integration of sustainability into strategy, planning, and operations. The committee should envision the district's approach to the most critical sustainability issues over a 25-year view; translate that vision into specific, clearly articulated goals and strategies; ensure that adequate resources are allocated; and review and update the vision at least annually.

- *Embed Management Accountability:* Management retains responsibility for achieving sustainability targets and programs through day-to-day operations and decision making. Specific senior individuals responsible for sustainability-related outcomes could be identified in district communications in order to underscore that personal accountability.

- *Align Executive Incentives:* Sustainability performance results must be a core component of the evaluation of senior executive performance and compensation packages. The weighting given to sustainability performance should be disclosed in annual reports so that it is clear to shareholders and other stakeholders how executives are being rewarded.

Craft Key Policies on Material Issues

Districts should develop policies covering all sustainability issues that materially impact the district's performance and plans and should outline the district's vision and strategy for implementing these policies. As part of this process, districts will need to engage stakeholders to obtain feedback on the relevance of existing and proposed policies and to identify gaps. These policies should guide the district's activities across its operations, the supply chain, logistics, and the management of its employees.

Districts should have a policy on human rights that is publicly available. The policy should cover issues including the labor rights of employees, contract workers and consultants, and suppliers' workers; diversity and discrimination; and the respect of host communities.

Public Disclosure and Transparency

- *Identify Stakeholders:* Districts should systematically engage a diverse array of stakeholders from various key constituencies, both internal and external. Stakeholder mapping is the process whereby districts identify stakeholders and understand, track, and assess how each group is being engaged on key sustainability issues by various business lines, across geographies, and across the entire value chain.

- *Identify What Matters:* Identify key issues of concern to the district through an internal materiality analysis and then share this analysis with external stakeholders. Stakeholder dialogue can be used to identify additional issues, prioritize efforts, and recognize emerging risks that could become increasingly important to the district over the long term. The district should then explore the links between identified material issues and the leadership team's vision and strategy.

- *Use Appropriate Channels:* Different constituencies should be engaged through channels appropriate to each group. Community Action Panels might be the best way to engage with community groups near district facilities; employees can be engaged through the district intranet or employee surveys; government can be engaged through regulatory discussion forums. Every avenue of communication offers an opportunity to interact with one or more stakeholder groups on sustainability issues. Many districts, for example, are turning to online communication tools, such as blogs and social media platforms, including Facebook, Twitter, and others, to engage their connected stakeholders.

  Regardless of the relative formality or informality of the engagement channel, districts should commit to ensure that they provide credible information that is supported by performance data. Online engagement should not replace traditional engagement or disclosure that the district has in place.

- *Demonstrate Accountability:* Districts should disclose the feedback provided by key stakeholder groups and explain how this has influenced their business strategy. This disclosure reinforces the two-way nature of engagement and completes the accountability feedback loop. When districts are unable to address all stakeholder concerns, they should be explicit about the rationale for not doing so. This transparency will build the trust and credibility necessary for ongoing long-term engagement.

  Comprehensive disclosure of sustainability performance and impacts is a key part of a district's sustainability journey. What gets measured gets managed, and what gets disclosed gets done.

- *Make Financial Disclosures Complete:* A district's financial filings should include discussion of material environmental and social risks, including strategy, performance data, and forward-looking information as appropriate. Districts should disclose sustainability-related liabilities and costs in financial statements, even where they are contingent or difficult to quantify.

- *Look Backwards and Forwards:* Districts should capture both past sustainability performance and their plans for the future. Past performance data should extend back at least three years and ideally five years. Looking forward, districts should disclose emerging issues using data projections on key environmental issues, such as GHG emissions, and on human rights and community impact trends.

- *Drill Down:* Districts should disclose district-level data and facility-level data as appropriate and should publicly disclose the names, locations, and aggregate performance-related information of all such facilities, including contract facilities.

- *Address Dilemmas and Challenges:* Districts should disclose their performance in a way that is balanced, adequately addressing dilemmas as well as successes. Picking issues that are a particular challenge for the district and providing the rationale for the direction that the district has chosen to pursue is critical for balanced reporting.

- *Capture the Business Case:* To demonstrate the importance of environment-related investments, districts should include a cost-benefit summary for key environmental expenditures.

- *Benchmark Against Peers:* Districts should benchmark their performance against the performance of other districts and publish the results in their report.

- *Report Regularly:* Districts should report comprehensively on an annual basis, normally at the same time as release of financial reports for the same period.

- *Target your Reporting:* Districts should increasingly customize their disclosures based on concerns and communication preferences of audiences involved.

   Districts can use tools such as dedicated websites, social media, and consumer labeling to engage with target constituency groups. Regardless of the engagement channel, disclosure standards should be rigorous and credible.

- *Obtain External Verification:* At a minimum, districts should have an independent and credible third party verify key sustainability systems, information, and data.

   The district should clearly state the name of the group that has provided the assurance, as well as the methodology and the scope of the process involved.

- *Share Stakeholder Perspectives:* To help demonstrate that engagement processes are substantive, credible, and transparent, districts should include unedited stakeholder perspectives in their disclosures.

For further and more detailed discussion specifically on implementing "Green Purchasing" in your district, an excellent resource is the NASPO White Paper entitled Green Purchasing Guide, located on the NASPO website at http://www.naspo.org/green/index.html.

DISADVANTAGED/DIVERSITY BUSINESSES (MWBE)

Supplier Diversity is a program that truly requires commitment from the district's top executive level and Board to realize the benefits of participating. Whatever the nature and strategy of your program, and however successful or unsuccessful it might be, it is a certainty that it will be highly scrutinized, internally and externally, and likely be the subject of both public and private criticism at one time or another.

The historical volatility of this subject makes it paramount that there should be (a) committed support from the district superintendent (and preferably the Board), (b) absolute vertical alignment within your district on what the program is (scope) and what the strategic objectives of the program are, and (c) an identified C-level champion of the program. Do not proceed with initiating a program until this imperative is established, documented, and signed off on by all stakeholders involved.

It can take time to fully understand the practices that will best suit your organization and to strategically source the correct suppliers. Steps to establish a successful program include:

Establish an Accurate Baseline

   Defining a baseline starts with identifying diverse suppliers already in your supply chain and tabulating your district's "spend level" with those suppliers. If your supplier master file already carries [reliable] information in each supplier's profile regarding their diversity status, this should be a fairly routine process of data extraction from your ERP system.

However, if your master file information is not current and well maintained or does not carry diversity classification information at all, you face the tasks of (a) identifying which of your suppliers meet the definitions for diversity and (b) establishing a process to frequently repeat the analysis of spend for comparison against the baseline.

For expediency, one way to perform the initial classification of your suppliers is to run your supplier file through a third-party supplier data enrichment service. Supplier data changes frequently, so to ensure the integrity of your program, be sure you are working with a service that maintains an up-to-date database. Use of a third-party service can also be how you periodically update your diversity spending profile.

By combining the diversity category information with actual spend dollars per supplier retrieved from your Accounts Payable system, you will gain an understanding of the current state of your organization's supplier diversity program – your baseline.

There are two other important decisions required when establishing your baseline. First, which diversity categories will your program focus on? Most diversity programs at least baseline against minority- and woman-owned business enterprises (MWBE). Minority-owned traditionally includes Asian-American, Asian-Pacific, African-American, Hispanic, and Native American. Additional categories that may be tracked/targeted are small businesses, veteran-owned (or disabled veteran-owned), HUBZone, and local businesses that meet any of the aforementioned criteria. There are also some initiatives to include LGBTQ-owned business enterprises (LGBTQE). The decision about which categories are to be included in your program may in part be dictated by state statutes and will almost certainly be strongly affected by local political preferences. Get this question answered with crystal clarity before embarking on your program – it will be painfully difficult to re-set your baseline and program initiatives later on.

The second decision is to determine what types of certifications your program will accept as part of your baseline and ongoing reporting, including third-party-certified segments and/or self-reported segments.

Third-party private agencies such as the National Minority Development Council (NMSDC) and Women's Business Enterprise National Council (WBENC) manage processes in which qualified firms must complete a series of certification steps prior to being granted a diversity certification by the agency. Many states maintain a list of acceptable certifying agencies, which is a good place to start. Maintaining your own certification process at the district level is both tedious and resource-dependent.

A self-reported or self-classified firm is one that has indicated to your district, or to a non-certifying third party, that it qualifies for a diversity designation. There is no vetting process involved for self-reported firms, so you should consider the risk of over-reporting diversity spend due to a lack of verification.

Once you have established which diversity categories your program will focus on and which certifications you will accept as part of your baseline, it is time to determine the objectives and goals of the program.

Define the Scope and Strategic Objectives

Sadly, too many diversity programs are launched with no strategic objectives and nothing more substantive than arbitrary and myopic tactical goals that are primarily "window dressing" so that the district can check-the-box that a program of some sort is in place. This approach is characterized by the absence of any meaningful analysis of the district's expenditures and how they align with the capabilities of the diversity supplier pool that is accessible to the district.

If your district is serious about having a program, then it needs to conceive and articulate the scope of the program and the effect expected (on the district and the diversity business community). Aspects of this articulated strategy could include any or all the following:

- Increase the district spend, except for utilities, P-card expenditures, and construction spend, with diversity suppliers.

- Count district $ that flow to both tier 1 and tier 2 suppliers for the district.

- Based on a local diversity analysis, target only diversity business categories that represent a disproportionately lower percentage of the local business enterprises compared to local population demographics.

- Seek to increase the number of diversity employees working for district suppliers.

- Create a mentoring program (directly or through prime contractors) that increases the number of diversity suppliers with the skills, capacity, and financial solvency to be considered responsible when bidding on district solicitations.

- Increase the portion of district spend flowing to diversity suppliers whose headquarters are located within the district or immediately adjacent counties.

Defining the strategic objectives in this manner may very well require extensive negotiation with local community and government entities. It will also need vetting by your Legal Department for compliance with state and local laws. However, once completed, it will be far easier to define effective tactics and goals and will greatly increase the likelihood of realizing the true objectives of the program.

Benchmark and Set Specific Goals

Now that you know your starting point, it is time to map out the journey to your destination. Set short-term and long-term goals to serve as guideposts along the way, and establish the right metrics to determine when you've reached those goals.

Recognizing that location and district size make a difference when it comes to comparing spend, benchmarking can be challenging. Take a look at other districts, preferably those of a similar size, and ascertain their diversity spend. The Council of the Great City Schools collects this information (at an aggregate level) annually from its membership, and their data can be filtered by district size, geographic region, etc.

The real value of benchmarking lies not in defining a target achievement number but in identifying and adapting winning processes that lead to supplier diversity success. While the diversity spend reported by a peer district may be an unrealistic goal (short or long term), bringing in techniques from other districts may well be your ticket to achieving the strategic objectives of your program.

Setting meaningful goals ties supplier diversity to business strategy for the district as a whole. Your goals should be quantifiable, reasonable, and achievable; be tailored by commodity; help to identify weak areas that need improvement; challenge the status quo; discourage complacency; and provide strong motivation for change. This last point is critical to establishing employee and management support.

Goal setting is not as simple as picking a number that someone else has achieved. Done correctly and meaningfully, it is a painstaking process of carefully comparing the capacity and capability of the diversity supplier base available, or projected to be available, and establishing realistic targets on a project-by-project basis, with the aggregate forming a short-term goal.

Establish Accountability

Managers as well as individual buyers need to be held accountable for reaching diversity goals. The best companies include this in individual performance appraisals for each contributor in the procurement chain. What gets measured, gets done.

Pre-Sourcing

Once your baseline, benchmarks, and goals are established, it is time to identify opportunities for adding diversity suppliers to the supply chain. Examine when current contracts are expiring and what new sourcing opportunities are arising. Next, identify qualified suppliers for the Procurement team to include in the RFP process.

Your program should identify a single point of contact who is responsible for communicating program initiatives and recruiting diversity firms for engagement with the district.

The first source of proven firms should be diversity companies you are currently doing business with. Have you maximized the opportunities for those firms? To expand the list, a good technique is to utilize a large and accurate database of diverse suppliers that contains detailed supplier information. This database should allow searching for suppliers through an internet portal based on any parameter.

Another identification/qualification technique is to purchase or build a supplier management portal that prequalifies potential suppliers (many ERP systems already contain this feature). Diversity firms can register in your portal on a walk-up basis and provide details about their businesses. For this to be effective, it is important that you market/advertise the fact that you have such a portal on a consistent and ongoing basis. It is also important that the portal be linked to the procurement section of your district's website.

Collaborate with Suppliers and Agencies

The registration portal described above will be one of your most valuable tools for collaborators. Customized, commodity-specific surveys can ask suppliers to answer prequalification questions specific to the product/service they provide. By implementing this system, the Procurement team—which has direct access to the registration portal—only spends time reviewing company profiles for suppliers that have been prequalified.

The national agencies mentioned in section 1 above can provide information on the availability of diversity suppliers in your geographic area. Your goal is to identify diversity categories that have (a) low utilization by your district and (b) a high concentration of diverse suppliers according to the certification agencies.

Awards Program

Successful supplier diversity programs are no accident. Internal and external persons who make the extra effort should be recognized, not only to reward them but also to encourage others.

Track Performance

A successful supplier diversity program is one that demonstrably drives business growth and increases shareholder value. Tracking spend with Tier 1 and Tier 2 suppliers is critical, but consider going beyond these numbers to measure the program's impact on the entire organization. Cost savings, market share, corporate image, revenue impact and economic impact are all valuable metrics to measure the long-term success of your supplier diversity program. Successful supplier diversity programs are constantly evolving, with results tracked frequently basis, metrics adjusted when necessary, and the program refined over time.

STRATEGIC SOURCING

INTRODUCTION

Strategic sourcing is the proactive method of planning and preparing (in advance) for future purchases of goods and services. One of the benefits of this approach is that it helps avoid delays in later purchase execution regarding performing a formal solicitation or identifying and qualifying suitable sources.

The step-by-step process described here starts with an analysis of system data, using historical patterns to predict future needs. However, it is equally appropriate and important to solicit projections from district staff members of future requirements, particularly for services that may not become obvious solely from data analysis. The objective of strategic sourcing is to target, and prepare in advance for, all strategically important procurement, irrespective of transaction volume or financial magnitude.

STRATEGIC SOURCING

Strategic sourcing is an organized and collaborative approach to leverage district spend and allow Procurement to systematically work on areas or processes that can result in strategic benefits (e.g., savings, product/service supply assurance, leverage to obtain additional value-added services). Eight essential steps (listed below) are involved in the process, beginning with identifying a spend area and concluding with selecting and managing a relationship with supplier(s). This must happen in a collaborative manner and in an atmosphere where working with cross-functional teams is vital to success. Best practice is for organizations to get internal "customers", such as Finance, Accounting, Engineering, Operations, Maintenance, Safety/Health/Environment, actively involved in the decision-making process.

The eight essential elements are:

1. Identify the targeted spend area (spend analysis)

2. Create the sourcing team

3. Develop a team strategy and communication plan based on such factors as the nature of the product/service, characteristics of the marketplace, stakeholders affected by the sourcing actions, etc.

4. Gather market information

5. Develop a list of qualified suppliers

6. Define performance metrics and outcome

7. Negotiate, evaluate, and reach commitment and agreement

8. Supplier relationship management

Spend Analysis

Spend Analysis is the process of collecting, cleansing, classifying, and analyzing expenditure data from all sources within the organization (i.e., purchasing card, e-Procurement systems, etc.). The process analyzes the current, past and forecast expenditures to allow drill-down visibility (by supplier, by commodity or service, by department) within the district. Spend analysis can be used to make future management decisions by providing answers to such questions as: What was bought? When was it bought? Where was it purchased? How many suppliers were used? How much was spent with each supplier? How much was paid for the item/service?

Procurement should use spend analysis to leverage buying power, reduce costs, provide better management and oversight of suppliers, improve relationships with internal and external stakeholders, and develop an informed procurement strategy.

Critical to this step is prioritizing the various spend areas to align with the goals and objectives of the district. It does not necessarily have to be spend areas with large volume but identifying areas that are common across the district is extremely important. It is essential at the outset that an Executive Sponsor for each spend area is identified (not from Procurement) to push the initiative along and keep it going.

The data should be updated, and the spend analysis repeated, regularly (at least annually) to support decisions on strategic sourcing and procurement management for the organization. The detailed steps for spend analysis are described below.

Identify and Collect the Data

Procurement should work to identify all spend data, internal and external, for the organization. Once spend data sources are identified, the data should be collected and automated. Gathering spend data begins with these steps:

- *Create a Spend Data System Map:* Understand which systems contain data required to create a complete spend record. The map should include both internal systems (e.g., ERP, e-Procurement, Accounts Payable) and external systems (e.g., P-card financial institutions, suppliers).

- *Assess spend data quality:* Examine the completeness of spend data, identify additional data elements that might be required to create a detailed spend record, and assess the accuracy and granularity of the classifications assigned.

- *Assess classification schema:* Assess the number, type, and usefulness of classification schemes (e.g., commodity codes, etc.) currently used by the district. Assess whether the existing scheme can be mapped to an industry standard scheme to enable benchmarking or collaborative aggregate analysis with peer districts.

- *Review data management processes:* Understand existing procedures and systems used for extracting, cleansing, and classifying spend data. Note which functions require spend data and which resources actually perform the spend data management activities.

- *Review data storage, reporting, and analysis capabilities:* Examine how your organization stores and analyzes spend data. Determine requirements for spend data access, types of reports, and frequency of such requests. Ensure that data is accessible and can be efficiently analyzed and drilled into to meet the needs of decision makers.

Cleanse, Group, and Categorize the Data

Once data is collected, it should be cleansed to remove any duplicates or errors, categorized, grouped, and aggregated. These processes are necessary to ensure accurate organization and correlation of spend data and to enable analyses that can be acted upon.

- Grouping and categorizing spend data should be done by adopting an internal taxonomy or by adopting an industry-standard classification scheme (e.g., commodity codes).

- Higher-level classification of spend at the category or supplier level is the first step in grouping and categorizing spend data. Examples include: categorizing goods and services that are being acquired and determining how many suppliers are being used for specific categories and how much the organization is spending on specific categories, in total and with each supplier.

- Item-level detail of spend data enables a precise view of spending with each supplier and for each commodity on a district, department/school, project, and buyer basis.

- Additional enhancements should also be applied to the collected spend data. These include, but are not limited to: contract terms, minority- or women-owned business status, alternative parts data, industry pricing indexes, average purchase prices, supplier financial risk scores, performance information, lead times, and inflation.

Create Repeatable Processes (Automation)

Excellence in spend data management requires that spend data extraction, classification, enhancement, and analysis activities be supported by automation and services that can streamline existing procedures and make spending analysis a repeatable process.

- Creating a repeatable process may require directly licensing automated data cleansing and classification software or engaging consultants or other service providers that leverage such solutions, to deliver a turnkey spend data management service.

- Procurement should seek to incorporate the knowledge of sourcing and commodity experts into the automated system through the use of software engine rules and self-learning capabilities.

- Create automated reports of spend data to ensure that the most current spend position of the district is being considered in new procurements. Match the report frequency to your purchase cycle – you don't need a monthly report for a commodity that is only sourced every two years.

Analyze the Data

Regular analysis of collected spend data is necessary to support management decisions for the organization and better oversight of supplier relationships. The analysis should assess whether the current procurement structure, processes, and roles are adequate to support a strategic approach to acquiring goods and services.

With the implementation of regular spend analysis, the data should be used to do the following:

- Understand and model the cost drivers of goods/services to form cost control/reduction strategies for individual commodities/items.

- Reduce material and service costs through informed strategic sourcing strategies based on the data.

- Eliminate duplicate/redundant suppliers.

- Improve contract compliance.

- Use contract pricing to create savings.

- Meet regulatory reporting rules.

- Improve inventory management and costs.

- Reduce expediting costs.

- Facilitate early supplier integration.

- Reduce spend analysis project cycles.

- Refocus procurement professionals on strategic tasks.

Create and Develop a Sourcing Team

Most initiatives in strategic sourcing include team members who are available on a part-time basis. Rarely do sourcing initiatives have the luxury of having full time team members devoted solely to the sourcing effort. Regardless of the method of team formation, any successful sourcing effort is collaborative, involving multiple departments and functions in addition to Procurement.

Prior to selecting team members, it is important to obtain executive sponsorship of the sourcing initiative. Having the endorsement of a district executive will help eliminate or reduce resistance at operational levels. Placement of the chief procurement officer in the Executive Cabinet of the district, and having Procurement directly involved in the district's strategic planning cycle, often provide the needed support without further effort. After executive sponsorship has been secured, it is vital to select team members from a cross-functional perspective.

Managers of personnel who are to be team members want to know how this will impact them. As far as they are concerned, their personnel already have "day jobs", but someone is about to utilize their services on a part-time basis to serve on a team. Successfully marketing the initiative and effectively describing/illustrating the benefits resulting from strategic sourcing will help with the organizational buy-in on the process.

Team Strategy and Communication Plan

Develop a strategy for how the team will approach the identified spend area. To do that, the team must understand their current suppliers' capabilities and compare that to the district's future requirements for the commodity or service. They must identify and establish timelines and milestones as a road map to accomplish the team objectives. Finally, and probably most important, the team must develop a communication plan. This plan will outline how the team will convey team progress and updates. Effective and constant communication will keep the district informed and provide a key element of credibility to the project.

Convey the strategy of the team to the Business Unit managers. This is part of the plan to keep all decision makers and others who have influence in the spend area involved in the direction of the initiative.

Gather Market Information

Now that the strategy and the current suppliers' capabilities are defined, it is time to find out what supplier capabilities there are in the marketplace, as well as where the market for a good/service seems, or is predicted, to be trending in terms of product/service availability, pricing, and technical progression. Too commonly, suppliers and products/services are selected/mandated purely based on familiarity and not after an effort to understand what options are available (currently or in the future) in the market.

Once preliminary information about the market is determined, the team will decide which suppliers should receive a Request for Information (RFI) and how broad a net will be cast to the marketplace of suppliers. Typically, RFIs are designed to gather data on suppliers regarding product/service offerings, quality programs, financial stability, service capabilities, service or distribution center locations, references from clients, organizational structure, and a myriad of other-than-price issues. it is also a good practice to include your standard contract terms and conditions in the RFI. This early review allows firms to prepare themselves for further discussion if they qualify for the proposal stage.

Qualifying Suppliers for Future Consideration

The team may begin to develop criteria for a future solicitation based on the information received from the RFI. The team will also begin to identify companies that have potential to be developed either on

a districtwide or an individual school basis. Update management on the conclusions to date. This is paramount because some traditional or "preferred" suppliers may not be on the list of suppliers that the team determines should be invited to submit a formal commercial proposal.

For a detailed discussion on constructing a solicitation document, see the separate section on *Solicitations*.

Metrics and Performance Outcomes for Contract

This is one of the more important steps in the entire process. After proposals have been received, an evaluation process can begin. The evaluation process entails developing a business case, performing a gap analysis, and establishing two very important and critical criteria for the team to include in the evaluation rubric used to select supplier(s): (1) Total Cost of Ownership and (2) Performance Metrics.

Total Cost of Ownership mentality involves the team's understanding that the true cost of any product or service consists of acquisition cost + operating cost + maintenance cost + training cost + warehousing cost, less any salvageable value. Price is important, but not as important as the understanding of Total Cost of Ownership. Cheaper is not always better—the evaluation scoring rubric should consider Total Cost and not just the lowest unit price.

Establishing *Performance Metrics* with our suppliers is mandatory for developing an eventual successful relationship in the long term. In a Procurement environment, professionals are challenged with developing suppliers who can create value and benefit. We must also have a mechanism in place for measuring both their performance and ours. On time deliveries, warranty issues, customer satisfaction, and quality issues are just a few of the multitude of performance metrics that need to be considered. Each commodity or service under review will have different applicable metrics. The team must identify these and establish the performance review methodology prior to beginning the final selection of supplier(s).

The final part of this step is for the team to understand and adopt the mindset that eventual award of contract(s) involves a three-phase process:

> Phase 1: Selection of supplier will be based on best value
>
> Phase 2: Continuous improvement objectives must be established with the supplier(s)
>
> Phase 3: Innovation from the selected supplier(s) will be the key to significant savings

Selecting Supplier(s) and Negotiating Contract(s)

During this step, the team may elect to "short list" the suppliers to begin the negotiating process. A key consideration during this step is the term length of the contract(s) that will be awarded. It takes time to develop a trust relationship and to fully realize savings, whether they be in continuous improvement processes or in innovation. The likelihood of significant savings comes from supplier innovation, which needs time to develop. During negotiations, it is important to ensure that you reach for higher levels of trust between the parties. Being firm but fair will yield more rewards in the long run. If the trust factor is not established during negotiations, you may probably never see innovation from the suppliers. Finalize any performance metrics during the negotiation stage and prior to contract execution.

Managing the Supplier Relationship

See separate section of this White Paper on *Supplier Relationship Management*.

COOPERATIVE PROCUREMENT

INTRODUCTION

Cooperative purchasing and contract piggybacking are not new concepts for Procurement organizations. However, the makeup, breadth of product/service coverage, and scope of operation (national, regional, local) of cooperatives has changed considerably over the past decade or so. There is now a wide selection of national cooperatives available to school districts, and a growing number of states recognize (by statute) that cooperatives are a viable, valuable, and expedient vehicle for obtaining goods and services without needing to conduct time-consuming and redundant formal solicitations locally.

Although cooperatives make it easier for a school district to source and purchase many of its requirements, there are several precautions (due diligence) that districts should stay mindful of in order to ensure that they are achieving (via cooperative purchasing) the same or better cost benefit as is available from local open market competition. This Paper discusses those precautions and other best practices related to cooperative purchasing.

COOPERATIVE PROCUREMENT

Cooperative Procurement is a term that refers to the combining of requirements of two or more procurement entities to leverage the benefits of volume purchases, delivery and supply chain advantages, best practices, and the reduction of administrative time and expenses. Purchasing cooperatives exist at the local, regional, and national levels. Their activities result in contracts that members of the cooperative may "piggyback".

Piggyback Procurement is a form of cooperative purchasing in which an entity will be extended the same pricing and terms of a contract entered into by another entity. Generally, the originating entity will competitively award a contract that will include language allowing for other entities to utilize the contract, which may be to their advantage in pricing and contract terms, thereby gaining economies of scale that they would otherwise not achieve if they competed on their own.

Use of cooperative contracts is a best practice for both the administrative efficiency and the purchase leverage gained. However, due diligence by the prospective buyer is paramount.

Some states/districts do not allow participation in cooperative contracts, or at least restrict or regulate the scope of participation allowed. It is up to the procurement professional to be cognizant of any local restrictions and ensure compliance with all applicable laws and policies.

After conducting appropriate due diligence and market research, public procurement should, where permissible by law or regulation, consider the use of cooperative contracts in order to lower prices and administrative costs, increase competition, and obtain more favorable terms and conditions. When using cooperative contracts, attention should be given to ensuring legal compliance, open competition, and effective/efficient use of time and resources.

Perhaps best known are the Cooperative Purchasing Organizations that operate at the national level and serve public procurement entities. Some examples of these include:

> 1 Government Procurement Alliance (1GPA)
>
> Association of Educational Purchasing Agents (AEPA)
>
> E&I Cooperative Services
>
> Keystone Purchasing Network (KPN)

National Association of State Procurement Officers (NASPO)

National BuyBoard (interlocal)

National Cooperative Purchasing Alliance (NCPA)

National IPA

National Joint Powers Alliance (NJPA)

Pennsylvania Education Purchasing Program for Microcomputers

TIPS/TAPS (interlocal)

US Communities

ProcureSource

The last entry on the list above (ProcureSource) is not a cooperative. It is a free-to-use website that provides a directory of contracts available from a number of national and regional cooperatives.

There are also regional and local cooperatives in many areas that should be investigated for possible opportunities.

Not all cooperatives are organized or operate in the same way. Some operate as non-profit, others as for-profit; some serve all public procurement entities, while others specialize in particular industries or segments (e.g., higher education, municipalities, etc.); some rely on "lead agencies" to conduct solicitations and manage suppliers, while others maintain their own organic resources for those functions; some fund their operations by charging members a fee, while others charge contracted suppliers a fee and allow members to use their services at no charge. Administrative processes (e.g., order placement, reporting) that cooperatives require of their members vary considerably as well. Before joining or utilizing any cooperative, it behooves you to understand exactly how that cooperative operates, whether its solicitation and contract award processes satisfy your legal and procedural requirements, and what obligations you must agree to use their services/contracts.

Typically, membership in a cooperative is required to piggyback on the contracts managed by that cooperative. For national cooperatives, membership is usually free to any interested public purchasing entity and can be accomplished online in a few minutes.

Conduct Due Diligence Before Using a Cooperative's Contracts

Prior to making the decision to use a cooperative contract, Procurement should perform thorough due diligence by using the following checklist:

- Perform some "market research" to compare the pricing and terms of cooperative contracts available for your required product or service against what you reasonably would expect to achieve through your own solicitation. When making the comparison, include your administrative costs of conducting the solicitation and managing the resultant contract.

- Analyze all costs associated with conducting a competitive solicitation.

- Ensure that the award of the cooperative contract meets all competitive requirements mandated by local policies and state laws.

- Review the cooperative contract terms for conformance with all applicable laws and best practices.

- Analyze the product or service specifications, price, terms and conditions, and other factors, such as cost to utilize the contract, shipping, minimum spend requirements, and availability of contract documentation, to ensure that the cooperative contract produces best value.

- Ensure that any terms and conditions mandated by your state law or local policies are incorporated into the cooperative contract. Any gap in this regard can be addressed by incorporating additional terms (and removing any terms not permitted by your local statutes/policies) in a "Rider" contract that you develop (or addendum to the cooperative contract) that is signed by both you and the contracted supplier.

- Contact the cooperative (and lead agency for the contract, if applicable) to verify contract application and eligibility.

- Get a clear understanding of any reporting (log of purchases against the contract, etc.) that you will be required (or expected) to provide to the cooperative.

Obtain Contract Documents for Your Files

Documents in your cooperative contract file should include the following. These can be obtained by downloading from the cooperative's web site, or upon request from the cooperative administrator.

- Solicitation for the goods/services under contract;

- The bid tabulation, or evaluation summary, with the justification for award;

- A copy of the winning proposal/bid; and

- A copy of all insurance/bond certificates required by the contract.

Cooperative Contract Administration

Whether required or not, it is a good practice to provide the cooperative with a periodic accounting of purchases you've placed against the cooperative's contracts. This may be the primary (or only) reliable means for the cooperative to tabulate the administrative fee they collect from the supplier and/or to calculate the volume discount (cash rebate) that you are entitled to for purchases you make against the cooperative contract (Note: not all cooperatives provide cash rebates).

Keep the cooperative (and lead agency, if applicable) informed of any problems you have with the supplier (delivery, order entry, spec adherence, quality, etc.).

Contracts issued by or on behalf of national cooperatives typically have pricing that is guaranteed for a "quantity of one" purchase, meaning the contract pricing, though better than the general market, does not anticipate and is probably not appropriate for individual large volume purchases. Many cooperative contract suppliers will provide additional discounts on substantial individual orders, if requested. Best practice is for the Procurement Department to establish a purchase item threshold that procedurally triggers a special pricing request before placing a substantial order with a cooperative supplier.

When pricing is established under the cooperative contract, ensure that invoices match the contract prices (unless special volume prices are negotiated, as described above).

GSA CONTRACTS

Introduction/Background

The U.S. General Services Administration (GSA) awards and administers the Multiple Award Schedules (MAS) program pursuant to the Federal Property and Administrative Services Act of 1949. The E-Government Act of 2002 amended the Federal Property and Administrative Services Act to allow states and local governments access to "cooperative purchasing" under the MAS program. State and local governments are defined as "States, counties, municipalities, cities, towns, townships, tribal governments, public authorities, school districts, institutions of higher education, council of governments, regional or interstate government entities, or any agency or instrumentality of the preceding, and including legislative and judicial departments."

GSA amended the Acquisition Regulations to allow states and local governments to order information technology supplies via GSA Schedule 70 contracts, as well as alarm and signal systems, facility management systems, law enforcement and security equipment, special purpose clothing, and related services via GSA Schedule 84 contracts. Most state and local entities that participate in GSA Schedule contracts do so via "piggybacking".

Key aspects of GSA contracts are described below.

Competitive Bidding – Negotiation. Contractors for GSA Schedules are selected through an open and continuous qualification process instead of competitive bids or proposals. GSA users are to obtain competitive quotations from multiple GSA contractors at the point of purchase.

Industrial Funding Fee. The Schedule contract price includes an Industrial Funding Fee (IFF), which is used to reimburse GSA for procurement and administrative costs incurred to operate the MAS program. The IFF is currently .75 percent and is automatically built into the prices for products and/or services. No action is required of users regarding this fee.

Ordering Procedures. Since use of the GSA Schedules is voluntary for state and local governments, GSA contractors have the option of whether they will accept each order tendered by state or local government buyers.

Contract Terms and Conditions. Differences in state requirements for contract/purchase terms and conditions are generally addressed in a participating addendum to the GSA contract. GSA allows participating agencies to incorporate their own statutorily mandated terms and conditions by addenda; however, those terms and conditions must not conflict with the terms and conditions of the GSA Schedule contract.

Pricing and Most Favored Customer/Price Reduction Clauses. GSA requires most favored customer pricing, which provides state and local governments with a price advantage based upon federal purchasing economies of scale. However, even deeper discounts can be obtained beyond the stated GSA contract thresholds through competition. State and local governments are ultimately responsible for the final negotiations, based upon their own needs and requirements.

Small, Minority- and Women-Owned Local Businesses Impact. Many states have socio-economic programs supporting small and/or women-owned and/or minority-owned and/or local businesses. The GSA E-library identifies contractors in these categories by state and status.

Ability to Use P-Cards. GSA allows state and local governments to place orders using P-Cards.

Liability and Disputes. The federal government is not liable for the performance or non-performance of contracts established between a Schedule contractor and any state or local government. Any dispute under GSA's Cooperative Purchasing Program is to be resolved by the parties directly involved or litigated in any state or federal court with jurisdiction over the parties (federal procurement law and the Uniform Commercial Code apply).

GSA Schedules are one of the many cooperative contract sources available to districts. They can save contract administration costs, reduce procurement lead-time, provide ready specifications, identify sources within the fifty (50) states, and are particularly valuable for disaster preparedness and emergency/recovery procurement.

If state and local governments are to use these schedules efficiently and effectively, they must be able to place orders electronically (including P-Card orders), use the Schedule contract terms and conditions (or supplement the GSA terms by addendum), and pay a fee that is reasonable and capped for large purchases.

Even with the above limitations, GSA Schedules can be used by most districts to their advantage.

FORMAL SOLICITATIONS

INTRODUCTION

Formal solicitations are how Procurement organizations (a) comply with government regulations and statutes that require a competitive process for awards through public posting/advertising, (b) provide a transparent objective process open to public review and critique, and (c) provide a standardized method of award for significant (major) expenditures that encourages and cultivates open competition among interested and capable suppliers.

Although a formal solicitation is not the most expedient means for awarding a purchase or contract, it is a process that, if conducted with integrity, will assure a soundly defensible outcome if faced with formal objection (protest) or legal action.

FORMAL SOLICITATIONS

There are a variety of types of formal solicitations (generically referred to as RFx) in business use. Below are the most commonly used types, with brief definitions of each.

> *A Request for Quotation* **(RFQ)** is used when discussions with bidders are not required and when price is the only information desired. A quote submitted in response to an RFQ is not binding on either the buyer or the seller, although it may be used as the basis for awarding a purchase order or as a means of collecting pricing estimates prior to issuing a formal solicitation (e.g., ITB, RFP) for competitive award.

> *A Request for Qualifications* **(RFQ),** also known as a Pre-Qualification Questionnaire, is a document often distributed separately from and prior to the publication of a formal solicitation from which a competitive award will be made. It is used to gather information from any interested suppliers and, based on analysis of the information provided, to develop a list of pre-qualified (responsible) suppliers for solicitation to award a contract. Used as a pre-qualification tool, the RFQ eases the solicitation review process by preemptively shortlisting candidates to those that meet the desired qualifications.

> *A Request for Information* **(RFI)** is an invitation for potential sellers to provide information about the products and/or services they offer. It is generally used to determine what products and services are available in the marketplace that might meet a buyer's needs, as well as to understand the capabilities of individual sellers. RFIs are commonly used on major procurements, where a requirement could potentially be met through several alternative means. An RFI is not a solicitation for award, is not binding on either the buyer or the seller, and may or may not lead to a formal solicitation for award.

> *An Invitation to Bid* **(ITB)** or *Invitation for Bid* **(IFB)** is an invitation to contractors or equipment/product suppliers to submit a price offer on a defined project, product, or service. The ITB focuses on pricing and not on ideas or concepts. A response to an ITB is a bid (not to be confused with a quote) that, if accepted, binds the responder to perform the resultant contract. If not stated otherwise, the contract is awarded to the supplier with the lowest bid, provided it meets the minimum criteria stated in the ITB/IFB.

> *A Request for Proposal* **(RFP)** is a document that solicits proposals from suppliers to provide a product or service that satisfies an outcome-based specification. It is used when the request requires technical expertise or specialized capability, or where the product or service being requested does not yet exist. The proposal may require research and development to create whatever is being requested. The RFP specification (or scope of work) focuses on the result desired, not a presumed means by which to accomplish that result. Contract award results from evaluating proposals against a pre-defined set of criteria, of which price is but one factor.

> *A Request for Solution* **(RFS)** is similar to an RFP but is even more open and general. It defines a problem and invites suppliers to propose their own concept(s) to best solve the problem. The RFS is the most flexible of the RFx's, allowing suppliers to express their solution(s) without being constrained by a specific product or service pre-defined by the customer.

This Section of the White Paper will discuss best practices in the process of creating and conducting a Request for Qualifications (RFQ), a Request for Information (RFI), an Invitation to bid (ITB), and a Request for Proposal (RFP).

Request for Qualifications (RFQ)

An RFQ is a research tool used by procurement professionals to gather information about suppliers and the products/services they offer or are capable of offering. It is commonly used in one or more of the following applications.

- To create a shortlist of suppliers to whom you will issue a formal solicitation for competitive award, as you are able to see which suppliers may or may not be able to meet your needs before inviting them to submit a formal bid/proposal. Check for any local laws governing your district that may prohibit "shortlisting" suppliers <u>before</u> the formal solicitation is issued.

- As part of a registration or onboarding process

- Issued to suppliers about whom you need more information regarding the products or services they can provide

- Issued to the marketplace at large in order to identify/qualify prospective suppliers not previously known to the district.

A questionnaire can be a useful way to organize your RFQ. Additionally, you can ask suppliers to upload documents or certificates in order to support their responses.

Finding the right suppliers can be a lengthy process. You want to find out which suppliers are able to provide you with the goods or services you need, reducing the risk of non-performance. RFQs can help make the supplier qualification process more efficient by standardizing the information-gathering process.

The goal is to pre-qualify suppliers for participation in future solicitations. Therefore, all suppliers should be asked the same questions and required to respond in a defined format. This makes it easier to compare the data afterwards.

Below is a suggested list of response topics and documents to request in an RFQ, depending on your specific needs:

- Management
  - Company background (e.g., length of time on the market, experience with similar projects, etc.)
  - Organization structure
  - Locations of HQ, manufacturing sites, distribution centers, service centers
  - Years in business; years of experience providing the products/services described in the RFI
  - Number of K-12 customers
  - Major shareholders
  - MWBE Certification (if applicable)

- ▪ Corporate Social Responsibility ("Green", etc.) policy, program, certifications (if applicable)

- ▪ Other relevant company certifications (e.g., ISO, etc.)

- Financial Sustainability

  - ▪ Financial information (annual reports, income statements, balance sheets, risk rating, etc. for last two or three years)

  - ▪ D&B Comprehensive Report

  - ▪ Insurance coverage: Best practice is to provide a response template that lists the specific coverage types that you typically require (general liability, automotive, workers' comp, errors & omissions, cyber, etc.) and have respondents provide their coverage limit for each one.

- Processes/Products/Services

  - ▪ List of items/services provided (including a checklist of items/services purchased by the district) gives a more complete picture of matches between supplier capability and district need. An alternative method is to require suppliers to categorize the products/services that they offer, using a list of commodity codes/categories that you supply.

  - ▪ Lead times required

  - ▪ Technical and production capabilities (such as surge capacity)

  - ▪ Quality handbook or any other internal quality document

- Innovation (Research & Development)

  - ▪ R&D team size and budget

- References

  - ▪ Case studies or contact information for previous customers (especially other K-12 customers)

- Additional information: Allow suppliers to provide additional relevant information that you did not request.

Request for Information (RFI)

A request for information (RFI) is a research and/or discovery tool used to gather information about suppliers, their products/services, and their corresponding markets relative to a specific or general need of the district. It is commonly used in one or more of the following applications.

- Issued to suppliers about whom you need more information regarding the products or services they can provide.

- Issued to the marketplace at large in order to identify prospective suppliers not previously known to the district.

- To gather insight into the current market situation. Suppliers know their market inside and out, and asking the right questions can give you information you may not have been able to find out otherwise.

The information collected from the responses can be used for developing strategy, building a database, deciding what steps to take next, or preparing for an RFP or ITB. Normally the RFI follows a format that can be used for comparative purposes.

Ideally, an RFI identifies the requirements or expectations of the organization and requests specific answers on how a supplier would propose to meet them. A good RFI will focus on requirements that are unique to the inquiring business and on concerns that are less likely to be addressed by every vendor.

An RFI signals to potential bidders that a competition will likely ensue for a product or service and that the potential client is seeking information in a formal, structured and comparable way.

Be specific about the information needed. The more specific you are about the information you need, the more likely you are to receive a useful response. If your questions are too vague, suppliers may not understand what you are seeking and will provide information that is not relevant to your needs.

Limit the information request. Seek service and resource capability information only. Appropriate information could include specific details concerning the vendor's abilities to perform a given service or to provide personnel, facilities, etc.

Do not request pricing information. Pricing information is not needed at this introductory stage.

Be considerate. Remember that the gathering exercise ultimately leads to establishing a relationship with a respected business partner. The success of any such partnership involves mutual consideration, beginning with initial requests for time and resources. Above all, the process should be engaged without prejudice for or against any individual supplier.

Be cost conscious. Remember also that there is a cost to the supplier to prepare responses. The more you ask of the supplier during the request process, the more cost you add to their business. They will need to add that cost into their pricing models.

Give the supplier appropriate time to respond. Preparing a response to an RFI typically takes less time than for other request documents, such as an RFP or RFQ. A one-week turnaround is the minimum time expected for a supplier to respond to an RFI. A more standard time frame is two weeks, but the process may take longer depending on the amount of information requested.

Invitation to Bid (ITB)

Introduction

An ITB is a request sent out to suppliers, asking for pricing (bids) to supply specific goods or services. It is not recommended that you use an ITB to obtain services since the purchase award from an ITB is based almost solely on lowest price. If you do use an ITB to procure services, it is strongly recommended that you develop a thorough, task-level description of the services so that there is no ambiguity about what gets done, how often, what time of day, where, by whom, what tools to use, etc. Even with this level of detail, the qualitative aspects inherent in any service will be ignored in the award process.

Specifications are clearly defined from the start, and when all else is equal (payment terms, quality, etc.), the award goes to the bidder with the lowest price.

ITBs are best used for goods or services with very detailed and clear (or industry standard) specifications.

ITBs are an efficient way to ensure that you are optimizing your district's spend on defined items, especially in highly competitive markets. Additionally, cumulative purchases that are individually under your ITB threshold may be ripe for savings if solicited as a projected volume to be purchased-as-needed over a fixed term, depending on the market.

<u>Preparation</u>

As ITBs are typically used to identify the lowest-cost options, they are commonly sent out only to pre-qualified suppliers. Therefore, you may need to issue an RFQ to qualify suppliers beforehand.

A category spend profile will give you a better idea of how much you are spending, on what, and with which suppliers. This overview can help you see where you might have consolidation opportunities for increasing price leverage.

Draft the ITB Document

A suggested guide for the contents of your ITB template is included as a Supplement at the end of this section of the White Paper. Consult with your school district's attorney (Legal Department) before finalizing your template, as terms or content mandated by state statute and local policy vary considerably among districts.

<u>Posting/Notification</u>

Despite the evolution to the "digital age," most states still require formal solicitations (ITBs, RFPs) to be advertised in local newspapers. There is no harm in this (other than the financial burden to the district), but it does not take advantage of the opportunity available (through the internet) to notify a much broader market of providers. Best practice is to take maximum advantage of electronic media to notify this broader (e.g., national) market of your requirements, including posting on "electronic bulletin boards" operated by regional or national organizations, or utilizing social media (Twitter, Facebook, etc.). Before using electronic posting and notification, confirm with your Legal Department that your state statutes don't prohibit it. Also, in any posting or advertisement of your solicitation, be careful to include all documents related to the solicitation (e.g., forms, attachments, addenda, etc.) or clear instructions on how to access or obtain them.

<u>Pre-Bid Conference</u>

A pre-bid conference is a forum for prospective bidders to ask questions about the ITB process, specifications, and instructions. It can be held face-to-face, by tele/video-conferencing, or a combination of both. At these sessions, suppliers may refrain from asking questions to avoid giving away their concerns in a public forum. However, following the session, those suppliers may submit their questions individually. Even if no questions are asked, a well-planned conference is likely to give the suppliers (1) an opportunity to meet and partner with other suppliers and (2) the best sense of what the problem is that the district is attempting to solve.

The requirement to hold a pre-bid conference is optional but is advised as an opportunity for the district to gain additional insight on suppliers and the marketplace of the goods/services solicited.

<u>Bid Opening</u>

In most jurisdictions, state law requires that bids be opened publicly and that the bid prices be disclosed (read out loud) to all parties attending the opening. The "opening" event is not the determination of award – the formal award from the ITB follows testing each received bid for responsiveness and responsibility. A clear statement affirming this should be issued at the bid opening (before any bids are opened).

Best practice is to utilize a secure web-based method for transmitting solicitation notifications, receiving bids, and preparing the bid tabulation.

In most states, the "opening" of submitted bids is a public event by law. The following describes the traditional paper-based approach for bid receipt and opening:

Upon receiving bids, the district must perform and record the following:

- Date and time stamp each bid as it is received and record the same in a permanent file.

- The bids must remain unopened and secured in a safe location until the established time for bid opening has been reached.

- bidders should be allowed to revoke or amend/correct their submitted bids at any time prior to the bid deadline. Should this occur, the originally submitted bid should be returned unopened to the bidder, and that action recorded.

- Before the bid opening, information concerning bids received (quantity, bidders' identities, bid content, etc.) is not to be disclosed to anyone, either within the district or external to it.

- Submissions received after the established deadline must be rejected and returned unopened to the bidder who submitted them, and a record made of this action.

The submitted bids are examined by authorized individuals at the time and place indicated in the ITB. Follow your individual state statutes and district policies regarding what information from the bids is to be publicly announced/disclosed (typically just the bidder identity and pricing).

After the bid opening, examine each submitted bid for responsiveness.

- Envelope marking: The requirements for this vary by state and district. Best practice is at least to require the envelope to clearly indicate the legal identity of the bidder and the identifier (number) of the ITB. Any bid envelopes that do not have all the required markings must be rejected and returned to the bidder unopened.

- Required forms/documents/information: To be accepted, (a) a bid must have all required forms/documents included with the bid and (b) all forms must be completed correctly (per the ITB instructions). Any bids not in compliance must be rejected.

- Properly completed price sheet: All required entries on the price sheet must be completed, legible, and unqualified (not dependent on deviations from specifications or ITB terms). Any qualified prices must be rejected.

    Errors: Corrections after opening, but before award, can be allowed if the error is (a) an obvious (typo, calculation error, etc.) or (b) verifiable from other information provided in the bid. Errors not evident and correctable, based on the bid submitted, should not be corrected. At the buyer's discretion, a bidder may be allowed to withdraw an erroneous bid. Errors discovered after award should not be corrected unless the buyer determines that it would be unconscionable to proceed with the error enforced, in which case the bid should be rejected and the initial award withdrawn.

References

Make sure that you treat all suppliers equally by contacting the same number of references for all bidders.

When you check references, it is important to ask the same objective questions of every contact at each [checked] reference. Best practice is to conduct the checks, whether done orally or in writing, by using a printed script of questions to be asked. Record all responses and comments from contacts in document form for future discussion/reference. Some examples of typical reference interview questions are:

- Did the supplier satisfactorily perform the contract? If not, what went wrong?

- Did the supplier complete the project on schedule or perform on a timely basis? If not, why not, and how large was the deviation?

- Was the project completed within budget (no price adjustments needed)? If not, why not, and how large was the overrun?

- Were there any unforeseen issues that arose during the project? What were they?

- Would you rehire the supplier for a similar project?

- Would you recommend the supplier to other companies/districts?

Tailor the script questions to get the information that is most important to you. For example, if one of your primary concerns is durability of the equipment after the first two contract years, then ask for references from all customers who have had the equipment two years or longer, and ask questions of these references about any service problems during and after the initial two years of the contract.

In summary, focus your attention on distinguishing "acceptable" performers from "unacceptable" performers for the type of product or service that you are soliciting. Obtain references from those who will give you the most useful information, and ask questions designed to elicit that information.

Bid Tabulation

The bid tabulation is a listing, typically in spreadsheet form, of bid prices submitted and the calculated bid values used to determine the awardee(s). The tabulation must include the actual bid prices, plus the formula and calculations for Total Cost (if specified as the method of award) and/or special adjustments (see Section VII: Rule for Award in the Supplement on writing an ITB that follows this section of this Paper). Any rejected bids (i.e., not responsive and/or not responsible) are not displayed in the bid tabulation.

Award

The award is made (usually pending ratification by the School Board) to the bidder with the lowest calculated bid value. In cases where the award is made based on prices "adjusted" for special circumstances, the actual bid price of the awardee(s) is the award/contract price.

Strategies for maximizing cost savings during the bid process

A basic ITB is relatively straightforward. However, to maximize savings, there are few additional techniques you can use.

- Price Breakdown
  Provide suppliers with a pricing template that breaks down the price of the product or service you are requesting into its component costs. The breakdown will be somewhat unique depending on the product/service solicited. Examples of elements that might be included in the breakdown are: tooling cost, setup cost, raw materials (cost and quantity), labor (rate and hours), freight, duty, travel, etc. Breaking down the price will help you identify any cost outliers and help you during the negotiation phase.

- **Multiple Rounds of Bidding**
Your solicitation process needn't stop after you receive the first round of bids, especially if multiple suppliers have responded. You can use the results of the initial posting to narrow the field and notify the selected suppliers of another round of bidding (i.e., "Best and Final Offers"). It is important to reduce the number of eligible bidders before requesting a Best and Final Offer, rather than telling all bidders to re-submit, as a smaller field gives more incentive for the finalists to "sharpen their pencils." This technique can be very effective in highly competitive markets.

- **Reverse Auction**
A traditional auction is conducted when a seller and pits multiple buyers against one another, each offering progressively higher prices for the item being auctioned. As the name implies, a Reverse Auction does the opposite; it is conducted by a buyer who pits multiple sellers against one another, with each one offering progressively lower selling prices. This tool can drive down prices more effectively than a single or multi-round ITB by providing sellers an unlimited number of "second looks". A reverse auction can be employed as the initial solicitation process, or following one or more rounds of sealed bidding. In either case, make sure you only invite suppliers to the reverse auction that you have already qualified. Also, check your state laws to confirm that a reverse auction is an allowable method for awarding contracts.

  While the straightforward ITB process can be carried out manually, or by using email and Excel, an e-sourcing tool is an absolute must for running a successful reverse auction. Don't let your technology replace good supplier management, however. Your suppliers will need to be informed of your plans to run a reverse auction. They'll also need to understand how you plan to select the winner and the procedures they need to follow to participate.

Request for Proposal (RFP)

Introduction

An RFP is used to purchase products and services by soliciting competitive proposals from suppliers and selecting an awardee based on the qualitative nature of the proposed solution, in addition to price and other factors. The RFP may dictate to varying degrees the exact structure and format of the supplier's response. Effective RFPs typically reflect the district's strategy and short/long-term business objectives, providing detailed insight upon which suppliers will be able to offer an appropriate proposal.

An RFP involves more than a request for price. Other requested information may include basic company information and history, financial information (whether the company perform without risk of insolvency), technical capability (for items not previously produced, or where the requirement could be met by varying technical means), product information such as stock availability and estimated completion period, and customer references that can be checked to determine a company's suitability (including background and expertise of employees to be assigned to the project).

Through this process, suppliers can offer an array of potential solutions and prices. The district evaluates the competing solutions, picking the one that best satisfies for the district's business need. RFPs are most useful in the following cases:

- Multiple (different) solutions are available that will fit the need.

- Multiple suppliers can provide the same solution with different implementation scenarios.

- The project requires special skills, expertise, and technical capabilities from suppliers.

- The problem requires that suppliers partner or subcontract in order to provide the products/services.

Interested suppliers return a proposal by a set date and time. The proposals are used to evaluate suitability of the proposer, as well as the solution proposed.

Districts may follow a supplier screening (pre-qualification) process to short-list the suppliers to be invited for further rounds of evaluation and negotiation. This screening process could use either proposal scoring models or internal discussions. Additional rounds may include panel interviews, functional and/or technical presentations by proposers, product demonstrations, trial usage periods, etc.

Discussions may be held with suppliers after proposals are submitted (often to clarify technical capabilities or to note errors in a proposal, or to negotiate the price). In most instances, only shortlisted suppliers will be invited to participate in subsequent rounds or might be asked to submit their best technical and financial proposal, commonly referred to as a Best and Final Offer (BAFO).

Select the Proposal Evaluation Team

Since the RFP process involves subjective analysis and comparison of different technical solutions offered to address the district's need, the principles of transparency and fairness are best ensured by using a team of technical experts in the applicable field to evaluate the proposal(s) and select the one that best satisfies the district's need.

The evaluation team must (a) be competent, (b) follow all applicable laws and policies, as well as the principles of impartiality and transparency, (c) be able to identify the most advantageous proposal by using the predetermined evaluation criteria, and (d) make a recommendation for [contract] award to the final approving authority (usually the School Board). Those involved in the process must maintain integrity and professionalism in all aspects of the evaluation.

The evaluation team leader should almost always be the person charged with administering the contract(s) to be awarded from the RFP.

Best practice is for the buyer/purchasing agent who is responsible for the RFP to fill the role of facilitator (i.e., non-voting member) for the evaluation team to assure integrity of the RFP process, regulatory and policy compliance, impartiality, transparency, and adequate and proper documentation of actions and results during the evaluation process.

Some suggestions regarding team makeup are:

- Include the stakeholder who will be the "owner" of the contract (user of the end product/service).

- Include district subject matter experts.

- Team size is recommended as five to seven people. If fewer are used, loss of a single member jeopardizes the ability to proceed; if a large group is used, have a predetermined reaction plan in case one or more team members become unable to participate (e.g., replace with identified alternative; proceed without replacing).

- Districts should presume that their business problems are not unique, but are shared by other districts. If another district experiences all or part of the same problem and could benefit from the solution, invite a representative from that district to be on the team.

- Consider including outside (third-party) "consultants" who have expertise in the subject matter. Carefully vet any third-party participants to assure that they have no actual or perceived conflict of interest with possible proposers.

- The team should ideally be made up of individuals from several functions within your organization. A cross-functional team means you'll be able to take advantage of expert knowledge for highly technical or complex specifications.

- No supervisor-subordinate relationships can exist among team members. For example, allowing the district Superintendent, or any member of the Cabinet, to be on the team makes it difficult to form a team that can avoid the appearance of supervisory influence or bias.

    Best practice is to create a district *RFP Evaluator Manual* to distribute to the evaluators (see the sample Evaluator Manual in the Supplement that follows this section of this Paper).

Draft the RFP Document

A well-crafted RFP document will be organized and look very similar to an ITB document. However, there are several sections of the document where an ITB and an RFP typically differ significantly from one another (e.g., the Introduction/General Information; the Specification/Scope of Work; the process for recommending an award, etc.). The following discussion focuses on those areas in detail.

Never simply take a previous RFP from another procurement effort and just replace product names. The most effective RFPs are customized to match the current business need. Even in the case where an RFP was previously issued for the same product/service, it is highly likely that the business requirements (specification) for that product/service have changed/evolved since the previous RFP.

Many districts have developed standardized templates for RFPs in order to churn them out faster to meet the demands (solicitation volume and cycle time) of its internal school/department customers. This semi-automated approach is useful for shortening the procurement time frame, but it can also lead to a reduction in the critical thinking that is needed in constructing each RFP. Just "filling in the blanks" on a template simply isn't sufficient. Issuing an RFP isn't a best practice on its own; the RFP needs to be carefully composed in order to maximize the return that the district obtains from the RFP process.

Introduction Section

To provide context for proposers, start your RFP with an executive summary of your business goals. The RFP must provide sufficient business information to enable each supplier to understand the context of the service. This should include information along multiple dimensions, including business (strategic objectives of the district, how the services support the district's business processes, the criticality of the services to the district's business, anticipated business changes that may impact the services, etc.), operations (volume of transactions, calendar/time of process execution, and extent of manual intervention required), and technology (technology roadmap, frequency of projects, existing projects, and anticipated projects). This contextual information allows each supplier to differentiate their proposal by demonstrating how they can address the immediate as well as the ongoing issues facing the district.

Follow the Executive Summary with a short, succinct statement of the business problem. Districts need to clearly articulate the problem they are trying to solve through the RFP. No single critical success factor for the RFP is more important than this. If you cannot state the business problem in a single sentence, you are probably including requirements that you think are part of the solution, rather than just identifying the business problem itself.

The overarching goals of the procurement should be clearly defined and prioritized to enable each supplier to create a compelling solution tailored to the district's intended outcome. Avoid using generic, broad/based objectives, such as "improve quality", "reduce cost", or "improve student achievement". Describe in detail the short- and long-term effect and result that the district is after. For example, "The

district desires to increase academic achievement of Middle School students (grades 5-8) by an average of two grade levels in Reading Comprehension across all demographic categories within two years." This strategic information helps all suppliers address the key goals of the initiative within their proposal.

The temptation to mandate a specific solution to the business problem is difficult to avoid. (This temptation is mitigated somewhat by properly defining the business problem.) Though districts may have a very good idea of the methods and technology that can be applied, it is essential to write requirements that leave the door open to supplier experience and innovation.

The key stakeholders and the evaluation team must review, refine, and endorse the business problem before specific requirements are established. RFPs are consistently more effective/successful when the team that will review the responses has been involved in the development of the RFP.

Suppliers should be encouraged to add their expertise and creativity and to offer different options for solving the problem. Include a statement to the effect that, regardless of potentially conflicting requirements, the RFP solicits the respondent's best solution to the problem.

Different options with different prices offered by a single proposer are entirely acceptable. However, it is recommended that you require suppliers to submit separate, standalone proposals for each option. The options can then be evaluated and scored independently.

Provide information that will help create/assure competitive participation by suppliers. A competitive environment requires multiple, motivated responders to the solicitation. The most carefully planned procurement process can be derailed if targeted suppliers elect "no bid" or provide a weak proposal. Specialized disciplines that have a limited number of potential supplier options are particularly vulnerable in this respect.

There are two primary reasons that a capable supplier might submit a half-hearted response or no response at all: Either the supplier can't see enough benefit in providing the service (e.g., the deal provides an unacceptable risk/reward ratio) or the supplier feels that it has little or no chance of winning the business, and therefore submitting a proposal is a pointless effort.

The potential benefits of the deal need to be made clear to suppliers. The district should be judicious when including speculative requirements that are clearly unreasonable or unnecessary or that make the district seem less appealing to work with. An enticement might be that the service providers will have the opportunity to propose additional and/or "discretionary" services. If the district anticipates using discretionary hours, or if there are related projects in the pipeline, the RFP should accentuate these.

Specification/Statement of Work Section

RFPs include specifications of the item, project, or service to be provided. Because an ITB is the more commonly used solicitation type for procuring products, this section of the Paper focuses primarily on using an RFP for procuring services. Specifications define precise requirements of services. To understand the context in which a service will be used, and with clear knowledge of statutes, regulations, policies, market availability, budget, and the strategic plan of the district, the team must translate a need into detailed requirements. Written with an intent to maximize competition, specifications should use language that is relevant to, and understood by, potential proposers.

There are two types of specifications: design (or technical; product) and performance (or functional). The specification written for a particular RFP may incorporate features of both. Specifications can be envisioned as a continuum, with pure performance on one end and pure design on the other. Each requirement in a specification falls somewhere on this continuum.

1. A design specification establishes the prescriptive characteristics that a product must possess, including details of how it will be manufactured; engineering plans, drawings, blueprints, dimensions, tolerance levels and ranges; definition of terms; prescribed materials and process of construction. Delivery, detailed testing, inspection methods, and Industry standards may be included.

   The objective of a design specification is to meet a custom or unique requirement. It limits the options of the supplier, placing high risk on the buying entity for design errors or omissions within the specification. Hence, if the desired outcomes from a solicitation are not achieved, the supplier may argue that any poor performance is due to the design that was specified and not to the supplier's assembly.

   Although design specifications provide a predictive certainty regarding the nature of the item/service being procured, and greatly simplify the selection for award process, their prescriptive form is more time-consuming and expensive to develop, and they may limit competition.

2. A performance specification describes the desired outcome from receiving a service. It allows proposers to use their expertise, creativity, and innovation to provide a solution (the proposer chooses the method of achieving the outcome) and places more risk on the awarded supplier, who is responsible for achievement of the outcome and will be evaluated based on the outcome instead of the process for achieving it.

   Well-designed performance metrics are essential for defining acceptance testing and achievement of outcomes. They are also critical for enabling rewards and consequences regarding contract performance.

The RFP specification needs to enable the suppliers' responses to be normalized, compared, and ranked. If the specification does not sufficiently enable an apples-to-apples comparison of responses, the selection and award will be made with the attendant risks of a poor or subjective decision, or there will need to be RFP addenda, follow-ups and clarification sessions to attain the required normalization. At the same time, the district must also be careful not to lock suppliers into an overly rigid response format that limits their ability to differentiate themselves or limits their ability to propose a solution that provides the maximum benefit to the district.

When purchasing a service, it is important for both parties to clearly understand what the expectations are. Any lack of clarity or room for interpretation in the RFP specification will introduce a degree of uncertainty when comparing proposals and can become a sticking point when negotiating the final deal. For example, the requirement statement, "Supplier provides groundskeeping services" is open to interpretation. Does that mean just cutting the grass occasionally, or is it cutting the grass on all district property once a week between April and October to a height of 1.5 inches and removing all cuttings from the property? Does it include trimming trees and shrubs? Does it include weed control?

While there are core service areas for which the supplier's responsibility is obvious (e.g., database and application monitoring), the boundaries of the supplier's responsibilities, where ownership and accountability are potentially more ambiguous, need to be very clearly defined. The procurement can be thrown off-track if a supplier selection is made without having the boundaries of service locked down. In most cases, the suppliers will have significantly more experience with the potential pitfalls, loopholes, and contractual gray areas than the district, and they may use ambiguity in the RFP to the detriment of the district in contract negotiations. Examples of some boundary areas that require particular focus include:

- The definition of software "updates" and "upgrades" vs. "modifications" and "enhancements".

- Roles and responsibilities in monitoring, procuring, applying and testing upgrades, updates, and patches.

- Timing and flexibility (e.g., maximum class size) of training to be provided.

- Availability (timing, lead time) of spare/replacement parts.

- Restored condition of surrounding landscape after a construction/demolition project.

- The application and timing of fixes for specific issues.

- The definition of discretionary activities.

Ask thoughtful questions that will prompt thoughtful responses. Avoid repetition and stock questions to ensure each supplier's responses will better demonstrate how its capabilities provide real solutions to your exact business situation.

While there's always room to ask suppliers to describe their capabilities, the RFP should be built around a set of requirements to which the supplier can provide a "yes/no/partial" response. A common approach is to provide very discrete requirements (e.g., "The supplier shall notify [the district contact] within two hours of a suspected or potential data breach.") and then provide the supplier with a two-stage response format, where the first part is a "yes/no" response to indicate if it will meet the requirement in full, and the second part is a field that allows the supplier to provide further description. The supplier is required to complete the description field for all requirements to which it does not fully comply (in order to provide an alternative solution or explanation), but the supplier can also use the field to provide further relevant information regarding the way in which it would meet the requirement (or even to suggest a better way in which the goals of the requirement might be met). This RFP response format enables a quantitative analysis, while also allowing the suppliers a degree of flexibility in their response.

Include adherence to quality standards and guidelines from professional associations, if they exist for the services you are contracting.

Try to quantify quality criteria whenever possible. Then decide who will be responsible for measuring and how often. If a specification says, "Keep the classroom floors clean," the word "clean" will get as many different interpretations as you have teachers in the district.

Performance Monitoring and Measurement

Closely tied to the performance of a service is the measurement of how well the service is being performed. Performance measurements are generally captured via key performance indicators (KPIs). The RFP should define the KPIs to be monitored and reported by the supplier, or at least require the supplier to include appropriate KPI recommendations in the proposal.

The RFP should identify the most critical dimensions of the supplier's service as defined by the district. In addition to the obvious measurements, such as application availability, the district may have other specific concerns, such as timely detection and notification of issues (e.g., disk space limits), the successful completion of critical business transactions, or even accurate service invoicing.

Relying solely on the service provider to measure performance creates an obvious vulnerability. Best practice is for the district to independently collect apples-to-apples data on at least some of the KPIs to compare and reconcile to the performance measures reported by the supplier.

While the performance measures need to address all key dimensions of service, they should also be manageable. The goal is to have the supplier perform the services contracted, rather than to focus on churning out reports.

Rewards and Consequences Related to Performance

Standard practice in most districts is to include punitive measures in contracts for performance shortfalls. Defining punitive measures is rarely a challenge, but careful thought should be applied in order to define measures that will truly prevent poor performance and drive fast, effective corrective measures when a problem occurs. These measures should be designed to drive supplier behavior rather than to provide money-making opportunities for the district. The district may consider nonmonetary recourses rather than, or as a precursor to, punitive financial damages. Examples might include requiring the supplier to provide root cause analysis reports or to develop and implement mitigation plans. It is also recommended that the district take advantage of the dynamics within the supplier organization, requiring progressively more involvement by senior supplier management for severe or sustained performance failures or shortcomings.

The RFP should reflect the district's business priorities. Priority is typically indicated by the severity of penalties or actions triggered by performance shortfalls, as well as the associated incentives/rewards for exceeding requirements. For example, the KPI and performance reward/consequence for service availability should be emphasized over similar provisions for timely release of new features. If there is a particularly important period during which it is imperative that the actions or deliverables be met (e.g., month-end closing for financial systems), the KPIs and performance reward/consequences should appropriately reflect that emphasis.

In contrast to punitive measures, contractually providing incentives/rewards for performance that exceeds contractual requirements can be quite challenging. There are two key questions to answer in order to determine if performance incentives should and can be included in the RFP and resultant contract.

The first question is, "Will performance in excess of contractual requirements benefit the district in a tangible way (financially or otherwise), and at what level of performance does the district realize this value?" For example, under a contract to build a new school with a deadline of being occupancy-ready by no later than the first day of the school year, does the district realize a benefit if the new school is ready for occupancy three months early? Maybe not. However, if the school is ready one year early, then maybe yes. In another example, if the district issues a contract for groundskeeping services and the contractor salts and clears ice from entryways during the winter (service not included in the specification) at no extra charge, the district probably realizes a financial benefit.

If the answer to the first question (benefit to the district) is "yes," the second question is, "What is the district able to offer as incentive/reward for the above-and-beyond performance?" Even if the district realizes a tangible financial benefit, rewarding the contractor financially may be difficult, if not impossible. Districts typically do not have a budget line for "contingency contractor incentives." This dilemma presents a test of the chief procurement officer's skill in articulating the financial benefit to the district in a compelling way that results in budget adjustments to accommodate an incentive/reward.

Alternatively, in such a scenario, the contractor may realize equivalent (or greater) value from nonfinancial incentives. For example, district-sponsored marketing on behalf of the contractor (e.g., "built by" plaque on building, logo on district website or district marketing brochures, district sponsorship/endorsement at regional/national conventions, etc.) may be highly prized advertising that the contractor cannot otherwise obtain.

In summary, the key point is that effective reward and punishment provisions require a lot more imagination and creativity than simply resorting to a generic "failure to meet contractual requirements will result in liquidated damages."

Key Personnel

Make sure to ask for information about the key people involved in providing the service. You may want to ask for qualifications, time at the company, current and past projects, etc. The provider should also supply a contingency plan should a key person leave the company.

Implementation/Transition Period

In the RFP, require the proposal to address the implementation/transition period in detail, if applicable. The proposal should include the projected transition/project timeline, roles and responsibilities during that period, the obligations on the incumbent, the level of district support to be provided during the transition period, risk mitigation strategies, and the performance responsibilities of the supplier during the transition/implementation period.

Proposal Pricing Format

A key consideration in any procurement is the price, which is best incorporated into a total cost of ownership (TCO) model. In their proposals, suppliers may use diverse cost elements, bundle different services within sundry line items, and use differing definitions and assumptions. Develop the pricing format around key line items, but try to avoid curtailing the supplier's ability to price its offer. Allow some flexibility by including space in the pricing tables for the supplier to insert additional and discretionary charges, as well as to provide clarifications. This flexibility should be coupled with a strong "totality of charges" provision (i.e., a statement that the supplier can't invoice for charges that are not delineated in the proposal) to ensure that the suppliers disclose all rates and related or potential charges.

The district should request pricing at as granular (detailed) a level as is reasonable. Granular pricing enables comparison of specific cost elements between suppliers and increases leverage for negotiation. It also allows the source of cost element outliers to be addressed and understood (e.g., whether the supplier is overpriced or is simply using erroneous assumptions).

RFP Responses Will Be Contractually Binding

Clearly state that the RFP terms and the supplier's proposal (portions of the proposal terms that are "accepted" or agreed upon via negotiation) will be used as the basis for the resultant contract. Some districts, as a standard practice, simply include the RFP responses as an exhibit to the contract. Other districts state that, by submitting a proposal, the supplier accepts that any or all terms from the RFP document may be included in the contract. At a minimum, the RFP should require that each supplier's response include a declaration from an authorized representative that all claims made in the proposal are truthful and binding.

The transition from RFP to a draft contract can be streamlined if the RFP requirements are "contract-ready," meaning, if a supplier indicates compliance with or agreement to a particular requirement stated in the RFP, then the RFP language is what will appear in the contract. This can considerably accelerate the time required to move from RFP response to contract draft and reduce the opportunity for a supplier to renege or "clarify" its proposal commitments after the contract is drafted.

Standard Contract Terms

You should include the proposed contract template as part of the RFP, with a requirement that any proposed exceptions or additions to the standard contract terms must be expressed by the proposer as a red-lined version and returned as part of the supplier's proposal. The RFP should make it clear that any material deviation from the standard terms will be evaluated negatively when the district selecting a supplier with whom to enter negotiations. Don't accept a response of "will be negotiated in good faith."

You can force a meaningful response by including a provision that such a statement will render the proposal non-responsive. This will require suppliers to complete their legal and business review of your standard contract terms before submitting a proposal, rather than after the Notice of Award. Additional time for suppliers to respond to this requirement should be incorporated into the response deadline, but the additional time is worth it. Suppliers are more inclined to meet the district's initial terms when business is still at stake, whereas they may be intractable when they know that they are the leading contender for the business or have been recommended for award.

Define Evaluation Criteria and Scoring Rubric

Evaluation criteria and scoring methodology (rubric) must:

- Be agreed upon by the evaluation team and stakeholders before the RFP is published.

- Be published in the notice for the RFP, or within the RFP, or both.

- Not be changed once the RFP has been published and notification has been sent to potential proposers. If changes become necessary, they must be executed as addenda to the RFP, and all potential proposers must be notified of the changes. A change to the criteria/weightings may also necessitate (for transparency and fairness) an extension of the response deadline.

Appropriate criteria should (a) be used to determine whether a potential proposer is suitable, (2) be directly related to the subject matter of the RFP, and (3) be clear enough to ensure that the potential proposer has an accurate understanding of what is most important to the district. Criteria will vary by the type of service that is being procured. Extensive market and supplier research, along with a full understanding of the subject matter of the RFP, will aid in the selection of the most appropriate evaluation criteria for the particular procurement. Using consistent objective scoring, based on the priorities and concerns of all stakeholders, will make it easier to defend and justify your award recommendation.

Development of the evaluation criteria will vary depending on the RFP type (single-step, multi-step) that is being used. For a multi-step RFP, the criteria may be subdivided into selection criteria (to qualify proposers for further consideration) and award criteria.

1. The selection criteria may assess the proposer's financial condition, ethics, quality of services supplied, capability of facilities/equipment/personnel used to provide the service, reliability, management, experience, and technical ability. Examples of selection criteria:

   ❍ Economic and financial standing, including bonding capacity and applicable insurances

   ❍ Technical and professional ability, including specified licenses, permits, and professional certifications

   ❍ Criminal history/background checks

   ❍ Quality of services that the proposer currently/historically offers

   ❍ Reliability (e.g., indication or evidence that the proposer will ethically and faithfully complete the terms of the contract)

   ❍ Past performance and experience (e.g., determined through reference checks)

   ❍ Management practices and ability to perform

   Note: Cost is not normally a consideration during the first phase of a multi-step RFP.

2. The award criteria must relate directly to the services or works to be provided. They are used to determine which proposal is the most economically advantageous offer or to further determine the proposer's ability to perform/ deliver as it relates to the contract.

   Award Criteria must be linked to the subject matter of the RFP and may consider any or all of the following:

   ❍ Price or total/lifetime cost

   ❍ Quality

   ❍ Technical merit

   ❍ Aesthetic and functional characteristics

   ❍ Environmental characteristics

   ❍ Technical assistance

   ❍ Delivery date and delivery period, implementation process, timing and requirements, or period of completion

   ❍ Social considerations (e.g., local sourcing, MWBE content, Green content, etc.)

   ❍ Sustainability

   ❍ Innovation

Total Cost of Ownership (TCO)

One benefit of strategic sourcing is that it shifts the focus from looking only at the purchase price to understanding the total cost of owning, consuming, maintaining, and disposing of a product or service. For significant spend areas, procurement teams at best-in-class districts consider many factors that affect the total cost of ownership. This makes good sense when you consider that acquisition price accounts for only 25 to 40 percent of the total cost of most products and services. The balance (and majority) of the cost is comprised of operating, training, maintenance, warehousing, environmental, quality, and logistics costs, as well as the disposal cost or residual value at the end of its application or useful life.

Calculating the total cost of ownership requires looking at the entire process of procuring and consuming the product or service, something that can only happen with cooperation and input from both the buyer and the seller. Best-in-class districts also continuously engage suppliers to form strategies for the ongoing reduction of the total cost of ownership.

It may not be easy to convince your district's executive leadership to truly prioritize value over price, but it is essential to realize the benefits. Establishing a "total cost of ownership" mindset is a goal that the district needs to embrace and perpetuate throughout the entire organization.

Define Criteria Weighting Factors

Each criterion should be weighted to reflect its relative importance to ensure that the district identifies the most advantageous proposal. When it is not possible to provide weights that are based on objective grounds, the criteria should be listed in the RFP in descending order of importance.

Weighted evaluation criteria help suppliers identify where to focus their efforts when responding to your RFP and to craft their most competitive proposal possible.

Here are the two most common ways you can apply weighting factors:

1. You decide on a different maximum possible score (points) for each criterion in order to reflect its importance relative to the other criteria. The sum of the individual criterion scores is the total score for the supplier. The total possible score (sum of the max numbers of all criteria) is immaterial, although a forced total of 100 is the most commonly used techniques. For example, if *total cost, technical performance, delivery,* and *functional performance* are the criteria, weighted maximum points allotted might be 10 for *total cost,* 20 for *technical performance,* 5 for *delivery,* and 15 for *functional performance.* The resultant scores are summed to get the total score for each proposal.

2. The second method uses a single maximum score and scale (e.g., 1-10) for all criteria, with relative weighting of each criterion defined as a unique multiplier that is applied after evaluator scoring. For example: if *total cost, technical performance, delivery,* and *functional performance* are the criteria, each is scored on a 1-10 scale and a different weighting multiplier is applied to the raw scores of each criterion (e.g., *total cost* multiplier = 1.0; *technical performance* multiplier = 2.0; *delivery* multiplier = 0.5; *functional performance* multiplier = 1.5). The resultant "weighted" scores are summed to get the total score for each proposal.

Either method is effective. However, advantages of the second method are that it (a) is easier and faster for evaluators to use, (b) gives a better qualitative result, and (c) mitigates the effect of bias that any evaluator may have. A fuller explanation of these advantages is provided below.

(a) Using the same scale (e.g., 1-10) for measuring all attributes is easier for evaluators to deal with than having to make a mental transition to a new scale for each criterion. At some time or another, you've probably had to complete a survey that started out something like this: "For each of the following statements, indicate your answer on a scale of 1-5, 1 meaning that you strongly disagree and 5 meaning that you strongly agree." But you have probably never been asked to complete a survey with instructions like, "Indicate your level of agreement or disagreement with each of the following statements; on the first statement, indicate your answer on a scale of 1-4, with 1 meaning you strongly disagree and 4 meaning you strongly agree; on the second statement, indicate your answer on a scale of 1-37, with 1 meaning you strongly disagree and 37 meaning you strongly agree; on the third statement, indicate your answer on a scale of 1-9, with 1 meaning you strongly disagree and 9 meaning you strongly agree." The arithmetic result of the two surveys (once normalized by "weighting") is exactly the same, but which one do you think it would take you longer to complete?

(b) In the example above, where the scale changes for each response, which of the scored survey statements do you suppose the respondent is going to put the most time and thought into? The 1-37 scale, right? So, the quality of thought/effort put into responding will correlate with the implied importance of the statement (smaller scale implies less important = less effort in providing a quality response).

(c) Forming an evaluation team is a little akin to selecting a trial jury. As much as you desire for all members to be totally objective and unbiased, it is virtually impossible to get that result. That's not to say that your team members will be open-minded through the evaluation process, but their personal knowledge and experiences regarding some of the proposers will tend to influence them to one degree or another. The easiest way (intentionally or subconsciously) to skew the scoring results is to disproportionately favor (or disfavor) one of the proposers in the scores assigned to

the criterion with the largest point scale (in the case above, that's the 1-37 statement). Equalizing the scoring scale for all criteria has a mitigating effect on any bias that may be present.

A common dilemma that districts encounter is that the smaller the grading scale is, the smaller the differentiation (distribution) of scores among proposers tends to be. For example, if a criterion has a scoring scale of 1-5, the distribution of scores assigned to all proposers for that criterion may only have a one or two-point spread (e.g., all proposers received a score of 3, 4, or 5). This creates an easy target for protest, particularly for any criteria that are scored subjectively. This problem can be avoided by increasing the scoring range used. For example, a scale of 1-100 is likely to result in more differentiation in scores than a scale of 1-5. This technique can be applied in either of the weighting methods defined above.

Proper publication of criteria will help proposers to meet the most important (most heavily weighted) needs of the district. Furthermore, it will protect the district from challenges claiming the criteria were chosen post-notification to favor a particular proposer.

Instructions for Preparing and Submitting Proposals

Best practice is to provide guidelines to prospective proposers regarding the format, content and organization of information/documents submitted as the proposal. For example, you can instruct proposers to sequentially address each element of the RFP specification, and likewise each element of the evaluation criteria. Each element/section can be separated by tabs (or separator pages if electronic submission is allowed) for easier reference by the evaluation team. For ease of handling and distribution to the evaluation team, you can require that specific sections of the proposal (e.g., pricing, financials, etc.) be delivered in separate packages.

If your instructions and evaluation criteria require submittal of financial statements, privately held proposers (non-public, but not publicly traded) may balk or object to providing financial statements as they are confidential and not publicly disclosed. It is recommended that, in your instructions, you provide an assurance of confidentiality and a secure means of delivery and handling that will prevent the financial information from becoming part of the public record or be otherwise disclosed.

Instructions for submitting RFP proposals are essentially the same as for submitting bids in response to an ITB. You must provide the submittal deadline, the number of copies to be submitted, and how the proposal package (box, envelope, etc.) is to be marked/labeled. If you require hard copy submittal, it is highly recommended that you also require an electronic copy (e.g., CD ROM, flash drive) to be submitted.

Black-Out Period

Include clear instructions that prospective proposers are not allowed to have any direct contact with evaluation team members, district management, or School Board members prior to the ratification of award. Some districts expand this provision to prohibit contact with any district personnel. The only permissible contact point for the proposers should be the RFP facilitator.

For many of your RFPs, one or more of the prospective proposers may already be engaged with the district on projects (either as the incumbent or on unrelated projects). You may consider carefully granting exceptions to the black-out rule for these cases. It is a best practice to require all prospective proposers to submit a written declaration of existing engagements for review and approval of exception to the black-out restriction. Whether or not an exception is granted, you should notify the district employees who are in routine contact with the proposer that the "black-out period" is in effect, and they must (a) refrain from initiating or participating in discussions about the RFP with the proposer and (b) immediately report any attempt by the proposer to initiate such discussions.

Review the Draft

At some point in the process of developing the RFP, the team should read the RFP from the point of view of a supplier who is digesting it for the first time. It is frequently surprising how many of the RFP requirements need clarification due to the use of district-specific terms, assumed supplier knowledge of district processes, or an incomplete description of technical requirements.

Using internal stakeholders, thoroughly proofread the RFP. Having the business problem definition and the RFP itself reviewed by a group of respected minds outside the evaluation team (a "Red Team Review") will prove quite valuable, especially for more complex RFPs. If possible, have several individuals provide a mock response to the RFP draft to make sure it elicits the type and quality of proposal you are looking for.

Prior to publication of the RFP, it is allowable to have suppliers review the draft to give you feedback. If you select this option, it is important to allow all willing suppliers to review the document to ensure fairness. However, despite the precautions you may take to preserve transparency in the process, this practice will tend to make you vulnerable to claims of biasing the RFP in favor of a particular supplier.

Publicly Posting the RFP

Despite the evolution of the "digital age," most states still require formal solicitations to be advertised in local newspapers. There is no harm in this (other than the financial burden to the district), but it does not take advantage of the opportunity available through the internet to notify the same and a much broader community of providers. Best practice is to take maximum advantage of electronic media to notify this wider (e.g., national) market of your requirements, including posting on "electronic bulletin boards" operated by regional or national organizations, or utilizing social media (Twitter, Facebook, etc.). Before using electronic posting or notification, confirm with your Legal Department that your state statutes don't prohibit it. Also, in any posting or advertisement of your solicitation, be careful to include all documents related to the solicitation (e.g., forms, attachments, addenda, etc.) or clear instructions on how to access or obtain them.

Pre-Proposal Conference

A pre-proposal conference is a forum for prospective proposers to ask questions about the RFP process, specifications, and instructions. It can be held face-to-face or by tele/video-conferencing or a combination of both. At these sessions, suppliers may refrain from asking questions to avoid giving away their concerns in a public forum. However, following the session, those suppliers may pose their questions individually. Even if no questions are asked, a well-planned conference is likely to give the suppliers (1) an opportunity to meet and partner with other suppliers and (2) the best sense of what the problem is that the district is attempting to solve.

The requirement to hold a pre-proposal session is optional but is advised as an opportunity for the district to gain additional insight on suppliers and the marketplace.

Proposal Receipt

Best practice is to utilize a secure web-based method for receiving proposals and for conducting the entire evaluation process and scoring.

Where an e-Procurement system or portal is being used for the receipt of solicitation responses, the security built into the system may only allow for opening after the final receipt time/date is reached. The buyer/purchasing agent responsible for the RFP will open the responses and send them electronically to the team members, along with the evaluation score sheet, to enable evaluation to begin.

The steps for receiving, opening, and examining proposals for an RFP are almost the same as for an ITB but with some specific differences. The following details the traditional paper-based approach for RFP proposal receipt and opening (the process for electronic proposal submittals will vary somewhat, depending on the media tool used):

Upon receiving the proposals, the district must perform and record the following:

- Date and time each proposal is received. A date/time stamp should be applied physically or electronically to each proposal as it is received.

- The RFP documentation must remain unopened and secured in a safe location until the deadline for submittal is reached.

- Proposals received after the established deadline should be rejected and returned unopened to the proposers who submitted them, and a record made of this action.

Before the proposal deadline, information concerning proposals received (quantity, proposer identities, proposal content, etc.) is not to be disclosed to anyone, either within the district or external to it.

Proposers should be allowed to revoke or amend/correct their proposals at any time prior to the closing date. Should this occur, the originally submitted proposal should be returned unopened to the proposer.

Depending on your local statutes and policies, a public "opening" of submitted proposals may or may not be required. Regardless of what else your mandates do or don't require, a public opening of proposals should never disclose any of the contents of proposals submitted. The contents should not become available to the public until after final award approval.

Evaluation of Proposals

RFP evaluation consists of the examination and evaluation of the documentation submitted in response to the requirements in the RFP. It is a complete review of the received proposals based on pre-defined evaluation criteria. The criteria should be comprehensive enough to determine the best value solution for the district so that a recommendation for award can be made.

All proposals received must be kept secure and confidential during the evaluation process, subject only to applicable freedom of information or public records legislation.

Team Preparation

Planning is important for the timely and proper conduct of the evaluations. It is recommended that the evaluation team hold a preparatory/ planning meeting before proposals are distributed (made available) to them. All members of the evaluation team must understand and agree to the following:

- The process to be followed, including signature of a conflict of interest statement.

- Have no direct contact with potential proposers for the duration of the solicitation and award process.

- How criteria scoring is to be done.

- Legal and policy constraints.

- Their responsibilities while serving on the team.

- The evaluation timetable, including scheduled meetings of the team. Despite the usefulness of RFPs, stakeholders frequently consider them something to avoid due to the time required for the RFP process (planning, scope of work definition, proposal evaluations, etc.). Since the stakeholders and evaluators are the significant controllers for the total time required to complete an RFP, it is critical (up front) to set and get agreement from these groups on a firm timetable. Immediately report any infraction of the timetable and involve the management structure that these individuals report to for corrective action.

All team members must sign a declaration of impartiality, non-disclosure, and conflict of interest, or similar kind of declaration, before they start to evaluate the submitted documentation (see the sample declaration form included as a Supplement following this section of the White Paper). By signing such a document, each team member (a) declares that he/she is not associated with any of the potential suppliers or their proposed subcontractors, etc., and (b) commits to not disclose any information obtained or received during the evaluation process to suppliers or any other persons not officially involved in the evaluation process.

Examine for Mandatory Requirements (Responsiveness)

Once the proposals have been opened, they must be checked for compliance with the requirements of the RFP (responsiveness). It is recommended that a checklist be used to confirm and record that all mandatory requirements have been met (see the sample checklist for mandatory requirements included as a Supplement following this section of the Paper). proposals not meeting the mandatory requirements will be excluded from further evaluation.

1. Procedural Compliance Check – Do the submitted documents comply with the RFP requirements (e.g., correct number of copies, submission of requested documents, etc.)? To help proposers avoid inadvertent omissions in the proposal, a checklist of the RFP requirements can be included as an attachment to the RFP, with instructions to complete and return it with the proposal.

2. Technical and Substantive Compliance Check – This consists of evaluating the submitted documentation for compliance with the specifications and other fundamental substantive requirements (e.g., insurance types and limits, licenses, bonds, etc.).

As a rule, noncompliance with any of the fundamental procedural requirements, specifications, and other technical and substantive requirements may result in the rejection of a proposal. The evaluation team should establish (prior to publishing the RFP) which procedural requirements will be classified as substantive so that noncompliant proposals are easily identified. It is against the principle of impartiality to accept noncompliant proposals. Reasons for rejecting a proposal for noncompliance (non-responsiveness) must be clearly explained and documented in the evaluation report and communicated without delay to the affected proposer. Best practice is to have decisions to reject proposals ratified by your district's attorney.

Evaluation of Technical Criteria

The way the members of the evaluation team operate (i.e., whether they jointly or independently access the submitted documentation) depends on local law, policy and preference. Best practice is to have team members perform independent evaluations and scoring, which are then aggregated for discussion at a final consensus scoring meeting. Regardless of the method of operation chosen, team members must serve only the district's interests to ensure the fairness of the evaluation process and must never manipulate or unfairly influence other members of the team.

Below are the two most common ways to organize your RFP evaluation. Regardless of which you choose, the idea is to give individuals time to independently evaluate proposals first, and then come together and discuss them as a team. The two methods are:

1. Every team member scores all criteria for every proposal. This technique can work if you don't have many offers to go through, or if the proposal evaluation does not require specific technical expertise. Each team member will get a holistic overview of every proposal and can then compare overall impressions during the whole team evaluation.

2. Every team member scores a certain aspect of every offer. For example, if you are looking for cloud-based project management software, your team member for IT security does not need to evaluate pricing or company background, but only the security questionnaire section of the proposals. Similarly, the team member for Finance need only review the pricing and does not need to look at the security questionnaire.

Your choice will depend on the number, length, and complexity of your RFP responses. Whichever method is used, you should make it clear to the evaluation team that the offers are to be evaluated based solely on what's been submitted in response to the RFP requirements. Any information collected by the evaluation team that conflicts with the information submitted by the proposer must be further investigated/verified with the proposer via a request for clarification or interview.

When evaluating criteria other than price/cost, all proposals must have met the procedural requirements and formalities, as well as the mandatory substantive requirements. Once this has been verified, the evaluation team examines the submitted documentation according to the specific RFP evaluation criteria, using the relative scales and weightings defined in the RFP. Each team member must observe the following practices:

- Disregard any unrequested information provided in the proposal. Best practice is to exclude/redact any such information from the materials provided to the team.

- Use a consistent approach when scoring against the specified criteria.

- Record scores in grids/matrices and, for transparency, attach the grids/matrices to the evaluation report (best practice is to record and maintain only the team's consensus scores as public record).

- Record justification comments to support the scores assigned.

If the evaluation team determines that clarifying information is not required, the evaluation process is complete.

Requests for clarification, issued from the evaluation team to one or more proposers, can be used for clarification of the proposal response for either fundamental requirements (necessary to meet the minimum functional, technical, or operational aspects of the specification) or non-fundamental requirements, but may not be used to bring a response to a fundamental requirement into compliance. When a request for clarification is necessary, it is important to remember:

- Requests for clarification do not imply negotiations.

- Any request for clarification, and its corresponding response, must be in writing.

- The evaluation team must agree on any request for clarification before it is sent to a proposer.

- Any agreed-upon request for clarification should be sent exclusively through the team chairperson/ facilitator. Individual members of the evaluation team must not contact proposers directly to seek clarifications.

- The clarification correspondence exchanged must be summarized in detail in the evaluation report, with a clear indication of whether the answers received are satisfactory to the evaluation team and, if not, why not.

Evaluation of Cost

It is a best practice to withhold any proposal pricing/cost information from the evaluation team members until after evaluation and scoring of the non-price criteria are complete, and to have price/cost scoring performed by persons who are not evaluating the non-price criteria. This avoids the potential for any actual or perceived manipulation of scoring to compensate for the weighted effect of the pricing submitted.

The recommended size of the cost evaluation team is two (2) members. One member should complete the cost proposal calculations per the RFP formula; the other member should verify all cost calculations for accuracy.

Submitted price/cost documentation should be examined to ensure:

- Prices submitted include all of the price elements required by the RFP.

- Arithmetic errors are corrected and recorded.

- All costs are included, where requested by the evaluation criteria.

- Discounts are applied and not just stated separately from prices (RFP should provide clear instructions for this).

- Prices that appear to be unreasonably low (not credible) should be appropriately investigated. In this case, the proposer should not be asked to increase the submitted price but can be asked to review and confirm that the submitted price is correct. If the proposer responds that the submitted price is in error (too low), the proposer should be allowed to withdraw the proposal.

Reference Checks

Best practice is to use a scripted list of questions for all reference check interviews and to record the results (see the sample interview questions included as a Supplement at the end of this section of the Paper). If the reference check is being used as a selection criterion (pass/fail result to determine eligibility for further evaluation), a standard for a "pass" result can be easily defined and defended. However, if the reference check is an award criterion and will receive a score (e.g., scale of 1-10) that will be contribute to the proposer's aggregate score, care must be taken to preserve consistency in scores assigned (e.g., if practical, have all reference checks conducted and scored by one person). Also include in the RFP a declaration to the effect that the district reserves the right to check any reference(s), regardless of the source of the reference information.

Financial Evaluation

Financial information (e.g., audited financial statements, annual reports, D&B reports, etc.) can help you to assess a supplier's financial viability. However, these materials are only useful if you have the expertise to properly analyze them. The financial information provided with the proposal can be used to either (a) determine the level of responsibility of the proposer (meets at least a minimum standard of financial viability and sustainability) or (b) assign a subjective score for financial viability as one of the evaluation criteria, or both. If you lack the expertise to make such a judgment, you should consider other means of assuring financial viability, such as requiring the supplier to be bondable/bonded, obtaining information from a credit reporting agency, etc.

Consensus Meeting

Once the evaluation team members have completed their independent reviews of the non-pricing criteria, the facilitator should develop a compilation and summary of the individual scores and submit them to the team. A team meeting is then held to discuss differing perspectives and opinions and to arrive at a consensus score for each proposal. To avoid having the team get mired down by immaterial or meaningless differences between individual scores, perform simple statistical analysis on the scores to identify relatively non-homogeneous results for each specific criterion scored, by supplier. Those outliers are the appropriate items for the discussion-to-reach-consensus meeting. At this meeting the evaluation team will:

- Consider the scores and comments assigned by each member of the evaluation team.

- Request any additional clarifications from proposers or solicit expert advice to recommend how to resolve material inconsistencies among the scores assigned by individual team members. The method chosen to resolve such differences should be agreed upon in advance and align with applicable policies and laws.

- Decide if additional rounds/steps are needed (e.g., interviews, presentations, demos, BAFO, etc.).

Oral Interviews/Presentations/Demonstrations

If the evaluation team concludes that a round of oral interviews/presentations and/or demonstrations is required to determine the successful proposer, there are several decisions and actions to be completed before the actual event is scheduled. Below is the recommended sequence of steps to follow.

1. If not previously determined, the team must decide how the results of the interview/presentation/ demonstration will be applied or added to the initial evaluation scores. In one approach, after the interview/presentation/demonstration round is completed, each evaluator independently revises (with comments) the team consensus scores (relevant criteria) previously established. There would be another consensus meeting, resulting in final consensus scores. For some RFPs, the need for a second round for interviews/presentations/demonstrations is recognized during the drafting of the RFP and scoring of this event is included in the original evaluation criteria.

2. Next, construct the agenda and timetable for the second round. The written agenda provided to each proposer should include:

   a. Instructions that proposers cannot alter or amend their original proposal in any way.

   b. Scope boundary – presenter cannot demo/discuss anything that was not contained in the more restrictive of (a) the RFP specification or (b) the proposal content.

    c.   Time limit and schedule for the session (e.g., 10-minute setup, 20-minute intro, two-hour presentation/demo, 30-minute Q&A).

    d.   Equipment (what's available, what to bring, etc.).

    e.   Scenarios within the RFP specification (if applicable, specific problems to show proposed method to address them). All proposers get the same scenarios and must complete all scenarios successfully, demonstrating actual steps required.

    f.   Demonstrations must be conducted in the proposer's live or test environment (not PowerPoint or screenshots).

3.   The evaluation team must be carefully prepped and acknowledge specific restrictions imposed on the team's participation in the round:

    a.   For oral interviews, scripted questions must be prepared in advance and used equally with all proposers, with no ad hoc questions, other than as provided for below.

    b.   No negotiating.

    c.   No "scope creep" questions (e.g., "Will you add…?" "Will you change…?").

    d.   OK to ask clarification questions (e.g., "What happens if…?" "Is function x an 'out of the box' feature, or does it require customization?").

    e.   No reference to other proposals or proposers.

    f.   No suggestions regarding [improvement or addition to] product/service features.

    g.   Only the team facilitator responds to questions from the proposer. The facilitator can grant exceptions case-by-case.

    h.   The facilitator has absolute authority to interrupt, suspend, or terminate interactions with proposers if the content of discussions, presentations, etc., violates the restrictions described.

4.   If a hands-on user trial of the product/service is to be conducted, the team must also define testing scenarios to be used by the trial evaluators, the time schedule for trial completion, method for recording trial results (e.g., list of test failures, result of repeat test if failure is resolved by proposer, etc.)

5.   Next, the team must determine which, or how many, proposers will be invited for the additional round. The team has the prerogative of inviting all proposers or limiting the round to a shortlist of the highest-scoring proposals, ranked on their initial review scores. If the shortlist process is used, some care must be exercised to accommodate the desires of the evaluation team while continuing to withhold the cost scores from the team. This task falls to the team facilitator as the non-voting member.

6.   The team facilitator will send the interview/presentation/demonstration letters to proposers selected to participate, as well as notify unsuccessful proposers.

At this point, proposers are not allowed to alter or amend their proposals. Evaluators will score each presenting proposer based on the criteria and points allowed for the second-round event (or appropriate initial evaluation criteria, whichever the case may be).

Best and Final Offer (BAFO)

The evaluation team may conclude that best and final offers are required. The team facilitator will prepare and send notification to the RFP proposers/finalists that a best and final offer (price only) is to be submitted. The BAFO submittals will be evaluated and scored by the cost evaluation team, using the stated criteria. The BAFO pricing and cost scores will supersede those associated with the original proposals submitted.

Final Scoring and Negotiations

Combining the consensus team scores with the price/cost scores, demo/interview scores (if applicable), and any other criteria scores determined outside the consensus process yields final total scores for the proposals. The highest total score determines the proposal to be recommended for award.

In the case where multiple awards are appropriate and desired, the number of awardees necessary/desired should be determined by the team prior to RFP posting. To preserve the integrity of the RFP process, you must steadfastly disallow any request or suggestion, after final scoring has been completed, to expand the number of awardees (from one to multiple or from multiple to multiple plus x) presented solely for including a "favored supplier" in the list of awardees.

Negotiate terms, pricing, etc. with the supplier(s) selected for award. Negotiation with the presumptive awardee(s) can be for the purpose of reducing the cost of the products/services to be provided, obtaining additional goods/services at no additional cost, reaching agreement (or improving) on business terms and conditions, or any combination of the foregoing. Negotiation cannot reduce the RFP Scope of Work/Specification, even with price concession, as that would necessitate re-issuing the RFP with a revised Specification. This step is recommended before submitting the recommendation for award to the approving authority, as this is the point when the district's negotiating leverage is greatest.

If negotiation with the highest-scoring proposer(s) does not yield a pre-defined minimally acceptable result, move on to the next highest-scored proposal(s) and negotiate. Repeat as necessary until a minimally acceptable outcome is achieved. The minimally acceptable standard must be applied equally to each negotiation.

Prepare the Evaluation Report

The evaluation report should be prepared by the chairperson of the evaluation team, with support from team members. The report should include:

- Names of the team members

- Description of the RFP

- Clear summary of the activities and analyses the team carried out during the evaluation process, and associated results.

- The team's recommendation for award

- Names of unsuccessful proposers

- Clear justification for the recommendation that is being made

- Attachment of all documentation drawn up by the evaluation team during the performance of its tasks.

Award

In accordance with applicable laws and local policy, the evaluation team will submit the recommendation for award to the local approval authority (usually the Board of Education) and will include the evaluation team report.

Depending on applicable law, the local approval authority will:

- Verify that the process of solicitation, evaluation, and award recommendation was conducted properly.

- Ensure that the recommendation of award is sound and correct.

- Make the final award decision (approve or reject). Rejection can result in withdrawal of the RFP or other actions, as instructed by the local approval authority.

Once the award approval has been given, all proposers should be notified of the result in writing, and the Notice of Award should be publicly posted.

An acceptable practice is to issue an "Intent to Award" notice to all proposers at the time that the evaluation team forms its recommendation. This "Intent" notice must carry the qualifier that it is pending ratification by the final approval authority. Depending on the process and timing for ratification, this technique can considerably shorten the time for contract execution and for resolution of any protest.

Mandatory Standstill

Local statute and/or policy may require a mandatory standstill period (e.g., 15 calendar days) to elapse between the award notification and the signing of the contract. Once the standstill period has passed, the district may continue with the execution of the contract in accordance with the conditions that were set forth in the RFP documents.

Supplement: *Guide for an Invitation to Bid (ITB) Template*

I. General Information

This section should give bidders general information about the ITB process, such as:

- Whether or not any exceptions to terms, deviations from specifications, substitutions, etc., will be allowed/considered.

- Any necessary terms and conditions of the ITB (e.g., delivery or performance dates, warranties, term length, renewal options, pricing formats, handling of defects, etc.).

- How ITB addenda will be issued.

- How questions from prospective bidders will be handled.

- How mistakes and minor errors will be handled.

- Time and place for pre-bid conference (if applicable).

- Notice regarding your jurisdiction's right to cancel the ITB or reject bids.

- Payment terms.

- Anticipated term (start and end date) of the award

- Incoterms (e.g., FOB dock, etc.).

- Method of acquisition (outright purchase, lease, lease-purchase, etc.). If the acquisition method is not specified, the default assumption is outright purchase.

II. Bid Submission Requirements

This section should define all bid submission requirements, such as:

- Where and when (time, date and physical location) bids must be delivered.

- Detailed instructions for submitting the bid.

- Number of copies of the bid to be submitted.

- How the bid envelope must be marked (consult your state statutes, particularly regarding construction ITBs).

- How bidders can modify or withdraw their bids (prior to the bid submission deadline).

- Pricing method to be used: firm fixed price (FFP), fixed price with escalation (FPE), cost plus fixed fee (CPFF), fixed price incentive (FPI), etc.

- Notice that bid prices must remain firm for a minimum number of days (specify the number) after the bid opening.

- List of any special forms (e.g., non-collusion form, tax compliance certificate, bid pricing sheet, reference form, etc.) that must be included with (or before) the bid submittal, including any affidavits or declarations required by federal law (if funding from federal grants is anticipated).

- Requirement that bid be signed by authorized individual(s).

- Bonding requirements (if applicable).

- Bid deposit (if applicable).

III.   Description/Specification

This section should provide bidders with the essential physical and functional characteristics of the item(s) or a detailed description of the service, you wish to procure. Unnecessary exactness is expensive; the more restrictive the specifications, the less competition they will generate. However, imprecision can also be costly. Vague specifications can result in prices that are inflated to cover unknown costs or that are understated for lack of understanding the complete specification. The challenge in writing good specifications is to find the appropriate balance: To provide enough detail to ensure that you will get what you want at a fair price, while omitting unnecessary details that unduly limit competition and/or add cost.

> *Brand name descriptions:* A brand name description is a title, term, symbol, design, or any combination thereof used to describe a product by a unique identifier and its producer. This type of description allows for district standardization (e.g., fleet standardization for purposes of training and maintenance), meets the expectations of the end user by providing the exact commodity needed, and reduces the time required to develop the specification. However, it is very restrictive and may limit competition, it excludes alternative brands from consideration, and it requires significant justification (e.g., maintenance, compatibility of parts).

> *Brand-name-or-equivalent descriptions* (a.k.a. brand name or equal): a brand name or equivalent description provides one or more manufacturers' brand names with identifying model numbers. In a performance specification, a brand-name-or-equivalent description states the standards of quality, performance, and characteristics needed to meet the requirements of the end user. To meet the standard of performance of "or equivalent," the commodity must be functionally equivalent to the brand name product but not necessarily the same in every detail. A checklist may be included for suppliers to identify how their commodity meets or could be modified to meet the specification requirements. When appropriate, the description should include at least two acceptable brand name products. The advantages of this type of description are that they aid in communicating the desired quality and performance levels and reduce the time required to develop the specifications.

Include the actual or estimated quantities that you intend to purchase. If you are requiring suppliers to bid an hourly rate, include the actual or estimated hours required. If you are providing an estimate, state that you are and that you will only purchase the quantity actually needed.

You should specify a maximum quantity large enough to meet your needs under reasonably foreseeable circumstances. In this manner, you can be assured that you will have the benefit of a competitive price should you need to purchase slightly more than originally estimated. However, if your actual requirement significantly exceeds the original estimate, you will need to consider either retracting the ITB and re-issuing it (with corrected quantities), or issuing a second ITB for the additional quantity. If the purchase from the original ITB has already been executed, it may be more prudent to negotiate with the original awardee to achieve a reasonable discount for the additional volume.

Include any specifications regarding packaging, delivery restrictions (locations, time of day, etc.), and installation requirements (location, etc.). Include everything that is a firm requirement and may impact the bid price.

You should state any minimum or maximum performance standards, as well as any operational, compatibility, or conversion requirements. If the item you are purchasing must comply with an established government or industry standard, that condition should be stated.

The use of samples or the demonstration of equipment can be a valuable tool in the procurement process. When you request sample items or equipment, instruct bidders to submit a sample that exactly matches your specification and is representative of what they are offering to supply. If the items will be tested, the test methods should be outlined in the ITB. Also, state whether or not the sample(s) will be returned after examination.

If you are requiring bidders to provide a warranty and/or service agreement in conjunction with their bid, specify the length and scope of coverage required to eliminate that requirement as a variable among the bidders.

If you require training or technical support, your specification should define and standardize those requirements.

IV.   Quality and Experience Requirements

Include in this section any minimum experience, certification, or licensing requirements. Be as stringent as necessary to assure a minimally acceptable level of competence and viability (e.g., minimum of three years of experience providing the product/service), but not so restrictive as to severely limit competition (e.g., minimum of 25 years of experience, servicing at least five large school districts [25K+ students] in each year).

If you are procuring equipment or products for which *Total Cost of Ownership* or *Lifetime Cost* is significant, include minimum quality performance requirements related to that (e.g., mean time between failure, mean time to repair, average miles before replacement, average fuel economy, annual license fees and/or service costs, etc.). Keep in mind that it is pointless to include these types of requirements unless you have the means to consistently and accurately monitor actual performance.

If the awardee will, by definition, be the provider of repair/maintenance/inspection services and/or parts, require pricing for these (e.g., fixed for some term, including hourly rates; fixed with capped escalation/de-escalation methodology; etc.), frequency of inspection/maintenance, average duration of service calls, and fixed method for pricing parts.

V.   References

References are an important part of any solicitation. You need to know if the supplier has the capability, integrity, and reliability to fulfill your contract. Information about a suppliers' past performance can help you make that determination. Unfortunately, obtaining an accurate (holistic) picture of a supplier's past performance through the use of reference checks can be difficult.

Not surprisingly, the references provided by suppliers are not likely to include projects that had performance shortfalls. To avoid this problem, you might require bidders to submit a complete list of customers for whom they have contracted for projects of similar size and scope to your contract, including contact names and telephone numbers. For practicality in performing reference checks, you should limit this list to a maximum number or a maximum period. Make sure that you treat all suppliers equally by contacting the same number of references for all bidders.

When you check references, it is important to ask the same objective questions of every contact at each [checked] reference. Best practice is to conduct the checks, whether done orally or in writing, by using a printed script of questions to be asked. Record all responses and comments from contacts in document form for future discussion/ reference. Some examples of typical reference interview questions are:

- Did the supplier satisfactorily perform the contract? If not, what went wrong?

- Did the supplier complete the project on schedule, or perform on a timely basis? If not, why not, and how large was the deviation?

- Was the project completed within budget (no price adjustments needed)? If not, why not, and how large was the overrun?

- Were there any unforeseen issues that arose during the project? What were they?

- Would you rehire the supplier for a similar project?

- Would you recommend the supplier to other companies/districts?

Used in an ITB, the result of reference checks is to determine responsibility of the bidder, so it is a pass/fail test. See the discussion in the RFP section of this Paper for using reference check results as an element in a scoring rubric.

Tailor the script questions to get the information that is most important to you. For example, if one of your primary concerns is durability of the equipment after the first two contract years, then ask for references from all customers who have had the equipment two years or longer, and ask questions of these references about any service problems during and after the initial two years of the contract.

In summary, focus your attention on distinguishing "acceptable" performers from "unacceptable" performers for the type of product or service that you are soliciting. Obtain references from those who will give you the most useful information, and ask questions designed to elicit that information.

VI.   Financial Information

Require appropriate financial information (e.g., audited financial statements, annual reports, D&B reports, etc.) to help you assess a supplier's financial viability. Note, however, that these materials are only useful if you have the expertise to properly analyze them. As stated in the discussion on references above, the result of your analysis will be a pass/fail judgment as to Responsibility. If you lack the expertise to make such a judgment, you should consider other means of assuring financial viability, such as requiring the supplier to be bondable/bonded, obtaining information from a credit reporting agency, etc.

VII.   Bid Price Sheet

Your ITB should include a bid price sheet for suppliers to complete. This form facilitates bid uniformity and makes it easier for you to compare bid prices. Even if stated elsewhere in the ITB, include clear instructions on the price sheet regarding incoterms, packaging requirements, minimum/maximum order size, etc.

VIII.   Rule for Award

By definition, the contract awarded from an ITB will go to the responsive and responsible bidder who meets your minimum quality and qualification requirements and offers the lowest price. This section should inform bidders how many contracts will be awarded from the ITB and how you will determine the winning bids.

In some cases, by state law or local policy, the submitted prices may (or must) be "adjusted" by factors to improve the award opportunity for special groups of suppliers (e.g., small businesses, local businesses, minority-owned businesses, etc.). Most commonly, this type of adjustment is applied as a multiplier or discount to the price submitted (e.g., 5 percent discount from submitted price for small businesses). The "adjusted" price is used to determine the contract award, but the actual submitted price is used as the contract price. If an "adjustment" like this will apply, it needs to be clearly defined. and its application in determining the award needs to be spelled out.

If the award is to be made on the basis of *Total Cost of Ownership*, you must describe in detail the formula that will be used to calculate that value. The calculation of Total Cost must be a purely mathematical formula, with no subjective factor or judgment applied.

When awarding a multi-year contract, there are several possible methods for soliciting prices that can be meaningfully compared. Three of these are: (1) require bidders to submit prices that will remain constant for the entire contract term; (2) require bidders to submit firm fixed first-year prices that will be adjusted each succeeding year by a set formula or published index (specified in the solicitation); (3) permit bidders to submit different fixed prices for each year of the contract. If you do not use method (1), you should include a formula for calculating the net present value of each bid for the entire contract term.

For multi-item solicitations, state whether the award(s) will be made on a line item basis (each line item is awarded to the lowest bidder for that line item), by groups/categories of items (e.g., one award for the aggregate of cleaning soaps/detergents, another for the aggregate of brooms, mops and other hardware, etc.), or on a total aggregate basis (summative bid value of all line items, each extended by the actual/estimated quantity used).

As opposed to an award by line item, a split award results in multiple contracts for the same items/services. This redundancy is normally for assuring available capacity or for maintaining multiple capable sources for mission critical items/services.

If your intent is to split the award among multiple bidders, this must be stated as the intent or option of the district. The method for selecting the awardees and determining the split must be clearly defined and should provide a logical share split based on bid ranking (e.g., lowest bid gets lion's share, etc.).

This section should also explain the process that will be used to determine the award in the case of multiple bidders submitting the identical winning price (tie-breaking process).

Bundled Item Awards

When you are issuing a solicitation for several items, you may want to give bidders the option to provide bundled bids to ensure that you get the best overall price. For example, if your jurisdiction is buying three vehicles – an SUV, a van, and a sedan – you can give suppliers the opportunity to submit standalone bids on individual vehicles and/or to submit bundled pricing for two or three vehicle combinations, and then award the contract(s) that result in the best total price. For such options, it is advisable to provide fill-in-the-blank spaces on the price sheet for each possible bundle to remove any ambiguity about the ITB response. The bid price sheet should carefully explain these options and how to indicate both standalone and bundled bids.

IX.   Additional Contract Terms and Conditions

- Standard terms and conditions required by your jurisdiction, such as insurance, indemnification provisions, payment terms, confidentiality, protest rights and process, etc.

- Any supplemental terms and conditions, such as packaging, installation, bonding, warranty, etc. (You should make sure that none of these supplemental terms or conditions conflict with your jurisdiction's standard terms and conditions.)

Supplement: Sample RFP Evaluation and Scoring Manual

TABLE OF CONTENTS

OVERVIEW

This manual defines the evaluation and scoring process and procedures to be applied to proposals received in response to Request for Proposal (RFP) #_____ for _____.

Proposals must conform to the specifications described in RFP #_____ which can be found at: _____.

The evaluation team should use the forms and scoring sheets provided with this manual. Other guidance to evaluation committee members is available in the District Procurement Manual/Policy and may be found at: _____.

The primary desire of the district for this procurement is to ensure that an award will be made based on the highest quality of service that best matches the district's requirements, at the most economical cost.

Evaluation Team - Technical

The district should establish the evaluation committee(s) and project leader for the Request for Proposal. The recommended size for technical evaluation committees is five (5) members with the appropriate expertise to conduct such proposal evaluations but could be more for some projects.

Evaluation Team – Cost

The recommended size for cost evaluation committee is two (2) members. One member should complete the cost proposal calculations per the RFP formula; the other member should verify all cost calculations for accuracy.

Evaluation Team Meeting

The initial step of the evaluation process will be for the RFP project leader to schedule a meeting with all members of the evaluation committee. During this meeting, the RFP project leader will brief all evaluators on the RFP activities to date, provide instructions about the evaluation process, and provide an evaluation schedule.

The agency project leader is responsible for coordinating the evaluation committee's activities.

Evaluation committee members will be required to sign and submit to the RFP project leader the "Declaration Concerning Conflict of Interest and Confidential Information" (see Supporting Exhibits).

EVALUATION PROCESS

The evaluation process may include but is not limited to the following ten (10) steps. (These steps may be reordered depending on the proposal evaluation requirements. For example, best and final offers may be required prior to oral Interviews).

Screening for Mandatory Requirements:

After the opening of the proposals, the RFP project leader will examine each proposal response to determine if all mandatory requirements have been met to warrant further evaluation.

Proposals not meeting the mandatory requirements will be excluded from further evaluation by the district (see RFP Mandatory Requirements Checklist in the Supporting Exhibits).

Preliminary Technical Proposal Evaluations:

Each evaluation team member will **independently score each proposal** in _____ scoring categories, _____, _____, and _____. Each category will have a maximum point total as will certain subcategories within each category (see Evaluator Scoring Worksheet in the Supporting Exhibits).

Cost Evaluation

Cost points must be calculated as follows:

Establish lowest total cost submitted – lowest total cost submitted receives the maximum points.

To assign points to all others, the following formula should be followed:

Lowest Cost Submitted ÷ Cost Submitted x Maximum Possible Cost Points = Cost Points to Award (see example below).

	Formula	Sample	Sample	Sample
	Lowest Cost Submitted	$100,000	$100,000	$100,000
÷	Cost Submitted	$100,000	$200,000	$150,000
x	Maximum Possible Cost Points	40	40	40
=	Points to Award	40	20	26.7

(see Cost Proposal Evaluation Worksheet in the Supporting Exhibits)

Reference Checks:

The district reserves the right to check any reference(s), regardless of the source of the reference information. Information may be requested from references and evaluated (see Reference Check Worksheet in the Supporting Exhibits). The district reserves the right to use a third party to conduct reference checks. Only top-scoring proposers may receive reference checks, and negative references may eliminate proposers from consideration for award.

Initial Evaluation/Ranking:

Following the technical and cost proposal evaluations, the RFP project leader will compile the final scores. All committee evaluations will be combined and divided by the total number of evaluators. This will result in an overall technical point score for each proposer. If the evaluation team determines that clarifying information is not required, the evaluation process is complete. The award recommendation will be made to the highest-scoring responsive proposer (see Final Evaluation Document in the Supporting Exhibits).

Invitations for Oral Interviews:

After the Technical and Cost Proposal evaluations are completed, the evaluation team(s) may conclude that oral interviews/presentations and/or demonstrations are required to determine the successful proposer.

The selection of the proposers to make presentations is based on the highest point total when combining the technical scores with the cost scores. Proposers will be ranked based on their initial proposal review score. All proposers may not have an opportunity to interview/present and/or give demonstrations; the district reserves the right to select only the top-scoring proposers to present/give oral interviews in its sole discretion.

(In the event of a ranking tie, both proposers will be invited for oral interviews.)

The RFP project leader will arrange for the oral interviews (see sample "Oral Interview Letters" in the Supporting Exhibits).

Oral Interviews/Presentations and/or Demonstration:

Selected proposers will deliver oral interviews in support of their proposals. The presentation process will allow the proposers to demonstrate their proposal offering, explaining and/or clarifying any unusual or significant elements related to their proposals. proposers shall not be allowed to alter or amend their proposals. Evaluators will score each presenting proposer based on the criteria and points allowed for the oral interviews (see Oral Interview Scoring Worksheet in the Supporting Exhibits).

Final Evaluation/Ranking with Oral Interviews:

The final award is based on the highest point total. Total score will be determined using the following formula:

(original technical score + oral interview score) + (original cost score) = final total score (see Final Evaluation Document with Oral Interviews in the Supporting Exhibits).

The RFP project leader compiles/documents the final scores and presents to the district chief procurement officer, as required. Upon final determination the "Letter of Intent to Contract" to the highest-scoring proposer, along with the final scoring document, is submitted for posting on the district website.

Best and Final Offer (BAFO):

The evaluation team may conclude that best and final offers are required. If best and final offers are requested and submitted by the proposers, the team will evaluate them the stated criteria and will score them.

The RFP project leader will arrange for the best and final offers. The district is responsible for sending the BAFO letters to proposers (see Best and Final Offer in the Supporting Exhibits).

Final Scoring/Ranking with Best and Final Offer (BAFO):

The final award is based on the highest point total. Total score will be determined using the following formula:

(original technical score) + (best and final offer cost score) = final total score.

The RFP project leader compiles/documents the final scores and presents to the district chief procurement officer, as required. Upon final determination, the Letter of Intent to Contract to the highest-scoring proposer is submitted for posting on the district website, along with the final scoring document (see Final Evaluation Document with Best and Final Offer in the Supporting Exhibits).

SUPPORTING EXHIBITS

Declaration Concerning Conflict of Interest and Confidential Information

Mandatory Requirements Checklist

Evaluator Scoring Worksheet

Cost Proposal Evaluation Worksheet

Reference Check Worksheet

Final Evaluation Document

Oral Interview Letter

Oral Interview Scoring Worksheet

Final Evaluation Document with Oral Interviews

Best and Final Offer Letter

Final Evaluation Document with Best and Final Offer

Supplement: *Sample Conflict of Interest and Confidentiality Declaration*

Conflict of Interest:

I hereby certify that neither I, nor any member of my immediate family, nor any other party having influence over me, has a material, personal, or financial relationship with any proposer, subcontractor, or potential subcontractor, or to a direct competitor of any proposer, subcontractor or potential subcontractor under consideration by this Proposal evaluation team. I further certify that I have not, and shall not, solicit or accept gratuities, favors, or anything of monetary value from any proposers, subcontractors or potential subcontractors under consideration. I further certify that no other relationship, bias or ethical conflict exists that will prevent me from evaluating any proposal solely on its merits and in accordance with the Request for Proposal's evaluation criteria.

Furthermore, I agree to notify the chief procurement officer of [the district] if my personal or financial relationship with one of the proposers is altered at any time during the evaluation process. If I am serving as the evaluation team leader of record, I agree to advise the chief procurement officer and my supervisor of any change that could appear to represent a conflict of interest.

Confidential Information:

As an evaluation team member, I may receive materials that have been determined to be confidential. I promise to keep these materials confidential and return all confidential material to the evaluation team Leader.

Third Party Contact:

I hereby certify that I will not engage in any contact or communication with any third party, including but not limited to any supplier, proposer, or potential proposer regarding this Request for Proposal or evaluation process. Further, if any such contact or communication should occur, or if I reasonably believe any such contact may have occurred or will occur, I will notify the chief procurement officer and the evaluation team leader immediately.

_____

Date

_____

Evaluation Team Member (signature)

_____

RFP Number

_____

Print Name

_____

Department/School

Supplement: *Sample Reference Check Worksheet*

RFP Number: _____ RFP Title: _____

Proposer Name: _____

Person Conducting Check:_____

Company Contact Person: _____

Phone # / email contacted: _____

Comments: _____

_____

_____

Questions:

a. What is the size of your company/district? ($ revenue / # students) _____

b. Describe the project that the supplier worked on for you.

_____

_____

_____

c. In what capacity have you worked with this supplier? (narrative response)

_____

_____

d. How satisfied were you with the services provided?

Excellent ☐   Good ☐   Adequate ☐   Unsatisfactory ☐

Comments: _____

_____

e. How responsive was the supplier in addressing and correcting problems?

Immediate and Effective ☐   Within a reasonable time and satisfactory ☐

Delayed and/or Ineffective ☐   Failed to Respond ☐

Comments: _____

_____

f. Can you describe the technical knowledge and/or expertise of the supplier? (narrative)

_____

_____

g. Was the project completed on schedule?   Yes ☐   No ☐

Was the project completed within budget?   Yes ☐   No ☐

If not, why _____

_____

h. Did the supplier's staff meet the expectations and needs of the project?   Yes ☐   No ☐

Explain: _____

_____

i. Would you choose to renew a contract with this supplier?   Yes ☐   No ☐

Explain: _____

_____

j. Would you recommend this supplier to others?   Yes ☐   No ☐

k.   Is there anything else that you would like to tell me about doing business with this supplier?

_____

_____

_____

Supplement: *Sample Mandatory Requirements Checklist*

RFP #: _____

Mandatory Requirements

Proposer Firm's Name	Request for Proposal For Contractual Services form, signed in ink	Corporate Overview	Technical Approach	Completed Section II	Cost Proposal	Certificate of Insurance	Proprietary Information	Copy Righted Information	Required Affidavits and Certificates	Exceptions to T&Cs	Binders Submitted / Enclosures	Comments
1												
2												
3												
4												
5												
6												
7												
8												
9												
10												
11												
12												
13												
14												

Reviewed By: _____ Date: _____

Instructions: This form is used to document Mandatory Requirement submissions for each proposal submitted. Requirements should be revised to exactly match the requirements of the RFP. Example: If the RFP had a Mandatory Pre-Proposal Conference, a column would be added to annotate if the firm had representation at the Pre-Proposal Conference. This form may also be used to annotate other key response information, such as submission of a Certificate of Insurance, Letter or Certificate of Good Standing, Proprietary Information, Copyrighted Information, or Exceptions to the Terms and Conditions. It is also important to annotate what the bidder submitted to make sure that all the information is returned after it has been handed out for proposal opening participant review. **These instructions should be deleted from the final form to be use at the Proposal Opening.**

PROTESTS

INTRODUCTION

The prospect of receiving a formal protest during or immediately following a solicitation tends to create the same amount of anxiety as receiving notice that a formal audit of your business practices is about to be conducted. Protests (non-frivolous ones) can actually be a good check-and-balance mechanism for the processes that result in contract or purchase awards. Additionally, they provide an expedient means for addressing formal complaints administratively before, or instead of, resorting to a legal forum. Whether or not and individual protest is upheld, the substance of the protest should be used to examine the processes in place for possible improvement.

This Paper discusses the main reasons that protests get filed, as well as best practices regarding how to handle them and in what circumstances they should be allowed/invited.

PROTESTS

A protest is a written objection to a solicitation, or to the award of a contract or purchase, with the intention of receiving a remedial result.

Traditionally viewed as a negative force that diverts valuable district resources, legitimate protests can be a positive force to bolster the practice of good public procurement. Exercise of the right to protest benefits the transparency, accountability, education, and integrity of the procurement process.

Reasons for a Protest

A formal protest may result from circumstance or the attitude of the offeror. Some reasons for protests are:

- Emotion. The protester may just need to vent or complain.

- Confusion. The protester may genuinely misunderstand or misinterpret some requirements of the solicitation or the scope of work involved.

- Anticipation of an unfavorable decision.

  - Information gained at a public bid opening may lead a bidder to believe that he/she will not win the award.

  - The protester may use the protest in a strategy to cause the district to reissue the solicitation, believing that politics will sway the eventual award to him/her (to avoid further protest).

- Strategic or economic reasons. The incumbent supplier may wish to extend the current contract.

- Industry or district culture. Some industries/companies traditionally protest unfavorable award decisions as a tactic to "renegotiate" the solicitation terms, the bid tabulation, or the evaluation criteria/scoring that the award is based upon.

- Conduct. The protester may suspect a conflict of interest, or that statutes, regulations, policies, or evaluation criteria were not followed appropriately.

- Restriction of competition.

According to the General Accountability Office, "the most prevalent reasons for sustaining protests during the 2015 fiscal year were: (1) unreasonable cost or price evaluation; (2) unreasonable past performance

evaluation; (3) failure to follow evaluation criteria; (4) inadequate documentation of the record; and (5) unreasonable technical evaluation." Protests pertaining to the solicitation document are generally filed for the following reasons:

- Lack of clarity or vague requirements in the specification;

- Original specification was modified, but with no solicitation addendum was issued.

- Unfair or biased specifications that resemble a manufacturer's literature or a product.

- Unreasonable requirements that severely limit competition.

- Rating factors or evaluation criteria that place an offeror at a disadvantage.

Protests pertaining to district award decisions may result from the following:

- A declaration of an offer to be non-responsive and/or not responsible

- A declaration that an offer is submitted/received "late"

- A delay or failure by the district to provide enough information with adequate time for the offeror to respond

- Use of a sole source as the basis of award

- Use of a multi-step process

- Unclear or vague award processes

- The award that is perceived to be any of the following:

  - Arbitrary or involving an abuse of discretion

  - Not compliant with constitutional, statutory, or regulatory provisions

  - Not compliant with stated process or procedures

  - Not awarded in accordance with the solicitation requirements

  - Containing computation errors in the evaluation score

  - Lacking transparency

  - The result of unfair or unequal treatment

  - Influenced by bias of the evaluation committee

  - A conflict of interest by an evaluation committee member.

Establish a Protest Policy

Each district should ensure that a protest policy (or procedure) is established. Understanding the context and motivation for the filing of a protest may be as important as the specific protest issue. The procurement professional should ensure that the Legal Department is aware of each protest and consulted on appropriate action to be taken in response. Throughout the solicitation process, Procurement and stakeholders should employ best practices that promote transparency, accountability and competition. Conducting closeout assessments of protests supports continual improvement in the procurement process.

Protests must be filed by an interested party. An interested party, in the context of a solicitation for bids/proposals, is "an actual or prospective offeror whose direct economic interest would be affected by the award of a contract or by the failure to award a contract" (FAR 33.1).

A protest policy establishes the procedures to thoroughly and openly investigate complaints and allow the procurement process to expeditiously move forward. The protest policy must be based on law and referenced in the solicitation document. The policy must be made available publicly (e.g., district's website). At a minimum, it should

- state the right of an interested party to protest;

- state the mandatory filing procedures (e.g., timing and format);

- describe roles and responsibilities of the district for handling a protest; and

- define the process for appeal by the protester if the protest is initially denied.

Actions to Mitigate Protests

Throughout the solicitation process, Procurement and stakeholders should follow procurement best practices to avoid or mitigate potential protests. Here are some suggested practices:

- Provide potential offerors with education/instruction specific to conducting business with the district.

- Contact other districts that have issued a similar solicitation (lessons learned).

- Collaborate with stakeholders to develop a well-written specification and scope of work (detailed technical and functional specs, and not unnecessarily restrictive).

- Conduct a "pre-bid conference" for prospective offerors.

- Offer debriefing opportunities to all unsuccessful offerors as soon as practicable.

The district may also choose to consider the appropriateness and impact of requiring a protest bond as part of the protest policy or of individual solicitation requirements.

Protest Procedure

Immediately upon receipt of a protest, the contract agent or buyer responsible for the solicitation should take the following actions:

- Alert Procurement management, the Legal Department, and any other interested parties.

- Ensure that the district is in compliance with the appropriate requirements for

  - having a designated procurement professional who must receive, process, and resolve protests (best practice is for the chief procurement officer to fill this role);

- directing all communications regarding the protest to the contract agent or buyer responsible for the solicitation; and

- maintaining confidentiality of any proprietary information.

- Conduct a fair and independent review of all written concerns expressed in the protest regarding the solicitation and district decisions resulting therefrom.

- Determine whether the solicitation or award of contract(s) should be suspended until the protest process is concluded.

The procurement official designated by the protest policy/procedure should respond in writing to the protester with the decision reached by the district. Best practice is to have the written response reviewed by Legal before it is issued. If a protest is received after the period allowed by the protest policy, a written response should still be issued that denies the protest on those grounds. The response should be timely, signed by the designated procurement official, and addressed to the protester. If the protester is not satisfied with the decision, he/she may appeal as provided for in the protest policy. Best practice is to have appeals submitted to a district "Appeal Board or to an independent authority for final decision.

Throughout the protest process, procurement professionals should keep accurate and detailed documentation, which will serve to justify the protest decision, provide access to communication records, and ensure that the response to the protest is legally defensible.

Protest Closeout Assessment

A post-mortem assessment should be conducted and documented for each formal protest. The assessment should include:

- The root cause of the protest.

- The impact of the protest on stakeholders.

- Whether the protest process was conducted correctly (if not, why).

- Whether any changes to the protest or solicitation processes need to be made (if yes, what, when, and by whom).

CONTRACT MANAGEMENT

INTRODUCTION

The processes for creating, executing, and managing contracts varies greatly among school districts. This Paper is written from the basic premise that contract management should reside in Procurement, with support and oversight as needed from Legal and other departments.

Many of the best practices related to contract management are universally applicable, regardless of the nature of the goods or services that the contract covers. Specifically regarding contracts for services, the best practice of including the following items in the contract is particularly important:

- Clarity and completeness of the scope of work (what is to be done, by whom, when, where).

- Detailed definitions and descriptions of any deliverables due during the term of the contract.

- Clear instructions on when, in what format, and to whom invoices are to be submitted (including any information or attachments to include or reference in the invoice).

- Specific consequences for nonperformance under the contract.

- Schedule of payments (if the service is to produce some result, how that will be measured and by whom, and how much of the compensation is based on the actual outcome).

CONTRACT MANAGEMENT

Contract management is the process that a district will use to ensure that contractors have performed in accordance with the requirements included in the contract statement of work, specifications, and terms.

The processes and activities involved in contract administration vary depending on the complexity of the product or service that is being procured and include contract monitoring, managing changes to contracts, maintaining contract-related documents, addressing claims and disputes, and contract closeout activities.

Contract management is successful when the following essential steps are carried out:

- Provide training for best practices in contract management.

- Define a descriptive or quantified Return on Investment (ROI) for the contract (e.g., improvement in average reading skills of two grade levels within one year).

- Prepare a Contract Administration Plan (CAP).

- Establish performance metrics for the contract.

- Collect quantifiable monitoring data from user departments during contract performance.

- Schedule regular meetings or on-site visits to customer departments to monitor and discuss the progress of the contract and the contractor's performance.

- Establish good communication on contract compliance and potential issues between the central procurement office and customer departments before, during, and after the contract has been awarded and signed.

- Allow changes to specifications and terms and conditions within the general scope of the original contract.

- Assess contract risks before a contract is executed and monitoring those risks throughout the contract term.

- Implement reporting tools and having processes in place for user departments to report deficiencies to the central procurement office.

- Use tracking tools to monitor spending patterns and to monitor whether a contract is working as intended.

- Have procedures in place for expedient resolution of contract disputes and claims, encouraging informal resolution while ensuring that the contractor has a fair opportunity to be heard.

Contract Kick-off/Pre-Performance Period

Best practice includes conducting pre-performance conferences or project "kick-off" meetings with all stakeholders, especially for high-risk or high-dollar-value contracts. These conferences should include discussions about the roles and responsibilities for the central procurement office, department personnel, and the contractor to determine how performance will be evaluated, documented, and reported and how best to set performance metrics, among other things. Having a good understanding of the standards of performance helps establish a positive relationship between the district and the contractor.

All parties involved should have a thorough understanding of their roles and responsibilities. There should be close communications, as early as possible, between the central procurement office and user departments, so that members of the contract team know their authority, roles, and responsibilities and understand the importance of communication and coordination among the team.

Contractors who are successful in a competition should be required to comply with business registration requirements and submission of financial documents, certifications, insurances, and licenses prior to commencement of the contract. Contracts should not be executed before all required documents are received.

Ongoing Maintenance for the Duration of the Contract

The contract manager needs to ensure that all elements and planning tools that will guide or monitor the contract are in place before execution.

Best practice is to prepare a Contract Administration Plan (CAP) in the pre-award stage to document all aspects of the procurement process, from the development of specifications to the contract closeout. The CAP should be developed in collaboration with user departments/schools (recipients of the contracted goods/services) and include the following:

- Identification and roles of the contract administration team

- Justification for the type of solicitation used and the source(s) selected

- Scope of work or specifications

- Pricing structure and payment terms

- Delivery/performance terms and conditions (including deliverables)

- Potential risks, assignment of risk severity levels, and any risk mitigation measures in place or needed

- Contract monitoring/measurement/reporting methods, frequency, and responsibility (who, when, what, how)

- Schedule of performance milestones

- Proper and timely renewal/update of insurances, certifications, background checks, etc.

- Documentation required.

Having the proper tools in place to support contract management is essential. Best practice is to utilize an automated contract management tool for efficient processing and record retention.

Monitoring Contractor Performance, Documentation, and Record-keeping

Monitoring contract performance is a key function of contract administration to ensure performance compliance by all parties.

Central procurement offices typically gather feedback from user department about the service received and contractor performance through surveys, telephone, or face-to-face inquiry. Documenting and maintaining a contract file are good practices to ensure the delivery is in line with the contract requirements and issues are addressed in a timely manner. All contract performance issues should be properly documented and included in the official contract file.

The contract file should contain the essential record of contract award, performance, and closeout, including:

- Pre-award documents:

  - Solicitation document (e.g., RFP), including all amendments/addenda

  - All responses to the solicitation

  - Copy of the draft contract, including all attachments

  - Compliance documents (bonds, insurance, certifications, affidavits, etc.)

- Post-award and contract closeout documents:

  - Copies of all correspondence with the contractor

  - Notes from all meetings and oral and written communications

  - Documentation of performance issues/complaints, cure letters

  - Contract amendments/addenda

  - Documentation of deliverables

  - Invoice and payment records

  - Contract closeout documentation (see section below on Contract Closeout).

Documenting contract compliance and performance issues when the contractor is not able to perform as agreed upon, and addressing them promptly, is an important activity in the administration process. Regular communications with the contractor should identify problems promptly. Dispute resolution processes need to be in place.

Managing documentation is especially important in cases of disputes, in assessment of liquidated or actual damages, and for justifying termination for default.

Contract Changes

Contract changes are inevitable. The process for executing anticipated amendments, such as contract prices, time of performance, extensions and renewals, or other terms, as well as processes for handling claims or disputes, should be built into the contract provisions.

Contract amendments are typically approved by the procurement office. Involvement of legal counsel may be requested depending on contract complexity and any requested modifications to the standard terms and conditions.

The importance of having a change management process in place cannot be overstated. A good practice for handling unforeseen amendments effectively should follow these principles:

- Only changes that are within the general scope of the original contract should be accepted.

- Changes should be in accordance with the original terms of the contract.

- Only changes that are due to legitimate unforeseen circumstances should be allowed.

- Written determination of need should be required prior to amending the contract.

- Any changes need to be evaluated in terms of the impact on the scope, schedule and budget.

- Formal, written approval of all changes should be required prior to the change taking place.

Poor or nonperformance should never be accepted. That is why documenting problems is critical when requesting a cure. Acceptable means to resolve disputes may include:

- Informal dispute resolution through collaboration and negotiation.

- Alternative Dispute Resolution.

- Liquidated damages.

- Contract Termination/Cancellation.

    - Termination without Cause: – Mutual consent of both parties.

    - Termination for Convenience: When the contract no longer serves the best interest of the district.

    - Termination for Cause (Default) due to failure to perform, failure to deliver on time, or failure to comply with other terms and conditions. Prior to terminating a contract for default, a cure notice should be sent to the contractor, allowing a reasonable time to cure the deficiencies and thereby avoid contract termination. Alternatives to termination for default that can be considered include withholding payment until performance requirements are met, seeking an alternative source of supply, revising the contract or delivery schedule, or re-procuring the product or service.

    - Termination for lack of funding.

    - Repudiation: Either the district or the contractor indicates that it cannot or will not perform.

See also the Supplement on Dispute Resolution at the end of this section of the paper.

End of the Contract/Contract Closeout

Managing the closeout of the contract is the final phase in contract administration.

Contract execution is complete and successful when all performance obligations have been met, including the completion of all legal, administrative, and managerial tasks. A Contract Closeout Checklist is a helpful tool to use during the final review of the contract to ensure that all the necessary steps in the closeout process are completed. The checklist should include these steps:

- Confirm that all contractual obligations have been completed.

- Verify if the contract term (including all optional renewals) has expired.

- Confirm that all testing reports, inspections, etc., have been received and analyzed.

- Confirm that any district-furnished property and/or information has been returned.

- Confirm that no claims, issues, or unresolved matters exist on the contract.

- Confirm that all required contract audits have been completed.

- Confirm that all contractor invoices have been submitted and paid.

- Confirm that contractor performance evaluation has been completed by the contract administration team.

- Determine if an early termination was completed (if it was initiated).

- Determine if all outstanding subcontracting issues have been resolved.

- Verify that the contract file includes:

  - An updated copy of the contract

  - Any contract amendments

  - All original signatures for all file documents, including invoices, letters to contractor, etc.

  - All change orders

Additional actions to be taken:

- Communicate to the contractor that performance and deliverables for the contract have been reviewed and are considered completed.

- The contract manager completes and signs a Contract Completion Statement (acknowledgment that performance and deliverables have been satisfactorily rendered).

- Conduct a contract postmortem and document lessons learned (what worked well, what activities failed).

- Provide a report, including conclusions and recommendations from the contract postmortem, to all stakeholders for reference on future contracts.

Challenges to Successful Contract Management:

- Inadequate resources (not having a separate contract administration group).

- Decentralized Procurement and/or contract performance review.

- Formal contract performance monitoring is ignored unless there is a problem.

- Lack of planning, leading to reactive rather than proactive behaviors.

- Lack of team skills and qualifications needed for effective contract administration.

- Complexity of goods/services being purchased.

- Strictly manual methods to support contract management and records retention.

- Inefficient collection of contract documentation.

These problems can be avoided (or mitigated) by doing the following:

- Provide clear guidance for awarding, monitoring, and closing out contracts.

- Provide training to staff involved in contract management.

- Communicate as early as possible, and conduct pre-performance conferences or kick-off meetings to discuss requirements, performance metrics, etc.

- Create a separate contract administration group and staff it with personnel who possess the appropriate contract management skill set.

- Build and maintain relationships with stakeholders, contractors, and external partners.

- Create and retain documentation of all contract communications and changes.

Supplement: *Dispute Resolution*

Purchasers have many options when drafting dispute resolution clauses in their contracts. Some appear very similar, but not all are suitable for every project. Whichever is most appropriate, buyers must ensure that contracts set out a dispute escalation process and specify the method. If the contract is silent on this point, each party will treat the other's proposals with suspicion, assuming that there is an agenda or advantage behind a recommendation to, for example, arbitrate rather than adjudicate. There would also be the opportunity for the party receiving the claim to stall the process by refusing to agree.

Here are the four main approaches to resolving contractual disputes.

Adjudication

A single adjudicator reviews written evidence and arguments set forth by opposing parties without the need for a hearing. The parties agree in advance on the powers of the adjudicator, such as the ability to make an award on costs for pursuing or defending the dispute.

The appointment of the adjudicator is normally left to an independent individual named in the contract. Contracting parties could agree to the name of an adjudicator in advance. however, there could be problems if that individual is not available when a dispute arises.

Adjudicators will be experts in a particular sector. Their use has grown dramatically, most notably in construction.

Pros:

- This approach is confidential and not a matter for public record.

- It is usually undertaken while the contract is still live, allowing resolution and payment at the time.

- It is quick to resolve. The contract should specify a timetable; if not, the adjudicator will advise.

- It is cheaper than arbitration or litigation, as it may not require the use of lawyers.

Cons:

- Adjudication is enforceable at the time, but only final and binding if agreed to in advance of the dispute.

- It produces no case law.

- It is prone to ambush: A party could spend months preparing their claim and, due to short timescales, the defendant may struggle to respond in time.

- An adjudicator can only preside over the matter before him. There is no opportunity to counter-claim on a different issue. In that case, a separate action would have to be raised.

Arbitration

Disputes are heard by a lone arbitrator or a panel and are resolved outside the courts. If arbitration is to be used on high-value contracts, an arbitration panel may be preferable. This removes the reliance on an individual, but it is likely to be cost prohibitive for smaller contracts.

There could be a hearing that follows a mini-trial format, where both parties submit documentation. The applicable law and seat of the arbitration need to be stated in the contract.

Pros:

- It is confidential.

- A court is unlikely to overturn an arbitrator's decision unless they were acting in bad faith or negligent.

- The arbitrator is likely to be an expert in the disputed field.

- There is the option to have more than one person make a decision.

Cons:

- This is a potentially lengthy, formal process and can be expensive when external advisers, such as claims consultants and lawyers, are involved.

- Arbitrators are not bound to give reasons for a decision, and there are limited grounds for appeal.

- This process usually only takes place at the end of a contract, which can leave the claimant party without restitution for some time. It is final and binding, requiring all matters to be concluded before a decision can be made.

Litigation

It is used where the party starting an action (the plaintiff) seeks a legal or equitable remedy. A defendant is required to respond to the plaintiff's complaint. If the plaintiff is successful, judgment will be given in its favor, and a range of court orders may be issued to enforce a right, award damages, or impose an injunction to prevent an act or compel an act. A party can make an offer to settle at any stage, but settlement cannot be resolved through negotiation; it will be heard in court.

Pros:

- It is tried and tested with a vast body of case law.

- It imposes a final decision that parties are obligated to respect. The outcomes of litigation are, without exception, binding and enforceable, while being subject to appeal.

- It is institutionalized (meaning a party with a complaint needs no one's permission to bring a lawsuit against another party).

Cons:

- It is lengthy and expensive.

- Litigation requires a significant management overhead, distracting employees from their roles and duties.

- Control of the process is removed from the parties and delegated to the lawyer and the court, where the judge may not be a subject matter expert.

- It often drives parties apart because of its adversarial nature. This process usually only takes place at the end of a contract, which can leave the claimant party without restitution for some time. It is final and binding, requiring all matters to be concluded before a decision can be made.

Mediation

With a third-party mediator, going to court can be avoided. There are regional associations of mediators who can appoint an expert in a particular field. It is good practice to include mediation in contracts as a precursor to proceeding to formal dispute resolution to allow the parties to attempt to negotiate a settlement.

Pros:

- This approach is quicker, cheaper, and less adversarial.

- The outcome is confidential and within the control of the parties.

- The process is "without prejudice." If settlement is not reached, there is no risk of having given away anything that the other could use in court.

Cons:

- It is not final and binding.

- If both parties are entrenched, mediation will not work, and it will add time and costs to resolve disputes.

- Litigation, with lawyers protecting client interests and rules ensuring full disclosure of in- formation, can be seen to ensure fairness more than the informal and variable process of mediation.

- Settlement is voluntary, so you cannot be certain of getting a result. There is no outside party imposing a solution, and a cynical opponent could exploit the process.

SUPPLIER RELATIONSHIP MANAGEMENT (SRM)

INTRODUCTION

Supplier Relationship Management can be thought of as a tiered approach.it is highly unlikely that you have the breadth of staff needed to maintain personalized daily contact with and monitoring of every supplier that your district does business with. A tiered approach means that there are some principles and activities that are applied to every single supplier, but progressively more formalized and vertically integrated interactive relationships will be established and maintained with suppliers at the high end of strategic importance to the district.

The more dependent the district is on a supplier (for the district's success), the more formalized the structure for relationship management should be. This is true regardless of the level of trust that the district may have in the ability and intentions of the supplier. In the words of Ronald Reagan, after signing an agreement for nuclear disarmament, "Trust, but verify."

SUPPLIER RELATIONSHIP MANAGEMENT

Supplier Relationship Management (SRM) is a set of principles, processes, and tools that can assist organizations to maximize relationship value with suppliers, minimize risk, and manage overhead through the entire supplier relationship life cycle. Supplier Relationship Management has two aspects:

- Clear commitment between the supplier and the buyer

- Understanding, agreeing, and codifying the interactions between them.

Best-in-class districts work closely with suppliers long after a deal has been signed. This requires both buyer and seller to jointly manage the relationship, with representatives from both parties working together to enhance the relationship. The success of the relationship depends on each party (a) treating the other equitably, with neither preference nor discrimination, and without imposing unnecessary constraints on the competitive market; (b) maintaining consistency in all processes and actions; and (c) acting and conducting business with honesty, integrity, and the avoidance of impropriety.

Good Supplier Relationship Management (SRM) is an effective practice that will allow an organization to

- identify strategic suppliers;

- establish a governance structure for interactions across the life cycle of the relationship;

- clarify internal roles and responsibilities;

- create a platform for problem resolution.

- develop continuous improvement goals with the objective of achieving value for both parties; and

- ensure that performance measurement objectives are achieved.

Establishing an effective SRM program will help ensure the savings and improvements that were initially targeted in the sourcing process. The team should be focused on executing the contract, establishing field effectiveness teams to implement new ideas or processes, developing continuous improvement cost drivers with the selected supplier(s), and refining the score cards and metrics originally developed to measure performance.

With a sound SRM program in place, you will be equipped to use the talents of your supply base to create sustained value and constant improvement.

- Use end-user feedback to create a performance report card.

- Meet quarterly with the 10 highest spend suppliers.

- Have suppliers provide reports on contract usage, repair/support tickets, data against Service Level Agreements (SLA), verification on price points.

- Document the process of the agreed upon communication plan between district and supplier.

- Plan on how to address issues/escalation within supplier's organization.

Supplier Stratification

Effective SRM requires a clear understanding of which suppliers are the most strategic to the district. Identifying strategic suppliers will help districts optimize resource allocation across a broad supplier base and provide strategic and operational groups with a view of their supplier portfolios based on relationship value. Rather than viewing the suppliers on which the district spends the most resources as the most important, additional factors should be considered, such as:

- Risk

- Operational criticality

- Technical integration

- Total value

- Long-term fit with the organization

- Profitability

- Distributor services

- Performance

- Loyalty

Governance and Organization

Once the importance of an individual supplier is established via supplier stratification, the next step is to define the team structure (vertical alignment, organizational and functional, between the district and the supplier) that will be required to manage the relationship on a day-to-day basis, as well as the roles and responsibilities involved. Once a team structure with roles and responsibilities is defined, the next step is to formalize the ongoing governance to make the process repeatable, transparent to management, and consistent throughout the district.

Hold Regular Supplier Relationship Reviews

Organizations should hold regularly scheduled joint relationship reviews with the supplier to facilitate ongoing relationship management and provide a senior management overview of the relationship between the organization and the supplier. The joint reviews should have a standardized agenda (with documented minutes) that at least includes review of past and current activities/issues, escalation or corrective action to resolve current issues before they fester, review of any business projections that may have implications for the structure of the relationship, and discussion of any changes needed in the formal documented definition (i.e., contract) of the relationship. The benefits of joint reviews are that they

- force collaboration between the parties;

- encourage creative thinking about the relationship and performance metrics;

- provide a focus on opportunities to generate savings in targeted spend;

- lead to better quality improvement solutions, teamwork, and communications;

- set agendas for future relationship review meetings;

- provide oversight of day-to-day activities such as contract management, financial management, and issue resolution; and

- Trigger escalation paths for supplier issue resolution.

Supplier and Organization Development

A district benefits greatly when key suppliers reduce costs, introduce new services, and streamline joint processes. Districts can address supplier development needs by establishing a formal supplier development program that (a) selects suppliers where development effort has the highest value to the organization, (b) determines the specific development need(s), and (c) applies the appropriate development techniques. Techniques to achieve this include

- joint investment in new capabilities;

- intellectual capital sharing;

- joint value creation opportunity identification;

- joint process mapping and systems integration;

- capability acquisition by supplier;

- multi-supplier and multi-organization collaboration; and

- joint personnel training.

Service Level Agreements (SLA) and Performance Management

Districts can support continuous supplier performance improvement by holding suppliers accountable for poor performance and providing incentives for performance that exceeds expectations.

If performance management is to provide maximum value, the district must identify its key business value drivers, understand how the supplier can impact those, and define appropriate target performance levels and tolerance ranges. In some cases, it may be advantageous to redefine the scope of the supplier relationship (e.g., contract) to ensure that the supplier can truly enhance value.

The next step is to establish a contractual agreement (Service Level Agreement) that clearly defines the performance expectations; the consequences of under-performing or over-performing; the specific trigger points, conditions, and process for remediation; and ownership of the supplier performance within the district and the supplier.

The resulting relationship agreement elements must be captured and presented in an integrated fashion. This is typically accomplished by creating a "performance map" that outlines what the supplier is accountable for and what specific steps must occur as consequences of the supplier's nonperformance. Developing and using a performance map ensures that all parties involved in the relationship understand how performance will be managed and by whom.

Supplier Relationship Management Systems

While successful supplier relationship management is largely driven by well-defined and well-documented processes, roles, and supplier agreements, effective systems are a critical enabler. Systems play three key roles in enabling SRM.

- They provide standardized tools and templates, which allow for streamlined SRM adoption through an easily accessible system while reducing reliance on individual development of SRM processes and tools, and facilitating training;

- They enable SRM data management, with a single source of data for everyone involved to access a common and consistent repository of information (versus reliance on paper records or individuals' hard drives). Systems also enable common understanding of status and current relationship activities, and its secure storage and maintenance reduces the risk of data loss.

- They enable relationship visibility that provides relevant information and allows staff to manage and audit supplier relationships more proactively. This also allows access to consistent reports for management reviews and summaries of risk, performance, and resource allocation.

INTERNAL CUSTOMER SERVICE/COMMUNICATION

INTRODUCTION

Procurement, like most functions within any organization, is not an activity that takes place in isolation without interaction with or dependence on other people. How the people that interact with Procurement perceive they are treated by Procurement, and how informed they feel they are about the aspects of Procurement that affect them, has a direct effect on the productivity, value-add, and quality of work provided by the Procurement Department. Those individuals' perceptions are a reflection of the quality of the interpersonal experience (customer service) they encounter when dealing with Procurement.

Good (or bad) customer service is in the eye of the beholder, but not every individual who interacts with, or is dependent on, Procurement has the same needs. Therefore, aspiring to provide good or excellent customer service requires incorporating both general and personalized elements of relationship and communication. More importantly, success (improvement) in this area cannot be measured by the service provider through self-measure; it can only be measured by feedback from the individuals receiving the service.

This Paper addresses many best practices for good customer service, no single one of which, by itself, will bring success. Achievement of great customer service requires establishment and management of a culture of customer service (attention to many of the behavioral characteristics described here) within the department.

COMMUNICATIONS

Efficient and clear communication between employees (i.e., service providers and internal customers) is critical. Your department's employees are your best service ambassadors.

To establish a communications strategy, it is important to have a strong grasp of best practices for sharing information and aligning goals on a districtwide level. Below are three of the best practices for creating a stronger, more interconnected employee network. These best practices can be used as a guide for laying the groundwork and understanding how your strategy will scale alongside department and district growth.

1. *Define and Refine Your Business Goals*

   As with most strategies, effective communication in the workplace starts with a strong plan. Determine at a high level where you are now and where you want to go next, and then confirm that plan with other stakeholders involved in executing and maintaining the strategy.

   This means you need to start thinking strategically about what information needs to be served up to employees (internal customers), at what cadence it should be delivered, and which method should be used to deliver it. Some initial questions you might ask to get this conversation started are:

   ❍ What do you want your internal communications strategy to do for your department?

   ❍ Which delivery techniques are working well, why are they working well, and what needs improvement?

   ❍ How quickly do you want to achieve your communication objectives?

   ❍ Which communication tools or platforms are available, given your expectations of what employees should be doing with information shared?

   Answering these questions will paint a clearer picture of what you want your internal communications strategy to actually accomplish. These objectives will serve as the desired outcome of your strategy and will lead to modifying/maintaining that strategy over time.

Initially think about small but specific actions you can implement to make identifiable changes, always keeping in mind how you want those short-term goals to impact your team in the long term. In doing so, you'll enable your team to look ahead and extract the information most important to the department as a whole. You don't need to know what you are going to do for the next ten years; you just need a place to start.

2. *Involve Employees/Customers in Your Communication Strategy.*

   Eighty percent of employees want to be kept updated about district news, 77 percent believe it would help them at their job, and 66 percent think it helps them build better relationships with their colleagues.

   Internal communication strategies are often focused around informing team-members of important updates and district information. While this is certainly a factor to bear in mind, a successful internal communications program needs to invoke action. Your strategy needs to be rooted in the idea that the goal is to involve, motivate, and inspire your team and your internal customers.

   There are plenty of ways you can inspire your employees, but it may take a few instances of trial-and-error to find what works best for your specific team. Sixty-nine percent of employees say they would work harder if they felt more appreciated and recognized; your internal communications program is the perfect place to show that. Try some of the following for involvement and recognition:

   ❍ Ask your team members to share what they have learned from customer experience interactions, and then use that knowledge to improve communications.

   ❍ Share positive feedback from customers with your team through regular staff meetings, highlighting positive behavior to be praised.

   ❍ Have your team members share personal stories about customer experiences—both good and bad; you learn equally well from both.

   Real-life examples will help your team members relate to you, identify with the department brand, establish trust, and provide team training on improving customer service.

   Caution! Discussing negative customer experiences shouldn't be about pointing fingers and placing blame. Those experiences should be treated as precious "jewels" for teaching/learning opportunities, particularly if the team is allowed to dissect the circumstances and figure out a more effective way to approach/deal with a similar situation.

3. *Measure, Analyze, and Optimize*

   As internal communications strategies are developed and deployed, many organizations struggle with tracking and reporting on the results. This is a common dilemma. According to International Association of Business Communicators (IABC), 60 percent of businesses have no way of measuring whether their workplace communications are working.

   For effective communication in the workplace to take place, you need to know what you are doing right and what you are doing wrong.

   Think about which metrics and data points are most important to your team as you evaluate the program's performance. The more you learn, the more you can adapt your internal communications strategy to engage and inspire employees.

Measuring employee engagement can seem complicated or time-consuming, but it is a critical part of the process and will be well worth the time and effort that goes into gathering the data. One of the best ways to see whether your employees are engaged is to simply ask them. For example, ask them if they

❍ know what's expected of them at work;

❍ feel valued and respected;

❍ have the materials they need to do their work properly;

❍ feel important in their position;

❍ can expand on their skills;

❍ get recognition for good work;

❍ are given the opportunity to develop as a professional.

Understanding where employees fall in these areas allows you to baseline and benchmark your results. You can benchmark your results against historical survey data, and compare your progress over the years. Other ways to measure employee engagement include:

❍ Measuring employee turnover

  ♦ According to a Gallup meta study, even high-turnover companies experience 25 percent less turnover with an engaged workforce.

  ♦ Carefully monitoring your turnover rates (including moves to other departments) gives insight into whether your department culture has a positive impact.

❍ Examining referral data

  ♦ If you discover that new hires are applying to join your department as a result of referrals by district employees, leverage that by emphasizing the department's culture in your communications. Using employee advocacy to boost social recruiting allows you to enhance staff engagement online and unlock networks you haven't yet been able to tap into, gaining access to a whole new pool of talent.

❍ Investing in training and development

  ♦ If your employees are constantly taking advantage of training opportunities and continuing to find ways to grow and learn in their respective fields, then they're clearly engaged and excited by their job. Forty-one percent of millennials expect to be in their job for less than two years, but employers can counter this statistic by giving employees opportunities to grow in their roles and expand their skillsets. By making it a point to ensure your employees don't feel stagnant in their careers, they'll be less likely to seek a new opportunity.

Creating and following internal communication best practices requires patience, innovation and experience. Not all the messages you send out will get the right response, and you'll need to be ready to adapt and improve as necessary. The best results will come from infusing personality in your message and customizing your content to employee needs and interests.

We all struggle in some way with how to best present information to our employees so that it is actually consumed. So, how can districts of all sizes better message internal communications?

Remember that Less Is Usually More: Sending too many emails means employees will ignore some of your messages. If you are continually emailing FYIs, most messages turn into a steady stream of static.

Use "Strategic Targeting": When you think about it, "internal communications" is just marketing to employees. And just like in traditional marketing, the more you tailor your message to niche audiences, the more effective it will be. Consider who needs to know what in order to help clear out unnecessary static. You can still be transparent with information (sharing national and district news), but flagging everyone on these notes is often unnecessary.

Make Your Objectives Clear: The Coca-Cola Company bases internal communications on the premise that success depends on "…employees understanding where [the company is] headed, why, what it's going to take to get there, and why each employee matters." They also use spot surveys throughout the year to gauge the temperature of company culture.

Avoid Becoming a "Corporate Publicist": If you are trying to solve an organizational problem, first make sure you are taking steps to solve it. Publicizing a problem before, or without, taking steps to solve it will gain you nothing. People voice genuine issues/grievances because they want assurance that you will (or at least will attempt to) do something about it.

Give Employees a Voice: Rolling out a new system? Take an iPhone video of an employee walking you through how to access pertinent information, and add it to your next district-wide newsletter. This technique allows employees to be the mouthpieces for your department brand. When internal communications work well, your employees end up being so in tune with the business they'll begin to tell the department story for you – and they'll take pride in doing it.

CUSTOMER SERVICE

If you want to provide excellent customer service, start by focusing on your department employees. The brutally honest truth is this: It is just about impossible to have happy customers when you have unhappy employees!

Every customer contact made by an unhappy employee will negatively impact that customer's perception of your service. Even when employees do their very best to hide their displeasure, it comes across through voice inflection, what they say and what they don't, and how hard they work to please the customer or deliver a quality service. The employees may not realize this, but it happens.

So, before you focus outwardly toward your customers, make sure that you have addressed the wellbeing and attitude of your employees who interact with those customers.

For your department to function smoothly and effectively, people must communicate clearly within and between departments, organize tasks and timelines, and implement them effectively and efficiently.

The more effective people are at serving one another, the smoother their processes will be, and they will achieve better results in service, innovation, and efficiencies.

Here are suggestions on how each individual employee can provide stellar customer service:

- Be aware of what you think about yourself and others. Behavior follows thought. Are your thoughts helping you and building you up, or are your thoughts hurting you and making circumstances more difficult between you and others? Practice respectful/helpful thoughts.

- Communicate clearly and often. Ask for clarification when you are unsure of what is conveyed through verbal and nonverbal means. Repeat back the key points of the message you thought you heard and get confirmation of your understanding.

- Talk face-to-face or by phone instead of exclusively using e-mail. The benefits of this far outweigh the time saved by using email. Too much email can be a "crutch" and seriously affect the communication of a group of people working to achieve common goals. Tailor your communication method (phone or email) to individuals. If you have a reputation for responding promptly to both phone and email inquiries, individual customers will let you know their "comfort" media by how they contact you.

- Confront (by talking about) the pink elephant in the corner that everyone knows about and talks about in their cliques, but no one addresses directly or in formal meetings. These taboo topics are the core problems that cripple organizations. When colleagues learn to work through their misunderstandings and collaborate, they will be in a strong position to significantly improve and increase service output.

- Fine points of etiquette don't have to be the same for everyone, but the spirit of kindness and dedication to helping the caller must prevail.

- Through lateral service, we do more for each other, and for the district. By moving out of our assigned positions to help fellow employees when they are temporarily short-staffed, we build a stronger district for employees and our common customers.

- Language matters because feelings matter. "Please", "Thank you", and "What can I do to help" are not forbidden phrases. Use them often.

- Respect is expected. With no exceptions. Bullying has to be addressed immediately, no matter how high up in the organization it occurs.

- Expressed and unexpressed wishes are both important. Example: A fellow employee makes a specific request by email. You can either send them exactly what they asked for (and nothing more), or you can also thoughtfully include the attachments that they will need to begin working on X, even though they didn't explicitly ask for them.

- What gets celebrated gets repeated. By celebrating the times when our fellow employees succeed at work, we inspire further success.

As a department leader, what can you do to stimulate exemplary customer service in your team?

Providing good customer service is not only important to customers, but to co-workers as well. A huge factor in being able to deliver outstanding customer service is providing a satisfying and enriching work environment for your employees.

Create an environment in which your people can become passionate about your vision. Be visible to your team. The passion (or lack thereof) that you display to the team will be reflected in their actions, interactions, and communications throughout the district.

According to a survey in *Fortune Magazine,* when employees were asked why they loved working for the best companies, they didn't mention pay, reward schemes, or advancing to a more senior position. They spoke first of the sincerity of the relationships at work. They spoke enthusiastically of their colleagues as being supportive. Successful managers of these top ten companies are characterized as genuinely caring; every single employee really matters. These employees looked forward to going to work – a place to maximize their talent with like-minded people.

Here are a few guidelines to live by:

- *Set Clear Expectations:* Establish behavior norms for the organization – enforce them until they become values that the organization identifies itself with. Values do not need enforcing and are difficult (or impossible) to dislodge.

  Become the model of behavior that customers refer to and that other departments seek out for consultation.

  As an internal provider of service, you are responsible for setting clear guidelines about what internal customers can reasonably expect. Last-minute requests are typically due to poor planning on the part of the internal customer. However, if someone reaches out to you with a request while you are working on something time sensitive, talk with him/her and identify how important his/her task is relative to one you are working on. If he/she has unrealistic expectations, explain your workflow, priorities, processes, and timelines; reinforce that your goal is to provide top-notch service for them. Your customer does not know what your backlog is; however justified it may be, a blunt denial of a request with no other discussion or explanation can leave the customer with the impression that you don't care about their need.

- *Always Keep Customers Informed* on Project Progress: If you have agreed to a timeline and milestones for a customer's project (best practice), let them know the project status periodically, especially if there is significant time between milestones (more than a couple of days), and when you plan to complete the rest of the project. Silence gives the customer time to imagine the worst and will prompt frequent requests for updates, which are distracting.

- *Get to Know your Teammates:* Spend time with co-workers in other departments or schedule quick calls just to check in and see what's happening in their department. In a school district, many of your co-workers may be remote, so it takes a little more effort to get to know everyone, but it is worth it.

- *Get the "Big Picture":* Develop an understanding of how the whole district works (no, they don't all work the same way). How does what you do contribute to the big picture? What do other departments need from you to meet their goals? Think outside of your function and department.

- *Publicize your Schedule:* Keep your calendar updated with your schedule for at least the next several weeks. Use your automatic out-of-office email response when you are absent (don't just say "I'm out." Let the other party know when you will be back and whom to contact while you are gone).

- *Always Close the Loop:* When you receive an email that requires additional work or research, let the person know that you received it, that you'll work on it, and when you'll update them on progress. Do not let it sit in your inbox for days until you get around to working on it.

- *Make your Co-workers Feel Valued:* Recognize them with a smile and call them by name. When someone approaches your desk, stop what you are doing, make eye contact, and be attentive to what they have to say.

- *Develop a Positive Attitude:* Your attitude is reflected in everything you do. It not only determines how you approach your job and your co- workers, but it also determines how they respond to you. Avoid complaining. Do whatever it takes to get the job done—and done right.

- *Solve Problems:* Great customer service professionals are quick on their feet. Don't procrastinate - develop a plan of attack, and handle the situation as quickly and efficiently as possible.

- *Identify and Anticipate Needs:* The more you know about your customers, the better you become at anticipating their needs. Communicate regularly to stay aware of problems or upcoming needs. For example, establish outreach tools and programs to educate and keep customers updated about related issues (e.g., budget planning, contract and supplier management, contract expirations and contract calendar, available contracts, etc.).

- *Develop a Robust User Training Program* that Provides:

  - Timely basic training for new employees and new users (requisitioners, approvers, executive staff, etc.)

  - Periodic (at least annual) refresher training for users

  - Differentiated supplementary training for intermediate/advanced users

  - A feedback mechanism for user input on improving the training provided

  - A "broadcast alert" process to quickly communicate new features, compliance changes, productivity developments, etc.

  - Convenient (i.e., web-based) access for users to training materials, productivity, compliance tools, procurement policies and procedures, supplier lists, etc.

Walk the Talk

One of the best strategies is to walk the talk, being consistent with your communication themes. Developing the right attitudes and behaviors is the biggest challenge to leaders and managers. The way your employees feel about their job and their department is what makes your operation distinctive and makes the people who work there proud to do so. Some managers think chatting to their employees about social issues is all they need to do to build relationships with them. Wrong! Your people need to know exactly what is important to you and the business.

Listen to the people you deal with. You can have the most competent leader in the world, but if he or she does not listen, then his or her leadership potential will go unrealized. Make your conversations count. Speak with confidence, and bravely confront the real issues. Always remain positive and contribute that which is helpful. Don't use your words to criticize or divide individuals or teams. Be the first to roll up your sleeves and do whatever is needed to help the team. They will respect you for it.

Always be honest. Trust is born out of truth; masking the truth breeds mistrust and disrespect. Everyone needs to take responsibility for what they do or don't get accomplished in a day. Support people who do the "right" thing.

In addition to ensuring that staff enjoy varied and interesting work through job rotation, as a service leader you can motivate your workforce in the following ways:

- Provide high-quality training and development; continually reinforce the importance of service excellence, particularly with the goal of changing mindsets and attitudes towards customers.

- Operate an "open door" policy in which leaders and managers are approachable and ensure that you spend a significant portion of your time (best practice is more than 50 percent) with customers and staff.

- Lead by example and displaying consistent and genuine behavior, which also translates into leaving your personal problems at home.

- Have respect for a good work-life balance, e.g., offering the opportunity (where possible) for flexible working schedules.

- Ensure fairness at work, including promoting equality and diversity.

- Ensure proactive and regular communication, staff newsletters, and regular team meetings.

- Give regular appraisals with positive feedback, restating service objectives and recognizing your staff's contribution.

- Encourage your teams to be innovative, via staff suggestion and initiative, gaining staff feedback on how they feel about their roles and the support they receive.

- Develop a customer satisfaction survey tool to use as a department KPI and to modify/refine department behaviors.

- Recognize and reward employees for exceptional performance and innovative ideas (especially ones that improve their customers' experience).

In summary, be sympathetic to the needs of your employees—inspire, involve, and reward them. Smart districts realize that happy employees are the secret behind happy customers.

PROCUREMENT CARD (P-CARD) PROGRAM

INTRODUCTION

Procurement Cards (P-Cards) are employed by districts to serve either or both of two primary purposes: (1) to reduce cost and transaction time to execute relatively small purchases and (2) to recover (by rebate from the P-Card financial institution) and repurpose a portion of the district's total expenditures for goods and services.

Both of these benefits are attractive. However, both represent significant procedural changes that require careful planning and implementation, including installation of sufficient monitoring and control systems that may not already be in place.

This Paper explores the uses of P-Cards and describes in detail how to organize a successful implementation.

PROCUREMENT CARD PROGRAM

All districts need to reduce operating expenses and effort expended to execute non-value-added transactions. On average, 80 percent of transactions that Procurement processes account for less than 20 percent of the dollars spent. A Purchasing Card offers the opportunity to move Procurement activity away from "heads-down" tasks and reduce transaction costs. The Government Finance Officers Association (GFOA) recommends that governments explore the use of P-Cards to improve the efficiency of their Procurement procedures.

There are numerous benefits to a P-Card program. Benefits to the cardholder can include

- reduced administrative work (no requisition or purchase order);

- faster order placement;

- expanded list of merchants from whom purchases can be made; and

- reduced paperwork.

Benefits to the district can include

- simplified Procurement and payment process;

- lower transaction costs per purchase;

- increased management information on purchasing histories;

- reduced paperwork;

- decentralized purchase process (for non-value-add purchases);

- the ability to set and control purchase dollar limits;

- the ability to control purchases by merchant categories and suppliers; and

- rebates from P-card purchases from the financial Institution; and

- an alternative method of payment on all purchases; thereby magnifying the rebate potential.

Benefits to the supplier include

- expedited payments;

- reduced paperwork; and

- lowered risk of nonpayment.

P-Cards may be issued in the user's name or in the district's name, which is clearly indicated on the card as the buyer of goods and services.

It is important for districts to be aware of risks related to the use of P-Cards and establish controls to address those risks (see the section below titled Implementation Planning). Districts should develop annual P-Card training for all card holders to encourage compliance and responsible use of district funds. In addition, clear consequences for the misuse of P-cards should be included in the district P-Card Policy and annual training.

There are several disadvantages of P-Cards:

- There is potential for duplicate payments to suppliers, unless payments are recorded by individual supplier within the accounting system.

- The public perception of issuing "credit cards" to employees may be negative.

- There is potential for abuse despite the controls available with P-Cards.

A competitive process should be used to select a P-Card provider financial institution). In addition to the normal factors included in the solicitation, consideration should be given to suppliers who can provide the following benefits and services:

- Automated approval and reconciliation software. This software should provide integration with the district's accounting records in a timely fashion.

- A program that is simple and easy to use.

- Comprehensive control restrictions for single and cumulative card transactions (the number and amounts authorized per day and per cycle) and restrictions on the types of suppliers and merchant category codes (MCC) with which the card may be used.

- Provisions for handling questioned items and chargebacks.

- Immediate notification from the financial institution when suspect transactions occur.

- A broad selection of reports and/or ad hoc reporting ability.

- Training materials and desktop manuals/aids.

- Customer support.

- Program rebates.

Implementation Planning

The decision to implement a P-Card program is a decision to re-engineer the existing procurement process for the transactions affected. Plan for and manage the transition with the same care and thoroughness you would give to any other significant user system change. Assemble a team to lead, create shared goals, shape vision, mobilize commitment, secure support, and monitor progress of the change initiative. The P-Card program impacts areas across the district that aren't always evident at first glance. Involve impacted constituencies early and often. Key participants of the team should include all of the following:

- Procurement

- Accounting

- Audit

- Tax

- Requisitioners

- Information Systems

Involvement of *Audit* ensures compliance with district policies. Traditionally, Procurement is granted the authority to commit expenditures on behalf of the district. A P-card program puts that authority into the hands of numerous other employees. Make sure early on that your procedures and controls for this process support district policies and provide adequate audit trails.

Tax is your resource for approval for compliance with tax laws. Use this area to ensure that your P-Card process will provide adequate documentation of taxes paid or not paid. Districts that self-assess transactions and accrue tax due must work with their suppliers to avoid paying taxes on transactions twice.

Requisitioners: Keep their workload and responsibilities in mind. Employees who previously created requisition documents may now be card holders. They must be prepared and able to review a statement of their charges and itemized invoices each month (or more frequently) to ensure an accurate and complete reconciliation. In most cases, the more commodities available for them to purchase using their card, the easier the ordering process will be for them, but the more laborious the tracking and reconciliation process may become. Teach them to keep a log of their transactions so this process becomes second nature to them; then they can discover for themselves their individual "best practice" method of tracking expenditures. Their method of tracking should not be the focus, but rather their accurate reconciliation. A best practice is to scan and archive all P-card reconciled statements and back-up for audit purposes.

Information Systems: Best practice is to require the system to automatically upload all P-card transactions into your general ledger (an alternative is to utilize P-Card accounting software available from some credit card companies). Either way, it is the department responsible for the hardware and software in your district, and they are affected by any new system introduced by the P-Card program.

Commit yourself and your team to this project. Determine your roll-out plan. This is where and when you decide the scope of your implementation. A phased approach provides checks and balances and opportunities for learning. Tailor the approach to meet the needs of your district culture.

- *Secure senior management support* when involving key players. Senior leaders have a key role in setting and enforcing P-Card policies and procedures. In addition, project managers should work with their peers in Finance, Procurement, HR, and other departments to reinforce compliance.

- *Establish checks and balances.* Segregation of duties (expense, audit, approval) is as critical in a P-Card program as in a traditional procurement process.

- *Establish consistent policies across the organization.* All cardholders (including Board members and executive staff) should be covered by the same set of rules.

- *Mandate annual training* for all cardholders and card managers, in addition to the initial training provided to cardholders before being issued cards.

- *Establish protective controls* up front. These might include cardholder transaction limits (e.g., $500 per transaction), monthly spending limits (e.g., $1,000 per month), restrictions on funding types allowed (e.g., no federal grant funds), blocks on unauthorized merchant category codes (e.g., no usage allowed at ATMs, liquor stores, etc.), and procedural restrictions (e.g., no deliveries to personal residences).

- *Use technology* to streamline back-end auditing. Tools that analyze card program data can identify indicators of potential problems, such as

  - unusual increases in the cardholder's average spend;

  - purchase transactions suspiciously close to (e.g., 1-3 percent) but below your threshold that requires a competitive purchase process;

  - purchases from unauthorized suppliers;

  - transactions made in the evening or on weekends; and

  - transactions not appropriate or allowable under federal regulations.

- *Foster positive relationships with cardholders*. Don't limit your focus strictly on investigation and confrontation; you have to create an atmosphere in which cardholders feel comfortable reaching out with questions and concerns.

- *Conduct periodic peer reviews* before official audits occur. Program administrators can perform relatively informal audits and mini-reviews of cardholder transactions and documentation, in addition to formal audits.

- *Network* to gain new ideas. Conferences and networking can help P-Card administrators understand best practices and improve their organization's processes.

Set program goals.

- To reduce costs: Compute the average cost of a P-Card transaction vs. the average cost of a purchase transaction in your ERP system.

- To reduce cycle time: Look at the elimination of steps and time spent in the former process vs. the P-Card process.

- To increase employee satisfaction: User surveys can collect this data, as well as provide suggestions for improving the program.

- To increase supplier satisfaction: Don't forget about the suppliers; they can be a valuable resource for process improvement and limitations.

- To improve productivity: Quantify the work output/quality effect in Procurement and other departments after removing the non-value-added transaction load that P-Cards now handle.

Create a policy and procedure governing P-card usage, including the specific control mechanisms and responsibilities described earlier.

Establish written agreements with the P-Card financial institution(s), including fee schedules, processing procedures, and security requirements.

E-PROCUREMENT

INTRODUCTION

E-Procurement is one of the areas where general technology advancement results in continuous, significantly improved and expanded functionality available to Procurement organizations.

Principal among the improvements are ease of use and user accessibility. The early applications of e-Procurement were a simple transmission of purchase requirements, on a vehicle resembling fax or email. Using a proprietary application required heavy, almost customized, enabling by IT staff at both the supplier and the buyer ends. Sophistication and ease of use have advanced rapidly, now enabling use of an application for all procure-to-pay transactions (quote, order, delivery notice, invoice, payment, etc.) through cloud-based portals, and even more functionality beyond that.

These and other aspects of e-Procurement and how to take advantage of them are discussed at length in this section of the Paper.

E-PROCUREMENT

E-Procurement is the business-to-business procurement of supplies and services using the Internet. It consists of several different processes, including sourcing, supplier management, catalog management, purchase order integration, order status, ship notice, electronic invoicing, electronic payment, and contract management. A properly implemented e-Procurement system integrates with the district's ERP or internal systems and directly to suppliers, allowing system-to-system integration and automation of much of the Procurement process.

An e-Procurement system allows employees within the district to browse and order from online supplier catalogs. The user builds a "shopping cart" online and submits a purchase requisition electronically through the e-Procurement system. The purchase requisition is routed electronically within the district for approvals. After approval, a purchase order is generated and sent electronically to the supplier.

E-Procurement is not synonymous with Enterprise Resource Planning (ERP). An ERP system is a broad-based application that connects Finance, Payroll, Operations, and other functions together. E-Procurement deals primarily with a subset (Contracting, Procurement, Accounts Payable) of the full suite of ERP modules. Almost all ERP systems offer e-Procurement as part of their functionality.

Full ERP systems are typically very expensive (although worth the cost), while fully functional standalone e-Procurement systems are available at a fraction of a full ERP system cost.

Some of the most common e-Procurement systems are: Ariba, MRO, Oracle, Epicor, Jaggaer (SciQuest), SupplyNet, SAP, ExoStar, Infor, ePlusB2B, PeopleSoft, Market4Care, Perfect Commerce, Oracle Exchange, Science Warehouse, IBM ShopOut, Ketera, Unity, Coupa, ESM, Equal Level, Ionwave, Epylon, etc. This is a rapidly evolving marketplace, so this list is certainly not inclusive. Protocols and message forms used by these systems include: Flat files, SOAP, CSV, TapOut, EDI Van, AS2, XML, API, S-FTP, ANSI X12, EdiFact, RosettaNet, Oracle XML, EDI Software, Ariba Punch-out, cXML, OCI Roundtrip, and SAP idocs.

Since the Internet began being utilized as a supply management tool in the mid-1990s, districts have steadily progressed in realizing the benefits that e-Procurement can deliver: cost reduction, process streamlining, improved contract compliance, increased spend under management, and more. Initially, severe challenges stood in the way, but evolution of the e-Procurement market has made it possible for any district to take full advantage of the benefits available.

Through effective deployment of e-Procurement technology, districts can achieve the following improvements:

- Significantly reduce or eliminate paper forms (requisitions, purchase orders, invoices, etc.) and their associated manual handling activities.

- Reduce transaction costs.

- Improve process efficiency.

- Significantly reduce off-contract and "maverick" spending.

- Increase purchase and contract compliance (typically reported as 20 percent+ improvement).

- Reduce requisition-to-delivery cycle times.

- Improve supplier relationship management.

- Reduce inventory and inventory costs.

- Reduce costs of purchased goods/services (typically reported as 5 percent - 20 percent reduction).

- Improve financial and operational controls in the Procurement processes.

- Increase transparency.

- Expand the supplier base and promote increased competition.

- Provide a single point-of-entry for access (by requisitioners) to all e-Procurement suppliers.

- Provide an Amazon-like shopping experience for requisitioners.

Perhaps most important, e-Procurement can shift transaction processing to the end users who actually use the purchased goods or services, freeing up Procurement personnel for more strategic value-creation work.

Best practices in e-Procurement include

- centralized procurement governance;

- electronic vs. paper documents (quotes, requisitions, purchase orders, invoices, etc.);

- automated process and approval workflows;

- integration that provides contract and financial compliance;

- full automation of sourcing (solicitation) processes and contract management;

- online credit card transactions (P-Cards);

- enabled supplier relationship;

- robust spend data analysis; and

- increased visibility through reporting tools.

Centralized Procurement Governance

Centralized governance is critical to success. E-Procurement can help by providing a central hub for disseminating information, enforcing preferred supplier and product purchases, and maintaining visibility and control over the whole supply chain.

E-Procurement has long been touted as the key lever for keeping spend under control. By incorporating

negotiated price lists from preferred suppliers and utilizing automated workflow approval, your e-Procurement system will help you to quickly and efficiently educate all business units about procurement policy and enforce that policy.

If you have an e-Procurement system in place, you can reach all areas of Procurement instantaneously (assuming they all use the same system) when putting a new policy in place. However, if you rely on a supplier-hosted procurement solution, you have to invest greater effort in educating your staff on the chosen suppliers and how to use their procurement portal(s).

Automated Processes/Workflow

By capitalizing on automated workflow approval process capabilities available in most e-Procurement systems, you can better manage and monitor procurement activity. You can set up exception notifications to act as alerts when non-preferred products and/or suppliers are being used. This will reduce incidents of rogue purchasing and ensure that, when difficult buying decisions must be made, the procurement champions on staff are able to weigh in.

Process automation reduces manual processes and paper consumption. Just consider: The production of a 500-sheet ream of paper equates to 6 percent of a tree, 27.8 kWh of energy, 14 lbs. of greenhouse gas, 47.6 gallons of water waste, and 5.7 lbs. of solid waste. To print or fax that same ream of paper would be an additional 10 kWh of electricity and 12.3 lb. of carbon emissions. That may not seem like a lot, but once you multiply these figures with the amount of paper you save with e-Procurement, the impact adds up quickly.

Integration with Contract Compliance and Finance, Invoice Integration, and Online Credit Card Transactions

Another productivity boost can come from invoice integration. If your supplier is able to integrate its invoice system with your e-Procurement system, then invoices can be automatically generated from purchase orders, which in turn can be generated from the quote. This results in less potential for manual-entry error as well as less paperwork.

Additional benefits can be gained through the use of online credit card transactions, or the use of P-cards. The remittance of payment electronically via a credit card not only speeds up the Procurement process, but alleviates the need for invoices to be created or checks to be cut, and can generate revenue for the district in the form of a rebate (% of the transaction $) from the credit card company.

Enabled Supplier Relationship

Supplier relationships are greatly improved/enabled when business documents and communications are exchanged electronically, the supplier catalog content is managed online, or the master supplier file is managed through an automated or self-service process (including collection, verification, cleansing, and updating). If you can actively manage supplier information via an automated or self-service process, you have the means to review up-to-date credentials and information, such as government and agency certifications, insurance certificates, W9s, licenses, etc.

By working with suppliers who offer online catalogs, you are not only able to access more up-to-date pricing information, but you may also be able to access product specifications, which is helpful in making informed buying decisions that comply with your procurement policy.

Conducting Spend Data Analysis and Increasing Visibility Through Reporting Tools

With e-Procurement, your district will gain greater insight into spend data, owing to a variety of reports that can be run from the e-Procurement (or ERP) system. This will help your procurement strategy in two ways.

- Price negotiations: Being able to show past purchasing patterns with a supplier and/or predict future purchasing patterns can help you target spend categories for price negotiation.

- Historical purchasing data provides volume leverage for negotiations.

Custom Supplier E-Catalogs

Custom catalogs or pricelists are a standard best practice implemented with most e-Procurement systems. If you already have certain products or suppliers identified as meeting your criteria, then you should be utilizing your e-Procurement system to create purchasing templates for these preferred products/suppliers.

By leveraging custom e-catalogs in conjunction with an automated workflow approval process, you can put controls in place that will help ensure that your organization is indeed purchasing the preferred products at the negotiated prices.

A **"punchout"** catalog is a specific type of web-based supplier catalog that connects to a Procurement organization's e-Procurement system. It is simply one of several names given to the technical protocols or routines that allow suppliers to directly connect their product catalogs to a Procurement organization's e-Procurement systems.

A punchout website is a standard ecommerce website with the special ability to communicate directly with a procurement system through Commerce eXtensible Markup Language (cXML) and to return a pending purchase order to the requisitioner/buyer so that he/she does not need to enter product information in the procurement system.

Through the punchout mechanism, requisitioners/buyers can access a supplier's ecommerce website, be automatically logged in, search the catalog, configure items, add them to the shopping cart, and return the cart to the procurement system as a pending purchase order. After the shopping cart is returned, the requisitioner/buyer proceeds through the normal workflow steps, which may include adding additional items to the requisition, canceling or editing the requisition, submitting the requisition, or discarding the requisition. An order is not submitted to the supplier until the requisitioner/buyer has actually added the line items to a requisition or purchase order and the purchase order is approved and sent to the supplier.

The punchout catalog features only your contracted or requested items. That helps you by eliminating the hassle of wading through the entire product line to find what you need.

Additionally, the punchout catalog displays your specific contract pricing, which means that the requisitioner/buyer does not have to manually calculate the contract pricing for the item purchased.

A Level 2 (a.k.a. Level II) punchout catalog allows buying organizations to search for punchout items within the marketplace of the e-Procurement application instead of having to search multiple suppliers punchout catalog sites incrementally. The requisitioner/buyer can enter a term in the search results window of the marketplace, and those products matching the search term (limited to suppliers enabled as Level 2) will appear in the search results. The requisitioner/buyer can click a link next to the product that they are interested in, and the application will direct him/her to the specific product page of that supplier's punchout catalog. Not all suppliers support Level 2 functionality within their application.

Even if you don't have an e-Procurement system in place or your suppliers are not able to support custom catalogs or price lists, you can still leverage the best practices and subsequent benefits described above by (a) working exclusively with suppliers who offer their own client-facing purchasing portals (a standalone portal available for user access and Amazon-like shopping experience) and/or (b) working with a third-party service provider that has an internet-accessible automated procurement system connected with a network of suppliers.

If you are working with third-party suppliers, be sure to ask if their pricing catalogs and/or hosted procurement solution are integrated with the original equipment manufacturers' (OEM) catalogs. This will indicate how up-to-date the pricing information and product availability are. If these are not integrated, you may run into problems with having to redo quotes or purchase orders due to old or expired data. Also, find out if the supplier's solution offers automated approval workflow.

Ask about reporting and data transparency. If you already have an e-Procurement system, you should be able to set up all the reports necessary to provide the right level of insight. However, it is important to make sure you have a detailed list of the types of data and information you are trying to capture and that the supplier can push that information to your e-Procurement system or ERP.

E-Procurement Strategy

Best-in-class e-Procurement performers have long-term, well-thought-out strategies for e-Procurement implementation. These key strategies are used by companies that have achieved Best Practice status in e-Procurement:

- Solicit top management support to help drive system compliance and ensure sufficient funding and resources are made available.

- Focus on ease of use to improve end users' acceptance of the system.

- Don't underestimate change management. Insufficient focus on change management has held back acceptance of many e-Procurement systems.

- Make sure processes are efficient before applying automated solutions.

- Clearly define and reinforce metrics for measuring costs, process efficiency, and performance of e-Procurement technologies and processes. Nothing convinces administrators and users that e-Procurement is important like hard numbers. Where possible, link incentives for both Procurement and business units to these metrics.

Challenges to e-Procurement Implementation

Though much progress has been made, significant challenges to successful e-Procurement implementation remain. Specifically:

- *Supplier enablement.* In the early days of e-Procurement, buying enterprises and solution providers underestimated the time, effort, and resources required to enable suppliers to transact business electronically. Leading enterprises typically use a combination of supplier-enablement approaches.

- *User adoption.* Individual end users and entire business units will naturally resist any change in business processes that reduces local autonomy and buying flexibility. The increase in users adopting e-Procurement has essentially mirrored the pace of suppliers being enabled to deliver it. With more products and suppliers on the e-Procurement system, users have less reason to try to circumvent the system. Still, end users report that several factors continue to hold back user adoption, including inadequate representation of spending categories within the system, inconsistent purchase requirements, and a lack of executive mandates or policies to drive adoption and system compliance.

- *Budget and policy support.* Securing budget/policy support for e-Procurement initiatives is a challenge that can delay or mute the benefits of e-Procurement.

E-Procurement Implementation

The first step is to secure strong support from the district's top management, including a commitment to provide adequate funding for the implementation as well as the ongoing system operating costs. District leadership will also have to convince the lower-level managers and employees that they are truly committed to the endeavor for the long haul. No one wants to spend months learning new technology and adapting to a new approach to doing business if it is simply going to be changed at a moment's notice.

Form a cross-functional team consisting of representatives from Procurement, Finance, Information Technology, and others from throughout the district. In teams, district personnel can work together in order to achieve the larger goals of the district's e-Procurement strategy. At the appropriate point, bring your key suppliers (including initial e-catalog suppliers) onto the team.

Identify the cost/productivity drivers of your current procurement processes. Once you've identified those elements, you can use them to assess e-Procurement system candidates for the most beneficial fit to your district's needs.

Conduct thorough process mapping – Picturing the "how we do it now" versus the "how we'll do it in the new system." Review the processes that need improvement, and only then select the technology that best satisfies those process needs. Avoid a scenario where you end up feeding the system with information but don't end up with the data you need for making sound strategy and business decisions.

Form robust communication and training plans at the beginning of the implementation project. Many districts make the mistake of bringing in costly and complicated new technology, then leaving their workforce to learn how to use it and to adjust to the dramatic change.

"Brand" your e-Procurement website. Although this may sound a little sophomoric, a branding strategy is a key lever in embedding identification and adoption by internal and external users.

Set and enforce adoption deadlines. You've got to cut the ties to old processes to make e-Procurement work.

Pitfalls to Avoid

Don't bite off more than you can chew.

Don't expect an immediate return on investment. A short-term gain may be noticeable, but it may be eaten up by the cost of staff training and equipment purchases. A year or two down the road, a larger ROI should be evident.

Since the late 1990's, the promise of e-Procurement as a way of saving companies as much as 60 percent on their bottom line has been much discussed but rarely achieved. However, most districts can see results that live up to those expectations if they use specific implementation strategies and avoid falling into some common e-Procurement pitfalls that may undermine their implementation.

The bottom line is that e-Procurement systems can be effective at reducing waste and saving money, but special steps must be taken to effectively implement the system and to avoid the types of problems that can hinder the successful adoption of e-Procurement systems.

KEY PERFORMANCE INDICATORS (KPI)

INTRODUCTION

Two often-used sayings regarding performance measurement are:

"You can't improve what you can't measure" and

"If you measure it, it will improve."

The purist could certainly argue against either of these since improvement can happen (theoretically) purely by accident and measuring something that is immaterial to business success is unlikely to stimulate any attempt at improvement.

However, the most efficient and systematic way to achieve performance improvement in key business areas starts with timely, reliable and repeatable measurement. In addition, figuring out who are the best performance examples to learn from (benchmarking) is extremely difficult without a common (or comparable) system of performance measurement.

KEY PERFORMANCE INDICATORS

Performance measurement is the process of establishing criteria, based on strategic planning goals, for determining the results and quality of its activities. It involves creating a simple, effective system for determining if an entity is meeting its objectives.

Performance metrics is the term given to the measurement of performance; an analytical application of measurements that allows comparison of actual performance to standards/targets.

Appropriate metrics need to be aligned with overarching organizational goals. When developing a metric, consider collaborating with the individual(s) who will be responsible for decision making and performance management.

Procurement should have a performance measurement system that assesses progress towards achievement of the strategic plan. There should be a standard set of metrics that are aligned with strategic goals and that are used regularly to measure all aspects of the procurement function.

Methods Used in Performance Measurement

Methods used to measure performance should be designed to motivate staff at all levels to contribute to organizational improvement. The following are examples of methods that may be used to measure procurement performance:

- Performance reviews that identify accomplishments and areas for improvement.

- Regular staff meetings to share performance measures and progress.

- Benchmarking.

- Performance indicators (indirect measures that correlate to a desired result/outcome).

- Performance targets.

- Related performance management tools (i.e., checklists, progress charts, graphs).

Planning Performance Measures

For Procurement managers to know "what" to measure, accurate planning must be completed before developing the metrics. This step is necessary to ensure that (a) you are measuring activity relevant to and supporting the district's and department's strategic goals and (b) you are not investing time and resources on irrelevant measures. To accomplish this:

- Obtain input from key stakeholders (those to whom performance will be reported).

- Ensure that measures are simple and relevant to the intended audience (e.g., public, stakeholders, elected officials).

- Ensure that measures are specific, consistently applied, and within the control of Procurement.

- Identify (and avoid, if possible) measures that are dependent on activities in other departments and outside of procurement control.

- Define a measurement frequency that is timely relative to the goals and objectives in the strategic plan (e.g., monthly, quarterly, etc.).

- Use measures that can be acted upon (you use them to make decisions).

- Select a set of measures that provide a balanced view of performance across all of the strategic objectives and goals.

Levels to be Assessed Using Performance Measurement

As described above, it is important for measures to encompass a horizontal span (across all goals and objectives). Likewise, each measure (where practical) should have a vertical "drill-down" capability. Measures let you know if your progress is on-track or off-track (meeting or exceeding/lagging behind progress objectives). If performance is off-track, an effective metric will enable (by drill-down) quick identification of the dominant source(s) of deficiency. Some examples of vertical alignment in metrics are:

- District, department, individual

- District, school, grade, class, student

- Fleet, vehicle type, vehicle

- District, commodity, supplier

Types of Metrics

Input Metric: Inputs are resources used. They include labor, materials, equipment, supplies and services.

Output Metric: Outputs are the recording of activity or effort that can be expressed in a quantitative or qualitative manner (e.g., total number of new contracts, total number of employees who obtained professional certification, total spend).

Outcome Metric: Outcomes are an assessment of the results of an activity and show whether expected results were achieved. (e.g., customer satisfaction, improved performance of supplier, employee retention).

Efficiency Metric: Efficiency measures are a ratio representing inputs to outputs or outcomes (e.g., turnaround time per purchase order processed, average administrative cost per contract, percentage of small business contracts as a percentage of total contracts issued).

Explanatory Information: Explanatory information should identify internal or external variables that affect performance. (e.g., staff workload, supplier performance).

Using Metrics with Targets

Relevant metrics provide a method for tracking progress toward (or adherence to) specific performance standards/goals. Targets will vary depending on established goals and objectives; however, quality metrics will allow for the collection of meaningful data for trending and analysis of rate of change over time.

Setting Targets when Standards Are Available

- The standards (benchmarks) may come from either internal or external sources.

- When tracking performance trends against a standard, take care to ensure that you are using the same measurement method and metric and comparable operational attributes as those used for the standard/benchmark (e.g., organizations of similar size, same start time for measuring turnaround times, same survey questions used regarding customer satisfaction, etc.).

Setting Targets when Standards Are to be Established

- When there are no comparable standards of performance available, the metric is initially used to establish a baseline and, after that, a performance target (e.g., we know that we want to improve cycle time, but we're not sure what our current performance is).

Binary Targets

- This measure is a simple Yes/No metric, usually resorted to in start-up cases when trends, baselines, and targets are not yet established (e.g., was a milestone achieved, etc.). Because this type of metric does not provide a valid calibration of level of performance, it should be used sparingly.

Recommended Metrics

The decision regarding which metrics to use will vary by organizational goals and objectives. It is recommended that, at a minimum, Procurement track the following metrics:

Cost Savings/Cost Avoidance

- Percentage of purchase $ competitively awarded

- Percentage of purchase $ placed against cooperative/piggyback contracts

- Negotiated savings

- Level of savings due to new contract/supplier arrangements or Procurement initiatives

- Value of negotiated additional benefits

- Savings due to using alternative goods or services

- Value of improved warranties

- Savings from outsourcing services (e.g., janitorial, maintenance, transportation, food service, etc.)

- Savings from reduced inventory (e.g., consignment inventory, VMI, etc.)

- Savings from improved payment terms (either discounts from quick pay or time-value of money from extended payments)

- Savings due to improved waste management (recycling, etc.)

- Percentage of spend under management (not "direct paid" without Procurement involvement or approval)

- Refunds, credits, rebates from suppliers (e.g., P-card rebate programs)

Supplier and Industry Development

- Potential local suppliers identified

- Purchase $ placed with disadvantaged businesses (MWBE); a subcategory of this metric is $ placed by prime contractors with disadvantaged subcontractors

- Number of new sources identified for particular goods and services

- Number of firms (prime contractors) conducting local supplier development programs

Supplier Performance

- Quantified effect of supplier's efforts to reduce total cost

- Gauge whether contract requirements, service, and quality requirements are being met through the use of a consistently applied evaluation procedure

Efficiency of Internal Procurement Systems and Processes

- Percentage of spend $ transacted by e-commerce ("punch-outs", EDI, etc.), or through other efficient transaction methods like P-cards (e-Procurement metric)

- Percentage of spend $ transacted against procurement contracts

- Reduction in transaction and inventory management costs and distribution costs

- Internal customer satisfaction with the district's Procurement processes

- Average cycle time from requisition to purchase order

- Solicitation (RFPs and bids separately) cycle time from request to contract issued

- Procurement operating costs per Procurement FTE

- Procurement operating costs as a percentage of managed spend

Procurement Professional Development and Employee Retention

- Number of full-time employees with a professional certification (e.g., CPPO, CPPB); subset of this metric is the number of employees in management that hold a professional certification (CPPO)

- Spending (budget & actual) per full-time employee for professional development and training

- Average number of hours per full-time employee spent on professional development and training

- Employee turnover rate

- Average tenure (years) of Procurement employees

Evaluating Metrics

When considering specific metrics to use, apply the following questions as validation (all "yes" answers = a good metric):

- Is it meaningful?

- Is it relevant?

- Is it focused on customer needs and demands?

- Is the data used for the metric accurate and reliable?

- Is it simple enough to be understood?

- Is it cost effective to collect and report the data?

- Can the data be compared over time?

- Have those who are responsible for what is being measured been fully involved in the development of this metric?

RISK MANAGEMENT

INTRODUCTION

The concept of successful Risk Management is a balance of weighing the calculated probability and effect of a potential bad event/circumstance against the cost/effort required to avoid, prevent, or mitigate the risk.

Although a great deal can be learned about risk management from books, workshops, Papers like this one, etc., this is an area where skill at execution is gained largely through repetitive (and incrementally improved) execution.

This Paper covers a lot of ground, which can seem overwhelming if you attempt to apply all of the principles at once. Start small and expand your use of the tools and techniques described herein.

RISK MANAGEMENT

Risk management includes the identification and analysis of risk, and the decision to either accept or mitigate the exposure to such risk when compared to its potential impact on the achievement of the district's objectives. In any procurement there are a variety of risk factors that arise from external and internal sources that must be assessed.

Risk management starts with a risk assessment, which involves analyzing the probability, the impact, and the effect of every known risk to the achievement of established objectives, as well as the corrective action to take should that risk occur. The risk assessment precedes determining how the risks should be managed. Mitigation seeks to put measures in place to avoid or lessen the severity of a risk event.

The formality of an overall risk management plan for a procurement is based on the size and nature of that procurement. Planning can extend from simple incorporation of risk registers in the procurement planning agenda, to inclusion of risk assessments in more formal acquisition plans, to comprehensive risk management plans on enterprise-wide projects.

To realize the maximum benefit of risk management, the management and communication of risks needs to be an integral part of existing Procurement and organizational functions.

Risk mitigation goes together with policies and controls, and best-in-class Procurement organizations integrate risk-mitigation methodologies into their sourcing decision process (See the Supplement following this section titled *Internal Controls for Risk Management & Mitigation*). These organizations adopt sound methodologies that include: (1) identifying all of the risk elements, (2) determining the probability of the risk event occurring, (3) assessing the dollar impact on the sourcing decision if the risk event actually takes place, and (4) prioritizing risks for monitoring and prevention.

Procurement should identify risk factors associated with each significant procurement, analyze the probability of the risk occurring, and quantify the potential impacts. Risk management plans should then be developed based on a decision to avoid, assume, or transfer the identified risks.

Identifying Where Risk Is Located

It is important to identify where risks are located. The following should be considered:

Strategic Risk

Defined as risks that need to be considered in relation to medium- and long-term goals and objectives of the district. They include:

- *Political:* Risks associated with a failure to deliver policy for the district or to meet the local administration's policy commitments (e.g., a failure to integrate sustainability considerations into acquisition decisions), with the impact of social unrest, changes in government, and the potential for political turmoil.

- *Economic:* Risks affecting the district's ability to meet its financial commitments (e.g., failing to consider the consequences of proposed major investment decisions prior to an acquisition; effects of inflation, recession, and foreign exchange rates).

- *Social:* Risks relating to the effects that changes in demographic, residential, or socio- economic trends will have on the district's ability to deliver appropriate services (e.g., failure to procure sufficient elderly care provision for an aging population).

- *Technological:* Risks associated with the district's capacity to deal with the pace/scale of technological change or with its ability to use technology to address changing demands (e.g., a failure to maintain appropriate technology infrastructure protection against intrusion or sabotage); failure to anticipate or plan for technical obsolescence prior to the end of useful life of significant hardware investments.

- *Legislative/Regulatory:* Risks associated with current or potential changes in law (e.g., a failure to address a legal directive).

- *Competitive:* Risks affecting the cost, quality, or competitiveness of a product/service (e.g., the failure to address a failing service through improvement, market testing, or outsourcing; failure to consider significant changes in market pricing due to technology "price learning curve" effect, or dependent raw material constraints).

- *Customer/citizen:* Risks associated with the failure to meet the current or changing needs and expectations of customers and citizens (e.g., the demand to improve the availability of public transport).

Operational Risk

These are risks that managers and staff will encounter in their work. They may be:

- *Professional:* Risks associated with the execution of procurement (e.g., failure to develop and implement robust procurement processes).

- *Financial:* Risks associated with a failure to secure a most economically advantageous outcome to an acquisition (e.g., failure to apply lifetime costing techniques in a solicitation).

- *Legal:* Risks related to possible breach of legislation (e.g., failing to advertise a contract under required directives; failure to include specific contract terms, leading to contract failure).

- *Physical:* Risks related to fire, security, accident prevention, and health and safety (e.g., failing to regularly inspect fire alarm systems).

- *Contractual:* Risks associated with the failure of contractors to fulfill contract terms (e.g., delivery by contractors of substandard or out of date food products; failure to meet specified outcomes).

- *Technological:* Risks relating to a reliance on operational equipment (e.g., exclusive reliance on an e-Procurement system to deliver critical supply acquisitions).

- *Environmental:* Risks relating to pollution, noise or the energy efficiency of ongoing operations (e.g., reliance on unsustainable sources of commodities).

Types of Risk Factors

The decision regarding which risk factors to focus on will vary by organizational goals and objectives. However, it is recommended that, at a minimum, Procurement should consider the following risk factors:

- Escalating costs of fuel, energy, and raw materials

- General lack of internal risk management capability on the part of the supplier

- Financial instability of suppliers

- Conflicts in supply chain caused by cost cutting and survival activities (e.g., cost vs. quality)

- Supplier failure to deliver on contracted obligations

- Sole source arrangements

- Changes in environment or legislation that affect the supply base

- Products with no available alternatives

- Product obsolescence

- Use of new/unproven technology or products

Methods and Tools to Identify Risk

Techniques and tools that may be used to identify Procurement risks include:

- Brainstorming sessions to identify risks

- Risk Registers (a scatterplot acting as a repository for all risks identified, including information about each risk: e.g., nature of the risk, reference and owner, mitigation measures, etc.)

- Total Risk Profiling (determining relative ratings in probability and severity—likelihood and impact—of potential risk scenarios)

- Strengths, Weaknesses, Opportunities, Threats (SWOT) analysis

- Financial reports analysis (income statement, cash flow statement, balance sheet)

- Site observation

- Close collaborative working with suppliers

When to Consider Procurement Risk

Analysis should be performed throughout the procurement cycle to understand the probability and severity of the risks, and the actions necessary to mitigate such risks.

- *Identifying the Need for Procurement:* Once the need to procure is established, the procurement professional should think about the main areas of risk involved in the specific procurement.

- *Creating the Procurement Strategy:* This stage occurs prior to the specification stage and requires the procurement professional to determine whether to carry out a formal risk analysis. During this stage, it may be determined whether or not to use a risk register to allocate and manage the mitigation of the procurement risks.

- *Preparing for the Quotation or Procurement:* If it is determined that a formal risk analysis is necessary, the lead procurement professional, in collaboration with those drafting the specifications, should produce a procurement Risk Register that identifies risks. The Risk Register will be the document that identifies the risks and the chosen risk management approach, as well as any related contract provisions. A simple template for the Risk Register should be provided by the Procurement Department.

- *Issue Request and/or Solicitation:* The choice of contract type (e.g., fixed price or cost/labor hours, performance-based vs. design) is sometimes one of the fundamental decisions to manage procurement risk during this stage. In appropriate cases, requirements may include a request that offerors address risk management in their proposals (e.g., what do they consider the most significant risks to the project; what risk management model do they use; what specific actions, transfers, reductions, avoidance, sharing, or acceptance of risk do they recommend for each risk).

- *Evaluation Period:* Consider including risk as part of the criteria for evaluation, (e.g., understanding of the requirements, soundness of approach, and overall risk of unsuccessful project performance).

- *Award and Implementation of Contract:* Prior to the award of contract, the lead procurement professional should revisit the procurement Risk Register along with the prospective supplier to check that risk has been appropriately allocated (e.g., avoided, transferred, assumed) and that it is appropriate to award the contract on this basis.

- *Management of the Contract:* Risk monitoring is considered the last element of effective risk management. Contract management arrangements should be sufficiently flexible to allow for the review of the Risk Register and revision of the mitigation plans at appropriate intervals, including exercise of appropriate contract remedies.

- *Review and Consider Options for Future:* This stage should always include an assessment of how well risk was managed and comment on the future allocation of risk in any forthcoming contract.

The Risk Management Plan – Allocation and Mitigation

Procurement should focus on the balance between the severity of the risk and its mitigation. Mitigation seeks to put measures in place to lessen the severity of an unplanned event should that event occur. Mitigation should flow to those risks that have the potential for the most severe impact and greatest probability.

Identification of risks and consideration of their probability and impacts should lead to a risk management plan that allocates the identified risks appropriately. This may be done by:

- *Sharing the Risk* – Appropriate contract provisions can grant entitlement to equitable adjustment in schedule and/or price for identified events (e.g., force majeure clauses, and clauses relating to excusable delay for default, suspension of work, differing site conditions in construction, changes, and terminations for convenience).

- *Monitoring the Risk* – Consider reporting, notice, and dispute elevation provisions as monitoring methods to forecast events that increase risk. In appropriate cases, the contractor may be required to have a quality management system that includes periodic reporting requirements and progress meetings between the contractor and the district.

- *Transferring risk* – Risks may be transferred via a number of strategies. These strategies include, but are not limited to the following:

- **Insurance** – Care must be taken to ensure that all needed types of insurance to be carried by the supplier are identified (e.g., comprehensive, general liability, automobile liability, error and omission, cyber liability, and travel-per-occasion) for the term or post contract.

- **Bid Deposit, Bond, and Security** – These should be requested in high-risk, high-value, and highly sensitive procurements. The amount of a bid deposit should be reasonable and based on the risk and nature of the acquisition in terms of its technical aspects or sensitivity. A bid -bond (surety bond, irrevocable letter of credit, a bank note or draft, a certified or cashier's check, money order, bearer bond, or an insurance certificate from a registered bonding company) acts as surety and, when submitted, should be retained by the district until the evaluation process has been completed and contract award has been determined.

- **Performance and Payment Bond** – A performance bond indemnifies the district for a certain percentage of the contract value in the event of supplier default. A payment bond serves as a guarantee that all suppliers and sub-suppliers are paid for labor and materials furnished to the prime supplier for use in fulfilling the terms of the contract. Clear and concise explanation of the bond should be included in the Special Conditions section of the solicitation.

Supplement: *Internal Controls for Procurement Risk Management & Mitigation*

Objective: Purchase Orders Are Properly Authorized

Risks:

- The district makes unauthorized, unnecessary, or fraudulent orders for goods/services.

- The district orders goods/services from unauthorized suppliers or at the wrong prices or terms.

- Unauthorized work is performed by suppliers.

- The district is exposed to financial liabilities related to the purchase.

- Improper charges are assigned to incorrect accounts, resulting in misappropriation of funds.

- Purchased goods do not meet quality standards.

- Unauthorized individuals order and receive goods/services.

Controls:

- The district assigns related buying functions to different people (separation of duties). Best practice is to have different people:

  - Approve purchases

  - Receive ordered materials

  - Approve invoices for payment

  - Review and reconcile financial records

  - Perform inventory counts

- All contracts ("Contract", "Agreement", "Memorandum of Understanding", "Letter of Intent", etc. – any document requiring two party signatures) are pre-approved by Procurement.

- Signature/approval authority for purchase orders and contracts is clearly detailed in district policy; signature authorizations are updated on a regular basis.

- A purchase requisition (with approval signature(s)) is created prior to the purchase of any goods/ services.

- Supplier, price, quality, quantities, and terms are approved prior to issuance of a purchase order. Orders not issued from Procurement are considered invalid and are not honored by the district.

- Availability of funds is verified for the account number selected before a purchase order is issued.

- The "ship to" location for the purchase is verified as an existing, active, and occupied district facility.

- The order approval process includes verification that each purchase is allowable for the funding source selected.

- Departments/schools are not authorized to establish direct billing accounts, house accounts, or credit cards with any supplier in the name of the district.

- Computer system input screens and routines are used to generate purchase order documents/transactions.

- Computer system routines have been designed to automatically verify that purchase orders are created only for authorized suppliers (e.g., the system automatically verifies the supplier against the supplier master file during purchase order entry).

- Purchasing agents or buyers are periodically rotated among Procurement responsibilities to ensure independence (equivalent compensating controls may be used if rotation is impractical).

- Competitive bids are obtained for all purchases over amounts specified by regulation/statute/policy.

- Justification and management approval are required in the absence of competitive bids or for the acceptance of a price other than the lowest bid.

Objective: **Purchase Orders Are Accurately and Completely Prepared and Recorded on a Timely Basis**

Risks:

- Receiving rejects deliveries because there is no valid purchase order.

- The district receives incorrect goods/services or quantities of goods/services and incurs additional costs to return or store these goods.

- The district obtains an inadequate supply of goods/services.

- Purchase orders are lost due to manual processing, resulting in incomplete records of goods/services to be received and potentially resulting in double ordering.

- Management is unable to determine unfulfilled purchase commitments.

Controls:

- Computer system routines are used to assign purchase order numbers to order requests.

- Appropriate personnel (e.g., the original requestor) review generated purchase orders to ensure that items ordered are correct.

- Computer system routines are used to generate exception reports to identify purchase orders that have been outstanding for excessive lengths of time.

Objective: **All Purchasing System Transactions Are Reliably Processed and Recorded**

Risks:

- Unauthorized changes are made to programs. This will cause unauthorized processing results.

- Unauthorized versions of files and/or programs are used to process transactions. This will result in unauthorized or incorrect business transactions.

- Files (transaction, reference, or master) are lost, altered, or damaged. This will result in inefficiencies, lost assets, or incorrect processing of transactions.

Controls:

- Authorization is required for all changes to program routines; all changes are recorded electronically and preserved.

- User approval is required for program change test results.

- Tape and/or disk management systems are used to ensure that appropriate versions of transaction files, master files, and programs are used for processing.

- Computer system controls have been installed to preclude unauthorized changes in the versions of files and programs used to process transactions.

- Computer system controls have been installed to protect files and programs from unauthorized use, modification, or deletion.

Objective: Receipts of Goods/Services Are Properly Authorized

Risks:

- The district accepts goods/services for which no authorized order has been placed.

- The district accepts incorrect or excessive quantities of goods/services and/or goods/services that do not meet specifications.

- Unauthorized individuals order and receive goods/services.

- The district receives and pays for, rather than returning or refusing:

  - Unordered goods/services,

  - Excessive quantities or incorrect items, and

  - Canceled or duplicated orders.

Controls:

- Only goods/services supported with an authorized purchase order or its equivalent are accepted.

- Computer system routines are used to verify that receipts match legitimate open purchase orders.

- The computer application is used to generate exception reports of any receipts for which there is no outstanding purchase order on file.

- Computer system controls have been installed to preclude unauthorized entry of receiving transactions into the system.

- Receiving reports are safeguarded from theft, destruction, and unauthorized use.

- System access is controlled for correction of receipt errors; correction transactions are recorded and retained.

***Objective:* Receipts of Goods/Services are Recorded Accurately and Completely on a Timely Basis**

Risks:

- The district does not record, or inaccurately records, receipts of goods/services. Liabilities will not be recorded and inventory will be misstated.

- The district loses the records of goods/services received.

Controls:

- Incoming goods are test counted, weighed, or measured on a sample basis to determine the accuracy of the suppliers' shipments.

- All discrepancies are noted on the receiving reports, and these discrepancies are resolved with the supplier.

- Incoming goods are inspected for damage, quality characteristics, product specifications, etc.

- Receiving documents or online computer input routines are used to record the actual receipt of goods/services.

- Reconciliation controls are implemented to ensure that all receiving transactions are entered into the system.

- Computer controls have been installed that are designed to highlight discrepancies on exception reports and denote purchase orders on file with partial receipt indicators.

- Computer procedures have been designed to close purchase order records when all line items match and have been received.

***Objective:* Performance Measurements Used to Control and Improve the Process Are Reliable**

Risks:

- Inaccurate measurements are made, resulting in erroneous perceptions about process performance.

Controls:

- Tools implemented to automatically capture/calculate performance measures use data captured at the transaction source (e.g., processing time, number of defects, on-time delivery, etc.).

- The measures are periodically reviewed to ensure that they reflect actual process performance.

- Quality reports and customer surveys are used to capture relevant information about process performance.

- The information captured is communicated to employees responsible for supplier relations and for improving the procurement and receiving process.

- The performance measures are linked with employees' performance evaluations.

Objective: Goods/Services Purchased Satisfy the District's Requirements and Needs

Risks:

- Products ordered do not meet the necessary technical specifications or quality standards.

- Materials are received too early or too late. This will result in business interruptions and/or excessive levels of inventory.

- Suppliers are not aware of the district's needs or are not able to supply the necessary materials.

Controls:

- The district investigates and periodically updates supplier capabilities regarding product line and product specifications, product quality, and capacity and order lead times.

- Procedures are specified for notifying suppliers of potential performance problems and for appropriate Investigation and follow through.

- Data is developed on alternative suppliers, and the supplier selection decision is periodically re-evaluated.

- Purchasing agents, buyers, and cross-functional teams are evaluated consistently with management's objectives of reduced inventories, improved quality, lower costs, and frequent, reliable deliveries.

- Other measures are used to address issues such as supplier relationships, frequency of returned purchases, production problems related to out of stock materials, and quality problems.

- The approved suppliers are periodically and systematically monitored for just-in-time purchasing to ensure that their actual performance meets expectations. Performance reporting includes: percentage of on-time delivery, accuracy of shipments, product quality, and actual cost performance compared with original cost projections.

Objective: Goods/Services Are Purchased at an Appropriate Price

Risks:

- Costs of goods/services are higher than anticipated.

Controls:

- A mechanism has been developed for determining the total cost of major purchases. Considerations should include percentage of on-time delivery, accuracy of shipments, product quality, and actual cost performance compared with original cost projections.

- Procurement (purchasing control and oversight) is centralized within the district.

- The district requires publicly posted solicitations for all purchases in excess of a threshold established by policy.

- Periodic spend analysis is performed to identify repetitive purchases that are candidates for aggregated price leverage.

- The district re-competes purchases/contracts at appropriate intervals to take advantage of changing market conditions (pricing, product availability, technology trends, etc.); the interval is customized by commodity (e.g., five years for office supplies, two years for technology).

- All public solicitations are conducted/facilitated by Procurement.

- When bids are required by policy, they are conducted on an open and competitive basis and without favoritism, maximizing the best value to the district. Interested suppliers receive fair and impartial consideration.

- Suppliers are instructed to send invoices directly to Accounts Payable for proper processing; invoices are recorded/entered by Accounts Payable.

- The district has established a firm deadline for invoice submission after goods/services are rendered.

- Supplier invoices are reviewed for accuracy; invoice charges are validated against purchase order/contract.

- Appropriate performance measures are used to monitor process performance, such as percentage of purchases made under a bid process, amount of volume discounts obtained, and actual cost performance compared to original cost projections.

- Winning suppliers are periodically evaluated on their performance and on whether their pricing structures remain at competitive market rates.

Objective: Orders Are Placed on a Timely Basis

Risks:

- Orders are not placed in sufficient time to account for supplier lead times, resulting in late deliveries.

Controls:

- Forecasts for goods/services requirements are documented.

- Usage rates of goods are periodically reconciled with purchase orders and inventory levels to ensure they are adequately aligned.

- Long-term needs are analyzed, and forward contracts are established with standing (blanket) orders.

- The district uses e-Procurement techniques (e.g., EDI, punch-out catalogs, etc.) to place orders directly into the suppliers' order entry system.

Objective: Goods/Services Are Received on a Timely Basis

Risks:

- The district does not receive goods/services in time to meet operational needs.

- The district receives goods/services prior to actual needs.

Controls:

- Just-in-time inventory techniques (replenishment) have been implemented.

- Supplier performance ratings have been developed, applied, and monitored.

Objective: The Receiving Process Is Efficient and Cost-Effective

Risks:

- The receiving process incurs higher labor costs than necessary.

- The organization of the receiving area does not allow for optimum storage of goods, nor for the efficient movement of goods from receiving into warehousing or requester facilities.

Controls:

- The physical activities of the receiving process are reviewed.

- The receiving area and procedures are designed to reduce the number of activities and the time required to complete activities.

- Employees are trained in the process of materials handling.

- Employees are encouraged to share ideas and suggestions on ways to improve the process.

- Only limited storage space is allowed within the receiving area to enforce the efficient distribution of goods.

Objective: Goods Received Are Processed on a Timely Basis

Risks:

- Goods arrive, but end users remain unaware of the receipt.

- Plans and schedules for goods to be received are not communicated to the receiving department.

Controls:

- Requesting users are notified when goods/services are received.

- Communication channels have been established between Procurement, end users, and receiving to ensure that all parties are aware of delivery needs and the timing of these needs.

Objective: Goods Received Meet Required Quality Standards

Risks:

- The district encounters operational problems because goods received do not meet quality standards and specifications.

- Operations/implementation is delayed if accepted goods are later found to be unusable.

- The district incurs additional costs of returning unacceptable goods at a later date.

Controls:

- Receiving personnel are trained in inspecting the quality of goods received to ensure that the goods meet the district's minimum standards for use.

- Strategic alliances or partnerships have been developed with suppliers to ensure that quality is built in by the supplier.

- Suppliers are involved in the new product development and value analysis process.

Objective: Physical Safeguards Are Adequate

Risks:

- Goods are lost, stolen, damaged, destroyed, used for unauthorized purposes, or temporarily diverted.

- Additional costs are incurred for lost/misplaced goods.

Controls:

- Access to receiving and storage areas is restricted to authorized personnel.

- Receiving gates or loading docks are kept closed when no delivery is in process.

- Entry to and exit from facilities is checked and logged, appropriate visiting documents are issued, and random checks are performed of persons are on the premises.

- The receiving function is physically segregated from other facilities and shipping, unless good business practice dictates otherwise.

- Incoming goods are secured in a restricted area and safeguarded upon receipt.

- Inventory records and balances are maintained; regular reconciliation between beginning and ending inventory counts are conducted.

- Physical inventory counts are conducted at least annually; cycle counts are conducted on a scheduled basis.

- Appropriate handling and storage practices are communicated to employees to prevent damage to materials.

Objective: The Receiving Process Is Safe

Risks:

- Accidents occur in which employees are injured or facilities are damaged.

- The district does not comply with regulatory requirements.

Controls:

- Employees are fully trained in the safe handling and storage of both hazardous and non-hazardous materials.

- Procedures have been established for reporting and addressing safety concerns.

- Procedures and policies that comply with relevant safety rules and regulations are maintained.

- Hazardous materials are stored in appropriate containers.

- Hazardous materials are segregated from the main facilities used by employees.

- The handling and storage procedures and facilities are regularly inspected.

Objective: Goods/Services Are Obtained in Compliance with Applicable Laws, Regulations, and Policies

Risks:

- The district incurs fines or other penalties.

- The district makes inappropriate or unallowable payments and/or incurs conflict of interest situations.

- The district incurs bad publicity and loss of reputation.

Controls:

- Legal review of all relevant laws and regulations is required.

- Procedures have been developed that comply with these laws and regulations.

- Industry organizations or regulatory bodies are consulted about compliance with laws and regulations and possible future requirements.

- The political, law making, and regulatory environments are monitored to ensure that the district's procedures remain in accordance with any applicable laws and regulations.

- The district's policies and procedures concerning compliance with laws and regulations are documented; this information is distributed to appropriate personnel.

- A legal officer has been designated and is generally responsible for compliance with laws and regulations and is available to advise management.

Supplement: *Cyber Insurance*

Introduction

It is difficult to turn on the news without hearing about cyber-attacks, which have led to the exposure of millions of records containing consumer, taxpayer, student, and health care data. Not only do cyber-breaches result in the troubling dissemination of personal and financial information, they are extremely costly, averaging $190 per lost or stolen record (estimate as of 2017).

It is important for districts that are safeguarding students' Personally Identifiable Information (PII) to have the knowledge and skills to identify and prevent risks of cyber-breach in their procurement contracts. One of the best tools for mitigating the cost risks associated with a cyber-breach is Cyber Liability Insurance.

Understanding Cyber Liability Insurance

Cyber Liability Insurance, also known as Cyber Risk Insurance or Cyber Breach Insurance, is coverage for the financial consequences of electronic security incidents and data breaches. It is important to note that there are differences between what constitutes a security incident versus a data breach. A "security incident" refers to a security event that compromises the integrity, confidentiality, or availability of an information asset. A "data breach" is any incident that results in the confirmed disclosure (not just potential exposure) of data to an unauthorized party. For school districts, "data" typically refers to a student's personally identifiable information (PII).

Determination of whether there was a security incident or a confirmed data breach is important when it comes to each state's laws regarding notice requirements to those potentially affected by a security incident or data breach. In the instance of a data breach, the nature of the data accessed without authorization is significant in determining the applicable notification and potential remediation requirements. While it is important to remain diligent about protecting against both security incidents and data breaches, the distinction between the two must be carefully considered when reviewing the terms and conditions of cyber liability policies.

Methods of Coverage

Cyber Liability Insurance can have many different coverage components, and needs may vary across different districts. Being familiar with the various iterations of coverage can assist in ensuring that suppliers and service providers have the appropriate coverage required under the circumstances of their relationship with the district and that the district is adequately covered in the case of security incidents or data breach. This knowledge can be important when reviewing proposals from potential suppliers and service providers. Further, in the event of a data breach, knowing what remediation options are available becomes paramount for developing a quick and effective response.

The most common coverage components in cyber liability insurance policies are:

- *Data Breach and Privacy Crisis Management* includes expenses for general management of an incident, specifically, the investigation, remediation, data subject notification, call management, and credit checking and monitoring.

- *Breach Response Coverage* can provide legal consultation with breach response experts, forensic investigation expenses, data restoration or replacement expenses, and public relations consultant expenses. It can also include expenses involved with notifying affected parties and offering credit monitoring and repair.

- *Business Interruption* Coverage provides coverage for the business loss experienced during and immediately following a data breach.

- *Fiduciary Liability Coverage* protects in the event of a data breach that requires prompt notice of the breach, and/or comes with strict penalties if there is a violation of law involved. This policy may also include coverage for notice expenses but may not cover credit monitoring and/ or full forensic investigations.

- *Cyber Extortion/ Ransomware Coverage.* Hackers can attempt to extort money by threatening to release the information they have obtained through a successful data breach. They can also threaten to hold an entire network hostage. This coverage will allow funds to pay the ransom/extortion demand, the costs of a consultant or expert to help negotiate with the hackers, and/or the costs of an expert to help block the attempted intrusion and reinforce the security.

- *Media Liability Coverage* provides coverage for defense costs and liability arising out of claims alleging libel, slander, and/or infringement of intellectual property.

- *Professional Liability Coverage* provides coverage for defense costs and liability arising out of claims that allege negligence in providing a professional service such as a consultant, advertising agency, technology developer, and/ or service provider.

Contact your legal counsel and/or risk management office for more information on what cyber liability coverage is available in the event of a security incident or data breach. Cybersecurity is a relatively new area of insurance coverage, and consequently, whatever insurance a district obtains or requires now will need to be constantly monitored and revisited to keep up with the changing policy options available.

Prevention

Most data breaches are the result of either malicious or criminal attacks, system glitches, or human error. No location, industry, or organization is bulletproof when it comes to the potential for a compromise of data, and government servers are no exception.

Cybersecurity can seem like a daunting task, but there are resources available to educate staff and things that can be done to help prevent security incidents or data breaches. The following are suggestions for proactive preventative measures.

Invest in Proper Cybersecurity

The importance of having the right cybersecurity software, encryption devices, and firewalls cannot be overstated.

Updating software regularly can also be instrumental, and staff should be educated about why that step is so important when prompted to do so on their devices. In March of 2016 alone, Wisconsin state IT staffers reported approximately 45,000 instances of scans by potential hackers of the state's networks for vulnerabilities, "checking to see if anything was unlocked." Having a strong first line of defense in place can help prevent these types of attacks.

Educate Staff About Phishing

Phishing is when a message is received, typically an email, that contains an attachment or link that, when clicked on, will install malware onto the computer and/or direct the user to a site that is used to capture user input. Verizon's 2016 Data Breach Investigation Report found that 30 percent of phishing messages were opened by the target, and 12 percent went on to click the malicious attachment, allowing the attack to succeed. Educating staff about what to look for to determine if a message is unsafe is pivotal in avoiding this method of cyber-attack. Other ways to prevent phishing include strong email filters, segmenting networks from one another, and requiring authentication when logging onto the network.

Emphasize Password and Authentication Security

In the United States, 63 percent of confirmed data breaches involved weak, default, or stolen passwords. Emphasizing the importance of choosing a strong password can be that needed "ounce of prevention." No one enjoys having a complicated password or changing their password every 30-days, but such measures can help prevent unwanted intrusions. It is also key to be selective about what kind of electronic data that staff, suppliers, or service providers have access to, based on their job or task requirements and duties. Limiting access to personal and/or sensitive data can prevent an unnecessary breach.

Empowering staff, suppliers, and service providers to be on guard for cyber-attacks can provide a powerful shield in the battle against cyber-attacks. Unsuspecting people will click on malware or venture to an unsafe website, thinking that their firewall will protect them. Education and awareness can make someone think twice about exposing the network or server to attack and can lead them to ask for help or advice before doing something questionable. Things that we might think of as being "common sense" are often not when it comes to technology, and giving people the tools and information they need to spot an attempt at phishing or an action that might lead to grave consequences is an important step in prevention.

Know the Cyber Incident or Breach Response Plan

Knowing what to do in the event of a data breach can save time and limit the damage as much as possible. Staff should know to immediately document any breaches they become aware of, noting the date, time, and duration (if known) of the alleged breach. Educate everyone on whom to contact in the event of a data breach, and establish a method for reporting questionable activity or suspected breaches.

Require Cyber Insurance Coverage by Your Suppliers

K-12 school districts are experiencing an explosive proliferation of digitally delivered educational products, from core curriculum to all manner of supplementary products. Many of these are accessible via the internet. Scrutinize all suppliers to learn whether their product, platform, or portal captures students' Personally Identifiable Information. If so, your district is directly at risk of the resultant expenses if that supplier should experience a data breach. In such a situation, your district's only significant financial protection may lie in cyber insurance coverage, either purchased directly by the district or purchased by your supplier, naming your district as an additional insured.

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