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SENATE ADVISORY COMMISSION ON COST CONTROL
IN STATE GOVERNMENT

*California Department
of Corrections and
Rehabilitation
Procurement
Study*

UCLA Anderson
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CDCR Procurement Study
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By:

Dustin Goot

Becca Krass

Brian Lau

Siera Milton

Francis Quimby

Claire Yan

This Applied Management Research Project by the above-named students is a product of UCLA Anderson School of Management and is approved by:

AMR Advisor: Antonio Bernardo, Professor

George Abe, Faculty Director

MANAGEMENT 444A/B

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CDCR Procurement Study for the Senate Advisory Commission on Cost Control in State Government

Executive Summary

The purpose of this study is to explore ways to make the California Department of Corrections and Rehabilitation (CDCR) procurement process more effective and cost-efficient. CDCR is responsible for the operations of California's prison and parole system, which accounts for over 150,000 thousand inmates, 33 prisons, 120 thousand parolees and over 66 thousand employees. The California state budget consistently operates a budget deficit, and CDCR has been ordered by the Governor and Legislature to cut spending. Existing State law, budget language and court rulings restrict CDCR's authority regarding the areas in which the department can cut spending – for instance, staffing ratios is governed by memorandums of understanding (MOU's) and California Department of Personnel Administration (DPA), healthcare is dictated by court decisions and the court assigned Receivers and prisoner treatment is mandated by court decisions, state and federal laws and regulations. However, CDCR has authority to cut spending in the business services operations of the prisons and headquarters by modernizing and streamlining programs and processes, more specifically in the area of procurement, and that is the focus of this report. California state prison procurement offices operate autonomously within a sub-delegated purchase authority overseen by the Office of Business Services (OBS). This report examines the extent to which this decentralized approach may result in higher costs for CDCR due to coordination and consistency issues or sub-optimal contract negotiations. The estimated aggregate savings opportunity from centralization alone, according to this analysis, would be estimated to be **over \$21 million**.

Methodology

The methodology of this study centered on a series of interviews with various officials within California state government, CDCR, other state correctional departments, and public corporations related to the prison industry or involved with supply chain management. The methodology also included data analysis and secondary research.

The report provides a neutral third-party analysis of the purchasing patterns of these thirty-three individual state institutions as well as research on the procurement processes of selected comparable organizations to CDCR. Within the scope of procurement of non-IT goods, our team gained the knowledge of how purchasing is currently conducted within CDCR while learning some best practices from the comparable organizations. We then sought to identify best practices that could be applied to CDCR.

Findings

Through our research, we found that there is a high variability in spending patterns across all CDCR institutions, which suggests a meaningful opportunity to achieve cost savings via centralized commodity purchasing. In fact, all of the comparable organizations we examined have successfully realized significant cost savings and other strategic benefits from streamlining and centralizing their procurement processes. Few comparable organizations have described their transition to centralized procurement to be without staffing and logistical challenges, but all found the strategic and cost benefits to be worth the effort. At CDCR, although there is a widespread understanding of the benefits of centralized purchasing (including at the facility level), the organization faces both statutory and operational hurdles to implementing an effective, centralized purchasing process as a result of systemic boundaries put in place by the state.

Recommendations

Our recommendations can be divided into two parts: (1) issues that must be considered in a long-term plan to move towards centralized procurement and, (2) initial implementation steps to move CDCR in that direction. For a long-term plan for centralized procurement to be successful, there are three categories that require attention:

1. Centralization must be supported by more robust systems and processes as well as a specialization of resources. It is essential to have detailed information on

quantities, prices paid, purchasing agents and vendors purchased from. The Business Information System (BIS) currently in place, which is CDCR's enterprise data management system, should be better leveraged for budgeting, tracking and oversight; the CDCR headquarters procurement unit should shift to specialized purchasers by category to accommodate the larger purchasing responsibility; and CDCR headquarters should form a review board to standardize institutional requests and increase buyer power, as well as determine the pipeline for future consolidated purchases that will limit variability in costs.

2. Coordination gaps must be closed to allow centralized purchasing to succeed operationally. Targeted improvement areas would include the budgeting process between the California Department of Finance (DOF) and CDCR; the approval process for purchasing exemption between the Department of General Services (DGS) and CDCR's strategic acquisitions unit; and freeze exemption approvals, which are allowances made by CDCR for institutional purchases otherwise restricted by fixed levels of purchasing authority.
3. Training and incentives for current procurement professionals should be bolstered at all levels of the CDCR department. We recommend that all purchasing officers be required to complete a minimum professional credential from the Institute of Supply Management (ISM).
4. We would also encourage CDCR to develop a plan for skill development of its consolidated purchasing managers, in addition to a program for non-monetary incentives to reward excellence and creative thinking that resulted in institutional-level or departmental savings.

These recommendation categories are essential for CDCR's centralization success because they address specific gaps and missing capabilities within the department. These recommendations are based on the best practices identified in the comparable organizations that allow these groups to maintain successful centralized procurement

programs. If adopted, the CDCR procurement process will be more streamlined, there will be greater transparency into institution-level spending, and staff productivity will be improved at all levels of procurement.

Implementation

A successful centralized procurement function requires copious amounts of institutionalized knowledge at the highest levels. Specific pieces of knowledge necessary at the state level include but are not limited to an aggregation of supplier names, locations, and contracts; commodity prices in the open market; assessments of product quality and differentiation; and market sizing and supplier shares of relevant goods and services. Greater aggregation and larger purchasing stock lead to greater buying power, which is the end goal of a centralized process. However, our research has shown that CDCR and the state of California do not yet have enough immediately actionable information to negotiate with maximum leverage and enjoy the full benefits created by a centralized procurement system.

CDCR's first course of action should be to aggregate all contracts, identify all goods and services suppliers, and map inventory stocks and the flows of goods and services. A second course of action would be to consolidate purchasers under CDCR purview with the goal of training and certifying the purchasers to regionalize and commoditize the purchasing of goods and services. The third CDCR goal would be to generate quantity budgets and forecasts for a few commodity-level goods such as chemicals, office supplies or other common items identified currently by the strategic acquisitions group. Finally, CDCR should aim to mandate, expand, and streamline its strategic acquisitions purchasing to two or three items beyond such contracts currently processed such as clothing and safety gear.¹

¹ Strategic Acquisitions Unit processes many categories of goods and services including, but not limited to, clothing, dental items, janitorial items, safety gear, signs, forms, and personal hygiene items.

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INTRODUCTION

The purpose of this report is to outline the initial steps for CDCR to achieve its mission of cutting costs by modernizing and streamlining its current procurement practices within the scope of non-IT purchases only. The Senate Advisory Commission on Cost Control in State Government, contracted with our team of six second-year MBA students at the UCLA Anderson School of Business to conduct an in depth academic evaluation of CDCR's entire procurement or purchasing practices as it realities to non-IT goods. Using analysis across a variety of studies – quantitative, leadership, strategy, and financial – our team has proposed a series of recommendations to help the commission and CDCR find opportunities for savings and efficiency. The recommendations our team has come to are the beginning of a long-term plan to centralize purchasing for the thirty-three state institutions and headquarters within the California prison system.

The extent of the state prison system grew gradually to thirty-three institutions as the inmate population increased and the need for additional institutions developed over time. The role of CDCR is to oversee the departmental policies and procedures while each of the individual institutions acts mostly autonomously in their day-to-day activities, including purchasing. In many ways, each institution functions as though it's a small city with a particular population governed by the warden within a hierarchal system. Generally, the warden comes up through the ranks of correctional officer custody staff rather than having substantive business training. Each institution has its own procurement department headed by the associate warden of business services and its staff who are subject to the procurement policies of the CDCR, and each acts independently. There has never been an effort at centralizing procurement, and each institution has traditionally been allowed to continue their procurement efforts autonomously.

The current de-centralized system is no longer sufficient for the needs of the department. The current system is associated with higher costs and inefficiencies. The

combination of California's fiscal condition and directives to reduce costs make it imperative that centralization be part of the solution. Although change will be difficult, CDCR can no longer afford to ignore alternative policies and procedures that might save millions of taxpayer dollars. The areas that CDCR can make adjustments on their own authority are limited – legislation, other state policies and court rulings restrict cost cutting in the areas of staffing, healthcare, and inmate treatment – so the scope of this study is limited to the non-IT purchasing.

As the state continues to struggle with budgetary issues, it is likely that the budget of CDCR will be cut long-term, with the prospect of continuing and increasing cuts in the future. Before this study began, little analysis on achieving cost efficiencies within procurement had been conducted. The Senate Advisory Commission on Cost Control in State Government enlisted our team of MBA students to research data and current systems at CDCR and across comparable entities for insight into cost containment within procurement. The commission's primary goal is to work in collaboration with CDCR in finding a solution that cuts costs, increases productivity, and saves the state money while maintaining the mission of CDCR.

As previously stated, this report is an independent and impartial academic analysis for purposes of providing a plan aimed at reducing costs and increasing productivity of CDCR's procurement practices. This report will first describe the methodology used by the academic consultant team. It will detail the hypotheses and claims that were substantiated through research. It will describe the long-term roadmap towards centralization of the procurement process at CDCR. Finally, the report will outline, for the Cost Control Commission, actionable steps that we recommend CDCR should take in order to implement standardization and centralization of the departments procurement practices.

Methodology

The team's goal with its research for this project was to learn best practices and sources of cost savings in the procurement processes of comparable organizations to CDCR, in order to suggest changes CDCR might adopt to usher in greater efficiencies in its own purchasing. The research centered on the question of effective centralization of purchasing, as the Senate Advisory Commission had identified this as a possible organizational shift that CDCR may want to explore in an effort to modernize and cultivate efficiencies. Accordingly, we also assessed the internal processes and capabilities at CDCR in order to determine how work flows and responsibilities may need to shift to realize maximum gains from a centralized authority.

The team conducted both primary and secondary research while pursuing external lines of inquiry at four different types of comparable organizations: private prisons, other state prisons departments, federal prisons, and private corporations. These comparable organizations were selected primarily based on their similarity to the California state prison system, and also on the theory that best practices from the corporate world would be translatable to the current needs of the CDCR. The similarities among state prison comparables are summarized in Appendix B. The federal Bureau of Prisons (BOP) proved uncooperative in the study, insisting that the team file a Freedom of Information Act request to obtain any primary interviews. Thus, they were removed as a source of comparable research.

Our interviews with purchasing officers and other members of comparable groups were facilitated, in part, by a purchasing survey we developed with CDCR and distributed in advance of our conversations. In one case (Florida), we received only a survey response and were not able to speak directly to a purchasing manager. That survey is included as Appendix E.

The team pursued two additional lines of research, focused internally on the current status of procurement within CDCR. First, we conducted a series of interviews with both CDCR and other state personnel, focused on understanding the string of purchasing activities among the individual prisons, CDCR's Office of Business Services (OBS) and the California Department of General Services (DGS). A full list of departments interviewed by the team is included in Appendix A. (Note that no names of state employees are listed in order to maintain their anonymity.)

Secondly, CDCR provided the team with procurement data for fiscal year 2010-11, which we analyzed to determine the particular spending patterns among the CDCR institutions. In particular, we looked for variance in spending across decentralized purchasing authorities, as well as anomalies that might offer insight on savings that could be realized from a centralized process. These data covered all goods and services purchases by the Business Management Branch within CDCR as well as individual institutions. While the data did not account for multi-year service contracts executed in prior fiscal years, it was otherwise complete to the best of our knowledge.

Secondary research sources included:

- Academic and business research on procurement best practices
- Documentation of previous audits and studies conducted by the state on CDCR

These secondary sources were very helpful to the team in providing an objective set of principles to which effective purchasing processes typically adhere. We also learned what had been previously recommended to CDCR but in many cases not implemented. The academic research offered useful discussions on strategic sourcing and forecasting models, which allowed us to discern some of the gaps that were retarding CDCR's transition to a centralized procurement program.

Findings

In recent years, officials have discussed the possible success of centralizing CDCR procurement practices. However, the conversations have never come to fruition and have failed to gain significant traction due to organizational inertia and the desire to remain in the status quo. Thus, we have focused our findings on validating and sizing the potential savings opportunity through centralized purchasing. Meanwhile, we have examined the success factors for centralization at comparable organizations and the implementation barriers at CDCR that would have to be overcome.

1. High variability in spending patterns across institutions suggests a meaningful opportunity to achieve cost savings via centralized commodity purchasing.

In analyzing the procurement data provided by CDCR for the fiscal year 2010-11, we examined the extent to which a highly decentralized purchasing system would affect variability in institutional spending. We were told, for instance, that a situation where one institution spends *five times as much* per prisoner on a particular good as another would not be considered uncommon, due to idiosyncratic requirements defined by those establishments. Moreover, in our interviews we observed a culture of exceptionalism, wherein CDCR personnel – both at the institutional and central-office headquarters level – tended to focus on unique aspects of each facility and to explain why that facility should not adhere to normal purchasing guidelines.

According to interviews with internal purchasing staff, facility spending is budgeted in large measure according to average daily population of prisoners (ADP). Thus, we first sought to normalize spending levels by this metric. For our population figures, we took the average of the reported monthly total populations from July 31, 2010, and June 30, 2011.

Our initial findings show not only a very high spending range from the highest-spending institution (Sierra Conservation Center at \$4,422.79 per prisoner) to the lowest (Solano

at \$1,684.04 per prisoner), but also a fairly even distribution across the range. Backing up this finding, the 25% to 75% range is wide with Chuckawalla Valley at \$2,577.18 per prisoner and California Correctional Institution at \$1,889.42 per prisoner. These high-level results suggest a large level of variability in the efficiency with which each institution handles its procurement.

However, these aggregate figures fail to consider important differences in the institutions that would necessarily influence the expected spending levels. Factors for which we would have liked to make adjustments would be age and mission of the facility, and inmate population information such as gender and security level. Unfortunately, we did not have sufficient data to adjust spending totals in any predictive way. Instead, we sought to focus our analysis on particular material groups for which we would expect the highest degree of per-prisoner consistency in spending.

We classified the material groups under which purchases are recorded according to their likeliness to be influenced by either prisoner population versus physical plant and, separately, by the frequency or infrequency of the purchases. We hypothesized that materials purchased frequently and influenced primarily by populations levels would show the greatest consistency of per-prisoner spending across institutions.

Our breakdown of material groups is as follows with groups that accounted for over \$500,000 in spending in the 2010-11 fiscal year bolded:

	Population-Based	Facility-Based
Frequent	Food Housekeeping Armory Ammunition Clothing Photocopy Personal Care Stationery Printed Forms Frozen Foods Pharmaceuticals Copier Supplies Medical Supplies Dental Supplies USDA Foods Medical Syringes/Needles	Heat and Air Water Treatment Electrical Light Power Plant Data Processing Grounds and Pest Control Hazardous Materials Armory Chemical Agents
Infrequent	NOC non-IT Goods Feeding Supplies Armory Supplies NOC Services Furniture	Equipment IT Equipment non-IT Automotive Supplies Software IT Mechanical Maintenance Plumbing NOC IT Goods Carpentry Painting Welding Tires and Tubes

We restricted our analysis only to groups that accounted for over \$500,000 in spending in the 2010-11 fiscal year. Focusing on frequent population-based material groups, the top left quadrant, for which we expected the greatest consistency in spending, we continued to see wide spending ranges and relatively even distributions across the ranges (with standard deviations typically equal to 50% or more of the average within each spending group). Comparing the spending patterns across these quadrants, there was no obvious lack of variability in any given quadrant, as we would have predicted by

the nature of the purchasing needs.

Given the known desire of the CDCR to centralize and/or consolidate more of its commodities purchasing, we used these spending figures per material group as a foundation for estimating the potential cost savings to be gained from a centralized procurement process. We assumed that a primary benefit of centralization would be a standardization of spending levels within frequent population-based material groups for which similar needs per prisoner would be expected. Thus, we analyzed the benefit that would be associated with bringing all institutions to within 10% of median spending levels, which we believe to be an attainable and conservative target in a centralized procurement regime.

Material Group*	
Food	\$2,615,732.50
Housekeeping	\$1,471,711.10
Armory Ammunition	\$10,099,186.94
Clothing	\$2,182,124.90
Personal Care	\$919,198.87
Stationery	\$451,323.86
Printed Forms	\$649,164.01
Photocopy	\$1,092,645.47
Frozen Foods	\$880,527.25
Copier Supplies	\$610,913.76
Medical Supplies	\$51,936.00

* Note: Pharmaceuticals are no longer purchased at the facility level due to medical care being transferred to a state receiver.

The estimated aggregate savings opportunity from centralization, according to this analysis, would be **over \$21 million**. (A specific breakdown of estimated savings per category per facility is given in Appendix C.) While we recommend further, detailed study within each material group to identify the sources of variance and the reasons for certain outlier figures at some facilities, there is strong reason to believe that

centralization will achieve meaningful department-wide savings by targeting these groups with bulk purchases strategically sourced from reliable, low-cost vendors.

2. Other state prison systems and comparable private organizations achieve streamlined and lower-cost operations due to centralized procurement.

Centralized purchasing is overwhelmingly the norm at all comparable organizations that we have researched. (The similar attributes between California and our state prison comparables are summarized in Appendix B.) Moreover, the centralized purchasing system has been in place for over a decade at each comparable, such that no one could feasibly generate a direct cost comparison to a decentralized scheme. However, they were able to articulate several common success factors that allowed the centralized purchasing to operate smoothly and effectively.

i. Clear decision-making authority facilitates streamlined purchasing and high service levels to institutions

While other organizations do have different tiers of purchasing agents and authorities, they tend to employ a management structure where all purchasing officers are responsible to one central authority. This allows for high levels of responsiveness and coordination among procurement personnel. All organizations emphasized the importance of expedited request handling and reliable delivery of goods in order to enjoy the support and buy-in of institutional stakeholders for centralized purchasing decisions.

Texas

The Texas Department of Criminal Justice (TDCJ) centralized its procurement processes 15 years ago and has since been able to control and even cut spending.² From 2008 to 2010, TDCJ has been able to cut operating costs over

² Sheila Gaskins, Contracts and Procurement Department Director, e-mail to author, February 18, 2012.

3%.³ Throughout the purchasing infrastructure, TDCJ operates with firm controls and appropriate level of reviews and answers to the Office of the State Comptroller. TDCJ purchases goods and services across prison facilities at a regional level, using a warehousing system to track, demand and ensure efficient delivery of goods. This warehousing strategy is supported by a strong core competency in transportation logistics. Although Texas looks somewhat regionalized and disparate, the state does act as a consolidated purchaser through an automated purchasing system.⁴ Within TDCJ there is strong concern of responsiveness to needs of the wardens. Establishing effective and timely ordering and delivery were important factors in alleviating concerns of the wardens. An established system of checks and balances allows for responsiveness by central purchasing agents due to effective communication, internal controls, flexible warehousing and aggressive utilization of automated purchasing.

The process starts with the requisitioning department, which makes a request. The budget control function ensures money is available to purchase services or non-commodity goods. If there is not a clear commodity market price for requested items, the Comptroller will negotiate. The contracts and procurement department establishes an evaluation team, and management makes a recommendation for Chief Financial Officer. Throughout the process, there is a very high degree of visibility of procurement process from start to finish involving the highest officers in state government.

New York

The state Department of Correctional Services prides itself on a disciplined culture and a clear chain of command reporting up to the central corrections office. All procurement within the state has been centralized for more than 50 years, and all parties in the system are accountable to the head purchasing office. Among other

³ State of Texas Criminal Justice Uniform Cost Report, January 2011.

⁴ Sheila Gaskins, Contracts and Procurement Department Director, e-mail to author, February 22, 2012.

controls, inventory is kept very low; purchasers must order, pay, and deliver goods in a given calendar year.

Corrections Corporation of America (CCA)

CCA is the industry leader in private sector corrections with capacity to house 90,000 inmates in its portfolio of managed facilities.⁵ In 2010, CDCR account for 13% of CCA revenues by managing 10,250 inmates in out-of-state facilities.⁶ All purchasing and contracting for maintenance, repair and operating supplies for CCA's 64 facilities is centrally managed. By pooling the needs of its many facilities, CCA can adequately leverage its buyer power and negotiate for lower, fixed pricing in long term contracts (sometimes three to five years in length) and large volume. When the organization shifted to centralized sourcing and contracting, it achieved approximately 15 to 20 percent annual savings in maintenance, repair and operating supplies.

ii. Purchasing decisions emphasize standardization, consistency and adherence to established benchmarks.

Other organizations are continually seeking to increase their buying power by shifting to larger orders of totally commoditized goods. They take proactive steps and deploy dedicated personnel to identify opportunities for additional standardization and pooled orders, sometimes in conjunction with agencies outside the immediate corrections function.

Texas: TDCJ experiences considerable spending consistency among facilities.

Throughout TDCJ, there is a firm emphasis on ordering in large quantities for volume discounts. Centralized procurement and contracting functions allow the state to aggregate and identify sources of goods and services and effectively manage state buying power. Another best practice is to establish department-wide contracts at

⁵Corrections Corporation of America, Annual Report 2010.

⁶Corrections Corporation of America, Annual Report 2010.

the beginning of the year at competitive prices, found through competitive bidding and fulfilled at warehouse level quantities. The contracts are used as needed with subsequent revisions built upon the initial order. Leveraging TDCJ's strong transportation network and capabilities, TDCJ does not hold inventories in excess of a few months and thereby minimizes carrying costs. This stretches accounts payables over the fiscal year to reserve cash balances. Baselines are established for order quantities by central purchasing agents on a historical, per-prisoner basis. Orders are made internally from regional warehouse facilities, warehousing staff utilize purchase orders to order vendor goods and manage inventories. The system is automated and organized to encourage very standardized and highly efficient order processing.

New York: The Office of General Services in New York takes an active role in ensuring uniformity and equality in portions. This includes procurement for hospitals and schools in the state for items such as food and paper products. Within prisons, portions are based on historical food data, which is predicated on population and historical rations for prisoners that are uniform across institutions. Within New York, performance indicators exist around spending history, and benchmarks have been established. However, they are careful to compare spending by facility and category across institutions to make sure of the highest possible standardization. Furthermore, New York currently contracts with a consulting company to help them streamline their categories across the state for larger bulk purchases, strategic sourcing and standardized SKUs as well as aligning timing of purchases.

CCA: This firm utilizes Oracle's JD Edwards centralized information system to track all elements of procurement activity and assist with forecasting and planning. This system serves a critical function in allowing CCA to develop accurate purchasing plans and maintain consistent operational costs.

Private Corporations: In the private sector, procurement trainings are a crucial part of the onboarding process for buyers and purchasing managers. Junior procurement personnel are usually hired with a basic procurement certification or are required to complete the certification within a year of employment. Intermediate and advanced training and certifications are often demanded for different levels of management or promotions within the procurement department. Continuous education is also a common practice. Procurement personnel are not only provided the opportunities to attend annual conferences in supply management, but also mandated to take—and pass—periodic online quizzes to test their knowledge.

iii. Negotiating flexibility by highly skilled purchasers results in strong contracts at low costs.

Once purchasing operates through a central office, organizations are able to benefit internally from better administrative coordination and specialized skill development. With standard principles and processes firmly in place, functional and vertical experts can be given the freedom to negotiate different types of deals and optimize uniquely within each purchasing area.

Texas: Through the Office of the State Comptroller, TDCJ has designated its purchasing officers to specialize on a particular good or service, thereby creating a cadre of certified purchasing experts in various fields. These skilled personnel work to commoditize each good and exert maximum buyer power through the size, structure, and competitiveness of the purchasing protocol. Meanwhile, they ensure that the delivery system is also efficient.

The bidding process also aids skilled purchasers. Although the bidding process starts with a centralized bidders list from the Office of the Comptroller, bidding is not limited to suppliers domiciled in Texas. Additionally, anything over \$25,000 threshold is required to post nationally where the national bidders list is actively

utilized via the electronic state business daily. The best practice is that in most cases, contracts are awarded to the low responsive and responsible bidder. However, for large and complex procurement requests that require RFP processes, the best practice is to award based on a best value evaluation.

New York: Despite the centralized nature of most procurement, the state does source locally for non-bulk items such as fresh fruit, salad, bread, and milk. However, the responsibility for local supplier sourcing is still centralized, not delegated to the facilities. This helps the state of New York identify, track and consolidate suppliers across goods and services.

New York also has a prison industries organization called CORCRAFT, which is the preferred but not required source of many staple items and reusable commodities such as furniture and cleaning supplies. While they serve a rehabilitation mission to keep inmates occupied and employed, they are also managed as a vendor and required to participate in the competitive bidding process for commodities they produce. If CORCRAFT is selected as a vendor, purchasing officers are able to negotiate fair pricing with an independent Procurement Council.

CCA: Leveraging its significant scale, CCA was able to achieve administrative efficiencies by outsourcing its food services entirely, which in turn contributed to its 10 to 15 percent overall savings, as noted in point (i) above. Due to its status as a private corporation, it can also reward its associates for savings that they achieve, thus incentivizing the entire organization. It also provides consistent, baseline training to all purchasing officers, outsourced via the Institute for Supply Management (ISM). The central purchasing function has the flexibility to delegate purchasing decisions where that makes sense. For many services where local knowledge or operating experience is important, contracts are arranged at an institutional level.

Private Corporations: Hong Kong's Mass Transit Railway (MTR), a private corporation servicing the public sector, uses an open bidding system that ensures that the company can purchase the highest quality trains at the most competitive price. In its most recent train upgrade purchase, MTR accepted international tenders from all over the world. The competition among a large number of bidders forced vendors to maintain a price that includes only a reasonable margin. In addition, vendors raced to provide their best quality along with competitive pricing. The upgrade has proven a success in allowing the MTR to provide a comfortable transit service at one of the lowest prices in the world.

Another example of a successful contracting strategy from the private sector is a bottom up price negotiation. Wal-Mart and many retailers devote tremendous attention to maintaining a low cost in their purchases. Wal-Mart works directly with manufacturers in determining their sale price. By forcing manufacturers to disclose their actual cost, Wal-Mart is able to negotiate a very thin margin. Given the transparency in such a negotiation, the prices they end up with have always been significantly lower than their competitors. One requirement of such approach is the large investment in human capital. A great number of personnel need to be trained in order to be knowledgeable in the breadth of the company's merchandise.

3. CDCR is regularly prevented from achieving savings in its contracting and purchasing practices due to statutory and operational limitations.

Purchasing authority for various goods at different levels of scale are split among individual prisons and institutions, CDCR's Procurement Unit and the Department of General Services (DGS). Purchasing agents at each of these groups report in to different branches within CDCR and, in the case of DGS, elsewhere in state government. Thus, these managers are not always aligned in their activities. Moreover, all purchasers in the state are subject to often stringent mandates and regulations that curtail their ability to

negotiate freely and win the best contract—for instance, the requirement to purchase all goods produced by California Prison Industry Authority (CalPIA).

CDCR's independent contracting power is limited by state ordained delegated purchasing authority up to \$100,000 for competitive bids or \$25,000 for non-competitive. For those bids larger than these thresholds, CDCR must work through the Department of General Services. A result is that pooled requests that may lead to large nominal contracts sometimes cannot be handled independently by CDCR, thus limiting their ability to act quickly. CDCR's purchasing authority is, in turn, delegated to individual facilities at a lower level of purchasing. An institutional level manager has authority to approve orders that's pertinent to the direct care of inmates regardless of dollar amount or non-direct-care orders less than \$5,000. If an order's total sum is greater than \$5,000 then a freeze exemption request needs to be filed and the purchase will be scrutinized by CDCR for approval. (Appendix D summarizes these purchasing rules and relationships.)

i. There are coordination gaps across multiple state purchasing authorities

CDCR's planning for the upcoming purchasing calendar starts when the Governor's budget is released in January. As the Legislature and Governor's office or Department of Finance (DOF) work to refine this budget to its final version, CDCR begins making estimates based on the January figures to determine how its facilities can potentially meet budgetary expectations. Separately, once the state budget is approved, the Department of Finance makes its own determination of the appropriate allocation for each CDCR institution, largely based on historical spending. At present, there is little coordination between the top-down state budgeting allocations and the operational forecasts produced by CDCR. The result is that CDCR is forced to guess at operational expectations that would allow adherence to the given budgets. This disconnected budgeting approach invites a tendency among CDCR purchasers to dismiss the initial allocations as unrealistic because they don't see a link to expected operational needs.

Thus, CDCR personnel often rely on exemptions during the fiscal year to account for purchases that may have expected to incur from the outset. Moreover, if they achieve savings in one area, they will often shift that money to another area where they consider the budget to be inadequate, thus clouding the actual spending needs for future budgeting cycles.

The state has also been using proprietary software from the global computing firm SAP for Enterprise Resource Planning (ERP) the last three years. The ERP software is used to generate and track orders. SAP's software is a standard tool at many large corporations and organizations, and it can be a tremendously effective platform for sharing information and providing actionable business insight. CDCR's adoption of SAP, however, has not fully implemented the software's capabilities. Comprehensive reports can be generated against various parameters to investigate saving opportunities. For example, a user can generate reports for price comparisons and volume aggregation possibilities as well as search for similar purchased items. While users across the prison system utilize SAP to log certain purchases, there is no one designated to facilitate learning and insight through the data that is captured.

Neither CDCR nor the institutions have unlimited purchasing authority according to the controls mentioned above. Thus, each party must generally seek approval from a higher-level office to carry out its purchasing activity. In our findings on CDCR's processes, we noted an occasional impediment to bulk purchasing due to the unpredictability of this exemption process. For instance, when OBS's strategic acquisitions unit pools requests across numerous facilities, the resulting contract value will often exceed the level of its delegated purchasing authority and it will require further approval to deliver the expected goods. In one instance, a consolidated purchase of large appliances – also known as “schedule 9” major equipment – had to be abandoned when an exemption to approve the centrally negotiated contract was not granted.

These unpredictable setbacks are counter-productive and undermine attempts getting institutional support for centralized purchasing methods. Because of a perceived lack of responsiveness by central purchasing authorities, we were told repeatedly that institutional purchasing officers go out of their way to handle purchases within their sub-delegated authority and avoid any exemption requests. We were told by sources, and in some cases directly observed in reviewing documentation, local purchaser's creativity in breaking up contracts to keep orders under the \$5,000 threshold.

ii. Vendor selection is often limited by statutory requirements

A sizeable amount of CDCR purchasing is contracted with entities that have been mandated, by law, and negotiated for CDCR.⁷ Some of these contracts have not been competitively bid in the traditional sense. Purchasing through California Prison Industry Authority (CalPIA), a prison industries program, is mandatory as provided in state statute 2807 of the Penal Code.⁸ State law requires state agencies which purchase goods to participate in statewide mandatory commodity contracts. Some statewide mandatory contracts have what is referred to as “off-ramps”, contract clauses which are supposed to provide room for institutions to negotiate better prices on their own with vendors of their choosing. State law also contributes to anti-competitive factors, such as the impetus to achieve 25 percent spending with Small Business and 3 percent spending with Disabled Veteran Businesses (SB/DVE)⁹. Knowing that SB/DVE sourcing is highly valued by CDCR and the state, purchasing agents often solicit only two bids -- the SB/DVE vendor and one other – to both simplify the process and ensure the SB/DVE vendors have a strong chance of winning the bid. We find it unlikely that these two-bid scenarios would consistently lead to the most qualified vendors or the best value pricing.

⁷Section 2807 of California Penal Code.

⁸ California Penal Code

⁹ Assembly Bill No. 835 Chapter 10, September 1998.

It was reported to us that some of the institutions feel hamstrung by the requirement to purchase through CalPIA because a number of the more experienced purchasing officers believe they can achieve better pricing if allowed to procure some of the listed CalPIA items elsewhere. Overall, CalPIA purchases account for about 10 percent of an institutions purchases and specifically in food service can constitute near 30 percent of purchases. While it was observed that five out eleven categories of items were more expensive through CalPIA than through other vendors, the remaining six items were less expensive, so there may be areas where the program is adding value, despite the negative impressions expressed in numerous internal interviews. Through interviews, concerns were also raised about product inferiority of CalPIA goods for items like furniture and other constructed goods. These claims, which should be independently verified, suggest that even competitively priced CalPIA items may carry a higher absolute cost when factoring in frequent replacements or time used to maintain the goods. CDCR is also subject to (often costly) inconveniences specific only to CalPIA in that its prisoner workforce may be unavailable for long periods of time due to prison lockdowns. In these circumstances CalPIA often buys the requested goods on the open market and delivers them at a markup to the requesting institution.

iii. Competitive bidding parameters are not defined to ensure lowest possible pricing

When a need is identified, a requisitioner submits a request to the procurement manager. Upon the manager's agreement that the purchase is necessary, the manager or the requisitioner will obtain quotes and specifications. A minimum of two quotes are required for each purchase order, among which at least one has to be from SB/DVBE. Based on this minimum standard, only two quotes are often the only bids acquired from which a decision is made. Currently, awards are based on low cost unless purchasing from CMAS or for competitive orders over \$50,000 where the basis of the award is specifically stated as something other than low cost. The current scheme fails to

consider various aspects such as specification, lead time, vendor track record, quality and budget, which are important factors in ordinary business considerations.

The Department of General Services, in negotiating its broader, state-wide contracts, takes one of two approaches. The first is a low-cost strategy which they use for items such as food or other commodities selected for lowest cost. The second and more prevalent option is a “best value” basis in which considerations other than cost are included. Nearly 70 percent of their contracts are awarded on this basis. Items such as office supplies and information technology fall under this kind of contracting. Under the best value practice, bidders go through a “two envelope” bid process. One envelope contains the bidders’ qualifications as they relate to the project specifications and the second envelope contains the price. The winning bidder is selected based on points awarded for aspects of each envelope’s contents. In this scheme, only 30 percent of points are attributed to price; the remaining points come from the submitted specifications that cover the company’s references, experience of its associates, track record, size and other like-criteria. Based on the California State Auditor’s July 2010 Report 2009-114¹⁰, even DGS was not necessarily realizing all of the savings it could because it does not strategically source all of its contracts due in part to legal limitations in contracting.

Private corporations often utilize similar blended scoring systems, but only within the context of very strict cost benchmarks (i.e. within an acceptable cost range, quality or reputation may be used to determine the winning bidder). Alternately, price may be considered only after filtering for minimum quality or service criteria. In either case price is compared to a carefully analyzed benchmark and, if it is factored into a general scoring system, this only occurs with strong surrounding cost controls in place.

iv. Training is uneven and does not facilitate shared best practices

¹⁰ <http://www.bsa.ca.gov/pdfs/reports/2009-114.pdf>

The procurement training system currently in place is called California Procurement & Contracting Academy (Cal-PCA). Cal-PCA program contains a set of various seminars and courses provided by DGS Procurement Division (PD) to procurement personnel for professional procurement development. Presently, basic and intermediate Acquisition Certificate programs are offered; however, advanced Acquisition Certificate Program and advanced Professional Development programs are still under development.

Because of the success and popularity of Cal-PCA program, new certification classes and online courses are continuously being developed. Although CAL-PCA training is available to all procurement personnel online; however, the in-class experience is only enjoyed by the personnel who are at headquarters with the advantage of location. Facility level purchasing service managers or assistant wardens are unfortunately not able to do so due to the travel budget constraints. As a result, these institutional-level buyers and procurement managers are periodically trained in-person by a staff-member who passed certain level of Cal-PCA programs. The CDCR instructor travels to each facility and trains the procurement officers there. This type of segregated and informal training lacks many of the benefits of a larger, social and regimented session. For instance, at Cal-PCA participants are required to pass some form of exams before being able to receive their certificates. On the contrary, the training offered at the facility level is not as sophisticated and there are no exams or quizzes to test how well the knowledge is learned by each participant.

Previously, procurement officers and managers from different facilities received CDCR training at CDCR headquarters in Sacramento. Due to budget cuts in 2007, this practice has been discontinued and as a result, experience sharing and communication among the purchasing managers has been difficult since then. However, CDCR now conducts Microsoft Live Meeting conference calls each month between its procurement unit and the procurement divisions at all facilities. Every call has a training segment which

summarizes the common problems and issues related to purchasing orders (PO). These monthly case-based mini training sessions have received positive feedback.

Recommendations

1. Support shift to centralization with more robust systems and specialization of resources

As we noted in our findings on Texas and several private comparables, similar organizations have achieved cost savings and process efficiency gains from centralization only when effective technology, budgeting, vendor management and workflow systems are in place to support this shift. In order to realize the full benefits of centralized purchasing, we recommend that CDCR must do the following:

- a) Better exploit the analytical potential of its BIS system
- b) Expand its use of strategic sourcing and
- c) Establish an oversight board to standardize purchases over time.

a. The BIS system should be leveraged to its full potential

While CDCR's BIS system has successfully moved the cataloging of all purchasing transactions onto a common platform, there are still opportunities to maximize the value this system can offer. These fall broadly into two categories:

SAP Customization

SAP, the software from which the BIS system is largely built and is a highly customizable solution that can be tailored to suit the specific needs of the organization. A first step to improving the capabilities of BIS would be to standardize classifications for all commonly purchased items, both materialized (i.e. warehoused) and non-materialized. Currently, materials and descriptions are in "free text format" for all non-warehoused items. This means when a requisitioner wishes to search for a historical purchase, they must know the exact name of the previous item or the document number in order to find it. To illustrate, a search for "printing paper" only shows historical purchases reported as "printing paper". Items listed as "print paper", "8x11 printing paper" or "8'x11' paper" do not qualify as search results.

Relying on free text searches to identify common items and consolidation opportunities is likely to result in messy data and missed opportunities. To combat this issue, SAP search functions allow what is called “approximate string matching” or “fuzzy string search.” Through these functions, SAP can intelligently generate search results which include similar items even when other requisitioners may have used different material names. An additional step would be to formalize names programmed in the system for a broader set of purchased items, thus eliminating free-text search for all but the most anomalous materials. It may be advisable to program in product names and categories according to the United Nations Standard Products and Services Code (UNSPSC), since this will be a requirement of CDCR to integrate with the FI\$Cal once it is fully implemented. SAP should also be modified to display search results with pricing, vendor information, specifications, etc. As requisitioners obtain quotes, having an effective search for historical purchases will give them insight on the price others have paid for the same item and make the most informed decision.

Given the available information on prior purchase orders, the BIS system should also be configured to alert requisitioners, procurement managers and CDCR when someone’s pricing is significantly higher than historical averages. Although this price differential could be caused by various circumstances, a justification should be given and subject to approval by the purchase manager or CDCR. This oversight should encourage more scrutiny from all parties.

Dedicated ERP Analyst

We additionally recommend that one member of CDCR’s Business Management Branch be designated as an ERP analyst and given advanced training in SAP’s reporting and analytical capabilities. For instance, SAP has a set of comparison reports for similar types of purchases, which can often provide insight on savings opportunities, but these are not being utilized currently at CDCR. The ERP analyst will be responsible for generating

this analysis as well as recommending a set of management reports to offer timely and effective oversight of institutional spending. The department could pursue partnerships with state universities or academics to set up specific analytical frameworks to be established and formalized in the system.

Reports should be generated to study common purchases among institutions. This will lead to discovery of centralization potential in material groups that are currently decentralized. By comparing the variance in pricing, the study should help CDCR better understand disparity of pricing among its institutions. Although this reporting capability exists already in the system, there's not a designated team or staff member who is responsible for generating this insight. A skilled analyst could also develop ongoing dashboards to help CDCR's ongoing decisions about what items to centralize and when, identifying areas that would create the most savings in the shortest time frame.

b. - CDCR's procurement unit should shift to strategic sourcing and specialized purchasers by category

We noted earlier that effectively centralized organizations maximize their buyer power through consistent, system-wide vendor contracts. Meanwhile, CDCR often purchases like items at wide pricing disparities and against unique, locally initiated contracts. We would advise CDCR to adopt a contracting approach more similar to that of DGS, emphasizing strategic sourcing and open bidding among a broad set of trusted vendors.

Strategic Sourcing

As previously suggested, CDCR should first mine and analyze its existing transaction data to reveal where opportunities exist for consolidated purchasing. CDCR must then leverage its large order quantities to achieve optimal and consistent pricing through strategically sourced contracts – something that the state already does well on a higher level through DGS. In order to move to this paradigm, we suggest examining the current limitations that exist for vendor sourcing within the CDCR. The state should reassess the

degree to which CDCR is mandated to purchase through specific entities such as PIA and achieve specific SB/DVBE percentage quotas.

We appreciate that all statutory elements exist to protect the integrity of the state's purchasing practices, minimize hardship on local businesses as a result of the state's enormous buying power and create a just playing field for all commerce. However, as long as any agency is mandated to purchase items from any one particular entity, these policies undermine the spirit of competition, prevent the state from realizing economic benefits and displace opportunities for other businesses to offer a less costly solution. If the state must stimulate business for entities of a particular type, we favor the approach used with SB/DVBE and believe CalPIA should be treated similarly (as a preferred rather than mandated bidder). Moreover, where SB/DVBE contracts are awarded, we would recommend a requirement that there must be more than one SB/DVBE bid, thus ensuring that at least the more competitive SB/DVBE option has been identified.

Open Bidding Environment

We noted that when requisitioners actively go out and look for vendors and suppliers, they often seek the minimum of two bids. Depending on the experience and sheer luck of the requisitioner, the competitiveness of the quotation can vary drastically, and the process typically involves a very narrow pool of candidates. We recommend that CDCR open its bidding by announcing all request for proposals (RFP) on a public website such as State Contract & Procurement Registration System (SCPRS). The state should encourage all interested vendors to register here to broaden the available candidates for bids and streamline the evaluation process. Instead of having requisitioners go out to seek vendors, the vendors should be able to receive notices of RPFs in their categories and tender their bids accordingly. Requisitioners can then devote more time to obtain more bids which will facilitate a more competitive environment.

The Western State Contracting Alliance (WSCA) facilitates collective purchases among numerous states. When multiple states are looking to purchase the same item, they can group together and negotiate with stronger buyer power. Where appropriate, we suggest for CDCR to merge its RFPs into WSCA bidding announcements, thus allowing qualified regional suppliers to submit a highly competitive bid. The WSCA method also hedges the delivery risk by enlisting backup sources that are available to deliver items if the original vendor is somehow unable to do so.

c. - Review board should be established to recommend greater standardization of institutional requests, determine pipeline for future strategic acquisitions

We noted that in Texas there is a review board that considers all institutional requests for the upcoming fiscal year and vets them for appropriate quantity and opportunities for standardization. New York similarly seeks to standardize goods not only across institutions but also in conjunction with other state agencies. We recommend that CDCR should take a similarly proactive approach to increasing standardization in commodities usage.

We advocate that CDCR's Procurement Unit implement an oversight process as part of its annual budgeting activities. The Procurement Unit should coordinate with CDCR's budgeting division to assess the institutions' collective requests and propose opportunities for combined orders, either via the strategic acquisitions unit or simply coordinated purchasing at the facility level. This process should consider, among other things, any claims for unique institutional needs and make recommendations on removing hurdles and impediments for greater standardization in the future. The Procurement Unit should also work collaboratively with the ERP analyst in this process and leverage the analyst's insights to focus on the most promising areas for improvement.

We recognize that this process would impose a nontrivial burden on the Procurement Unit. Thus, we suggest that a rotation system may be preferable whereby the Procurement Unit considers only a few material groups in any given year (with initial priorities determined in consultation with the ERP analyst, as described above). The work can then be spread across several years and over a 4-5 year cycle a high degree of standardization can be achieved.

As more procurement is centralized over time, we recommend for the Procurement Unit to organize its personnel ultimately by vertical specializations. As different managers assume responsibility for targeted purchasing areas, the review process should evolve to allow managers to spearhead standardization efforts according to their respective commodity expertises.

2. - Close coordination gaps to prevent delays and ensure high service levels for centrally purchased goods.

Due to the difficulties we noted in coordinating pooled orders across multiple purchasing authorities, we recommend that the CDCR establish a task force to better align the institutional, departmental and state-level purchasing activities as pertaining to California prisons. This committee should consist of senior purchasing officers at 3-5 institutions, members of the Strategic Acquisitions Unit within OBS, two CDCR budget managers, a budget manager from the Department of Finance, a DGS purchasing manager with experience interfacing with CDCR, and one representative each from the CDCR Secretary's Office and the Senate Advisory Commission on Cost Control. The goal of this group should be to develop a common framework for planning and implementing a staged, central purchasing regime for CDCR, extending from budgeting to contracting to warehousing and delivery.

This framework should seek to establish system-wide benchmarks and best practices, while working to standardize facility-level purchasing and commodity usage to the

greatest extent possible. It should also define reliable, streamlined processes for collecting institution-level requisitions and delivering centrally purchased goods on a timely, predictable schedule. Once settled, this framework should be communicated out to each institution including all CDCR's operations and adopted as the mandatory purchasing process for consolidated purchasing categories, as designated by the Task Force. Among the specific coordination issues that the Task Force should address are the following:

Planning and Budgeting

Our earlier findings reported that CDCR personnel view the Department of Finance process for determining institutional allocations as a "black box" that is often inconsistent with their perceived operational needs. In order to ensure budget integrity and to reduce incentives to distort spending information, it is important to have transparency across all phases of budgeting decisions. Since, the Department of Finance will always have final budgeting authority over CDCR institutions; by adopting a universally understood allocation methodology, the CDCR managers charged with purchasing various goods can have better insight on the operational assumptions on which their allocations are based. For instance, the variance in food purchasing is among the lowest of any category; this consistency exists in large part because every institution knows the target figure of \$2.90 per prisoner per day that applies system-wide for delivering prisoner meals. The purchasing officers can then execute better against these goals, as well as provide clarifying information and data to indicate where budget assumptions may be unrealistic or difficult to achieve.

Through the Task Force, Department of Finance and CDCR analysts will also have a forum to discuss operational and cost data that are necessary to develop an accurate budget, and they can implement a process for collecting and sharing this information in a consistent, streamlined manner. Reasonable cost targets can be determined by mining system-wide data rather than projecting out each facility's historical spending. By

demonstrating explicitly this separation between budget allocations and a facility's prior year's spending, there will be a lower incentive for each location to spend more in order to ensure a comfortable allocation the following year. Also, establishing a process clearly based on objective forecasting measures should lend a measure of fairness to budgeting decisions and limit political undermining and other sub-optimal methods of dividing up these scarce funds.

Exemptions for Strategically Acquired Goods

Our research turned up a significant barrier to the adoption of consolidated purchasing programs, in that CDCR cannot always rely on required DGS approvals for large, pooled contracts that would exceed its purchasing authority. While DGS should retain its oversight authority on large-scale contracts, we would urge the Task Force to explore ways to streamline and prioritize the exemption process for strategically acquired goods. For instance, a "pre-approval" process could be established whereby CDCR would submit hypothetical contracts for consolidated purchases based on fiscal-year forecasts from its institutions. The exemption requests would include not only a cost range (or ceiling) for the amount of the contract, but also any key terms or provisions that DGS would deem necessary in evaluating a real purchasing exemption. DGS could then pre-approve the consolidated purchase based on the parameters given. Provided that CDCR can later meet these terms, it would be free to execute the contract and avoid any delays in fulfilling its obligation to the institutions.

We recognize that this pre-approval process would result in less specific scrutiny by DGS of certain potentially large purchases, and we suspect the Task Force would likely propose a better approach. Whatever solution is reached, however, must be sufficient to overcome the lack of trust by the institutions over CDCR's ability to deliver goods in a timely manner with consolidated purchases. So long as the institutions fear that centrally purchased goods will not arrive when needed, there will be a persistent incentive for them to break purchases up into small but expensive contacts that fall

within their own sub-delegated authority. These consolidated purchasing programs give CDCR the buying leverage to negotiate meaningful cost savings, but their success rests on the credibility of the centralized purchasing unit to deliver the goods required.

Institutional Spending Oversight

Finally, the Task Force should discuss an optimal system for ongoing oversight of institutional spending to make sure that:

- Budgeting assumptions are sound
- Facilities and CDCR purchasers are executing effectively against plan

A transparent audit and control process will eliminate a lot of the temptation to circumvent centralized purchasing processes or freeze exemptions by breaking up contracts or shifting funds around from one area to another. Currently, the sub-delegated non-competitive limit of \$5,000 for institutional purchases establishes a very simple ceiling for local purchasers when they wish to avoid external scrutiny. This absolute threshold encourages a focus on aggregate contract value rather than competitive unit costs that would lead to savings.

Once there is a common basis for making institutional budget allocations, which the Task Force would determine, we would invite this group to consider a conditional purchasing authority for institutions based on staying within a budgeted range, up to \$100,000. The budget range could be based on a quarterly or annual figure for a particular material group (for less standardized items) or a specific unit cost (for more predictable purchases). These controls could potentially be built into the BIS system during the approvals process for generating a purchase order. The specific rules could thus vary by item or material group and still be consistently enforced. Meanwhile, they would give purchasing officers greater freedom to manage their operations and seek advantageous contracts within the budgetary framework established. Regardless of the particular rules established, we encourage the Task Force to devise a system that

prioritizes budgetary discipline versus a static contract value. A streamlined process for responding to freeze exemptions, which can go unprocessed for months, would also reduce the incentive for purchasing officers to hide their spending decisions through a raft of small-scale contracts.

3. Bolster training and incentives at all levels.

We urge that CDCR work toward a greater uniformity in the instruction given to purchasing offers, while establishing stronger motivations for purchasers to adhere to best practices and work proactively for higher cost savings. This goal can be achieved by outsourcing basic certification through the Institute for Supply Management (ISM), improving internal skill development and establishing an awards program to highlight and incentivize outstanding purchasing activity.

a. Utilize ISM Certification for all purchasing officers

The ISM was founded in 1915 and is the first and largest supply management institute in the world. The not-for-profit organization currently offers the Certified Professional in Supply Management (CPSM), Certified in Supply Management (CSM) and Certified Professional in Supplier Diversity (CPSD) qualifications. Additionally, it is a member of the International Federation of Purchasing and Supply Management (IFPSM).¹¹

Despite the excellent training Cal-PCA provides, outsourcing segments or its entire training program to the world's largest supply management institute, with almost 100 years of experience in educating procurement professionals, is a strong strategic move. Cal-PCA is relatively new in offering training, and two advanced classes are still under construction. Moreover, although Cal-PCA's programs are well-organized, comprehensive, and positively received, Cal-PCA's expertise is not in procurement training. The resources at DGS can be more effectively used in other areas of its

¹¹ <http://www.ism.ws/>

expertise such as analyzing best practices in procurement and setting up a benchmarking system to further enhance procurement processes at the state level. By outsourcing the procurement training and conforming to industry standards in training, California state government will, in general, improve the reputation of its procurement officers with vendors and give them exposure to private and global industry best practices. Lastly, the certificates strengthen the procurement officers' productivity and knowledge capital.

Cal-PCA's classes or ISM certification courses should be made available to all procurement officers, especially the facility-level requisitioners and purchasing managers. Facility-level buyers are heavily involved in daily procurement and should be intensively trained to improve their knowledge in strategic purchasing, and to combine best practices with their everyday experience. Given budget-related travel constraints, we recommend that level 1 to 3 officers can start their training by taking Cal-PCA's or ISM's online courses and exams.

b. Create plan for skill development of CDCR's consolidated purchasing managers

In the long run, a set of training requirements should be set up for all different levels of procurement officers. We recommend that junior staff pass basic and intermediate programs and senior staff pass advanced training. Adopting the private corporations' common practice, purchasing officers should only be promoted following the completion of appropriate certifications. If this requirement conflicts with existing employment contracts, certifications can instead be implemented as a means of being considered more quickly for promotion. We estimate that two to five years are sufficient for all procurement employees in the California state prison system to obtain minimum recommended training and certification.

Once the training requirements are in place, a continuous education policy should be implemented so that the learning process does not stop after the certificates are

obtained. The most effective way of keeping participants engaged is to provide them with annual or semi-annual online tests or quizzes to maintain their certification. Cal-PCA currently has quizzes available online which can be open to all procurement officers, and the ISM has a comprehensive list of online exams. Officers will have three chances to pass the tests or quizzes or else face retraining. Facilities should introduce employee recognition plaques or certificates to indicate the level of certification achieved by that facility's personnel. Subscriptions to procurement journals or magazines can improve officers' strategic purchasing knowledge continuously as well. Should budget constraints be a concern, the ISM offers a free publication for its members.

Finally, the procurement managers' experience, knowledge and relationships are important resources that should be shared among the entire purchasing community. There are many excellent procurement managers within CDCR who have over 10 or 20 years of professional experience. Due to opportunistic buying or relationships with local vendors, they can sometimes obtain lower price quotes than what is listed in statewide contracts. We view horizontal communication as an essential tool in promoting best practices and cross-facility collaboration. For instance, an online procurement forum can foster an instantaneous connection among far-flung institutional buyers. Successful negotiating techniques can be shared, and problems or issues can be posted for answers and assistance. Furthermore, a list of all the prison system procurement personnel should be provided to every institution to encourage cross-functional interaction. Lastly, during the monthly Microsoft Live conference call held by CDCR, there should be a standing agenda item to introduce a successful purchasing story (identified in advance by CDCR) to give recognition to outstanding work and provide education for others.

**c. Introduce annual award for excellence and creative thinking in achieving -
institutional savings**

Motivating purchasing personnel to achieve cost savings is a crucial organizational goal. We recommend implementing an annual “Procurement Star” contest. In this program, every facility has to submit an online form for a star procurement candidate who has, for example, strategically negotiated a PO that saved the prison a substantial amount of money or has enhanced the procurement process. The nomination process should strongly emphasize a focus on cost savings for the department. These success stories should be read by a committee of senior CDCR staff and the Senate Advisory Committee on Cost Control, and their votes would determine the winning entry. The winner should be awarded the opportunity to be recognized by or meet with the Governor and/or Legislative leaders and receive a certificate or medal of recognition. Furthermore, a monthly procurement newsletter distributed to institutional purchasing officers and OBS could recognize best practices, highlight success stories, and keep procurement personnel apprised of industry trends. The newsletter should be electronic to save cost on materials and design. We recommend publishing the e-newsletter to the online forum that was mentioned in the skill development section above.

Implementation

The challenges facing California’s procurement function within CDCR are substantial, but with precedent. Other states, private corporations, and privately operated prisons all provide a roadmap toward the process of a successful implementation of centralized procurement. Within the prison function, the logistics function is of paramount importance and a procurement system that outsources control separate from operations may not be supported by the various facility managers. The incremental nature of evolving prison procurement into a centralized domain provides a positive opportunity in successfully navigating to a centralized independent procurement function without breaks in the transition.¹² Any disorganization has material impact in the operational capability of wardens and their front-line staff. Centralized procurement should be viewed as a process and asset that will provide wardens and correctional staff the goods and services they need timely and less costly.

The Roadmap

A successful centralized procurement function involves copious amounts of knowledge at the highest levels. Specific items of knowledge necessary at the state level include but are not limited to aggregation of supplier names, locations, and contracts; commodity prices in the open market; historical internal inventory levels and flows; product quality and differentiation; competitive levels within supplier industries; and market sizing and shares of goods and services. Furthermore, greater aggregation and larger purchasing stock lead to greater buying power. This is the end goal – and coupled with strong audit and transparency, active communication among facilities and state agencies, and active budgeting and forecasting will lead to efficient and effective procurement practices. However, our research has shown that CDCR and the state of California do not collect this information or have such information saved and analyzed.

¹²Christian Husted and Nicolas Reinecke, “Improving public-sector purchasing,” *McKinsey Quarterly* (August 2009).

CDCR's first course of action should be to aggregate all contracts, identify all goods, services and suppliers, and map inventory stocks and the flows of goods and services. The centralized procurement function acts effectively with the budget, forecast, and audit functions as main drivers of contracting and purchasing. A second course of action would be to consolidate purchasers under CDCR purview with the goal of training and certifying the purchasers to regionalize and commoditize the purchasing of goods and services. Like the Texas experience, developing expertise and creating silos of knowledge among purchasers will generate greater buyer power through industry expertise. The third CDCR goal is to generate quantity budgets and forecasts for a few commodity-level goods such as soaps, paper products, or office supplies. This goal reflects the actual nature effective best practices of centralized procurement. As the food services budget is established and planned, forecasting and budgeting for other commodities necessities, at the agency level, increasing buyer power through negotiated consolidated contracts. Finally, CDCR should aim to expand, mandate, and streamline strategic acquisitions purchasing incrementally.

Step 1: Coordinate with budgeting groups to implement common forecasting framework and accounting procedures for strategically acquired goods.

The first implementation step is to aggregate purchases and to identify the network of suppliers throughout the procurement system. Due to paper-based procurement, under-utilized SAP software, and discretionary exemptions this information is difficult to find. The full utilization of the newly implemented SAP system will increase transparency into aggregate purchasing. Further analysis should include identifying and mapping suppliers and competitors, ascertaining the competitiveness of supplier industries, and identifying negotiation levers. All of this information should then be fed into a common budget and forecasting regime within CDCR and to include DGS. The consolidated information would improve planning by the strategic acquisitions group as well as improve contract terms and help ensure timely delivery.

Step 2: Reorganize and Reassign Purchasers into Strategic Groups -

The current dynamic of requisition officers pricing and specifying procurement is not an effective practice. Incentives are misaligned since the requisitioner is primarily interested in receiving the good or service. By realigning the procurement process through CDCR, transparency into purchasing would increase and as would the level of accountability in rationalizing and pricing the order. Also, by reassigning purchasers into product-specific groups, purchasers will have responsibilities focused on a specific market with the opportunity to increase knowledge and expertise in that supply market. By restructuring the organization in dividing responsibilities between requisitioners and purchasers, CDCR will better align incentives in accomplishing two goals, realizing competitive prices and increasing response speed in delivering necessary goods and services for prisons.

Step 3: Mandate participation in strategic acquisitions & determine commodities to be included in year 1 mandatory consolidated purchasing

With the combination of analysis and reorganization, CDCR will have the information and resources to apply best practices to several large-quantity commodity-based goods in a short period of time. We estimate the strategic acquisitions group should be able to increase purchases for 2-3 additional items beyond the current set of contracts in the next fiscal year with full savings from strategic acquisitions attained in subsequent years. The importance of mandating participation in strategic acquisitions is to allow CDCR to enter into competitive bidding and contract negotiations on behalf of the entire prison system in good faith and with full buyer power.

Step 4: Coordinate with DGS to ensure streamlined approvals process and efficient delivery of goods

Since we are not recommending changes to the various DGS and CDCR purchasing thresholds, we do recommend improving the approval process for all CDCR contracts. We require, first and foremost, the timely delivery of goods and services for the

operations of the prisons. Without which, any and all strategic acquisitions and associated savings would be impossible to accomplish. CDCR through budgeting, analysis, and planning will have the necessary framework of consolidating information, tracking the flow of goods and services, and updating planned purchases throughout the year. This information should be more than enough to support a streamlined purchasing and delivery process through DGS. With implemented best practices, CDCR will obtain best pricing and largest savings. Having DGS operate in a streamlined, fast track process would support CDCR's efforts in delivering low cost goods and services for prison operations.

Step 5: Institute standardization review board and SAP analysis to develop prioritization and transition plan for additional consolidated purchases

The use of SAP as an analytical and planning tool is an ongoing process within our new procurement system and a critical lever in successful implementation of the centralized system. However, the information is only as useful to the managers and stakeholders who have access to the provided analysis. We recommend that CDCR institute a standardization review board which will be responsible for managing the centralized procurement expansion. The review board will be able to leverage the increased productivity of its procurement officers, with the realigned purchasing officer corps to significantly increase understanding in various supplier markets, strategically procure items at increasingly beneficial terms, and increase savings and quality for the CDCR.

Step 6: Roll out training and incentive changes

The training and incentive changes from the procurement standpoint is to realign incentives towards timely delivery of goods and savings. The current model incentivizes the timely delivery of goods and just-in-time ordering from various facilities. Research shows that the prisons and headquarters do not engage in comprehensive and active planning and budgeting across all goods and services. The current process is reactionary and costly with no incentive to change or improve.

Initiating a widely available training program for all procurement officers and purchasing agents would provide for significant improvement through knowledge transfer of best practices and identifying those suppliers who offer the best value proposition for goods and services. We suggest an outsourced model through ISM certification and online availability of educational materials. This would enable the state to minimize resources spent on training and teaching while still providing access to employees who would greatly benefit from training.

Training and teaching may be beneficial, but a department that communicates the necessity to save should express gratitude and incentivize those behaviors. Our findings from Texas indicate very public acknowledgements of great performance are welcome and effective tools. Furthermore, Texas has a procurement system that is considered high profile due to the fact that head of the department, managers, and leadership who are keenly aware of when, how, and why money is spent within the agency and throughout state government. This particular system values procurement and purchasing officers who are transparent, proactive, and effective in their job functions - namely saving the state money. The procurement system that we have advocated for CDCR mirrors many of these values while respecting the legislative environment in which CDCR operates. A budget and accounting-first perspective acknowledges the dual mandate of procurement while certification, training, and increased visibility and transparency provide superior procurement and purchasing officers the opportunity to gain acknowledgement and reward for their efforts and effectiveness.

Appendix A: Primary Interview Contacts & Departments

External Contacts

Annucci, Anthony. Executive Deputy Commissioner - NY Department of Corrections.

Christine, Chris. Texas Comptroller of Public Accounts, Manager - Statewide Mail and Program Development.

Casey, Patti. Assistant Bureau Chief - FL Department of Corrections.

Davis, Valerie. Texas Comptroller of Public Accounts, Expenditure Audit.

Ferri, Nannette. Deputy Commissioner - NY Department of Corrections.

Gaskins, Sheila. Texas Department of Criminal Justice, Contracts and Procurement Department Director.

Haponik, Gayle. Deputy Commissioner, Administrative Services - NY Department of Corrections.

Kelley, Shelley. Procurement Manager - FL Department of Corrections.

McGinty, Jerry. Texas Department of Criminal Justice, Chief Financial Officer.

Sesselman, Kimberly. Deputy Commissioner - NY Department of Corrections.

Steffa, Ron. Texas Department of Criminal Justice, Business Manager.

Managing Director--Purchasing, Corrections Corporation of America.

Senior Director--Partner Development, Corrections Corporation of America.

Internal Contacts

Chief Procurement Officer, California Department of General Services.

Assistant General Manager, California Prison Industry Authority.

Assistant General Manager--Marketing Services Branch, California Prison Industry Authority.

Procurement and Services Officers, Seven (7) California State Prison Institutions

Appendix B: Basic Information on Core Comparables (2010) [?](#)

	California	Texas	New York	CCA
Prisoner Pop.	169,000	171,000	59,000	75,000
Number of Facilities	33	51	37	60
Procurement Method	decentralized	centralized	centralized	centralized
Notable attributes	N/A	operationally best in class	comparable facility number	private, for-profit, corrections organization

Appendix C: Institutional Spending Analysis

LISTED BELOW ARE ALL PRISONER-BASED, FREQUENTLY PURCHASED SPENDING CATEGORIES THAT CONTRIBUTED TO COST SAVINGS CALCULATION:

[Per our methodology, the potential savings are calculated by assuming that each facility is able to adjust its purchasing to spend no more than 10% above the median level on a per-prisoner basis.]

I. FOOD

Median Spend	\$ 1,155.87
Median + 10%	\$ 1,271.46

Prison Code	Cost/Prisoner	Potential savings
SCC	\$ 1,601.73	\$ 1,745,632.13
ISP	\$ 1,412.53	\$ 568,809.02
CMC	\$ 1,316.64	\$ 287,588.96
HDS	\$ 1,274.60	\$ 13,702.39
STF	\$ 1,233.12	\$ -
SQ	\$ 1,225.51	\$ -
DVI	\$ 1,219.80	\$ -
MCS	\$ 1,217.59	\$ -
PVS	\$ 1,209.73	\$ -
CMF	\$ 1,190.18	\$ -
PBS	\$ 1,178.19	\$ -
CCC	\$ 1,170.71	\$ -
CCW	\$ 1,169.59	\$ -
CTF	\$ 1,165.23	\$ -
CRC	\$ 1,164.19	\$ -
COR	\$ 1,159.91	\$ -
CAL	\$ 1,155.87	\$ -
VSP	\$ 1,143.87	\$ -
CIM	\$ 1,132.22	\$ -
KVS	\$ 1,126.18	\$ -
CVS	\$ 1,099.16	\$ -
SAC	\$ 1,098.96	\$ -

FSP	\$ 1,098.96	\$ -
NKS	\$ 1,076.57	\$ -
ASP	\$ 1,053.96	\$ -
SVS	\$ 1,052.11	\$ -
WSP	\$ 1,032.17	\$ -
SOL	\$ 1,004.88	\$ -
CCI	\$ 989.39	\$ -
CEN	\$ 964.86	\$ -
LAC	\$ 947.20	\$ -
CIW	\$ 853.72	\$ -
RJD	\$ 844.03	\$ -
TOTAL		\$ 2,615,732.50

II. HOUSEKEEPING

Median Spend	\$ 96.10
Median + 10%	\$ 105.70

Prison Code	Cost/Prisoner	Potential savings
CCW	\$ 217.36	\$ 413,228.15
VSP	\$ 170.12	\$ 215,856.89
CIW	\$ 161.55	\$ 125,477.82
SQ	\$ 137.10	\$ 155,382.66
SAC	\$ 136.82	\$ 89,690.69
LAC	\$ 130.29	\$ 110,047.60
PBS	\$ 125.02	\$ 61,942.95
MCS	\$ 121.76	\$ 58,948.45
DVI	\$ 118.78	\$ 50,127.43
KVS	\$ 116.60	\$ 50,415.55
CMF	\$ 115.79	\$ 27,689.99
NKS	\$ 113.48	\$ 40,089.52
COR	\$ 113.18	\$ 37,859.03
STF	\$ 109.17	\$ 22,545.39
CIM	\$ 108.06	\$ 12,408.99
CMC	\$ 102.98	\$ -
HDS	\$ 96.10	\$ -
CCC	\$ 94.50	\$ -
ISP	\$ 93.78	\$ -
SCC	\$ 92.23	\$ -
CVS	\$ 91.19	\$ -
CCI	\$ 86.93	\$ -
CRC	\$ 86.17	\$ -
CAL	\$ 83.69	\$ -
WSP	\$ 79.26	\$ -
ASP	\$ 78.13	\$ -
CEN	\$ 75.03	\$ -
SOL	\$ 71.94	\$ -
RJD	\$ 63.99	\$ -
FSP	\$ 55.45	\$ -
CTF	\$ 49.34	\$ -
SVS	\$ 48.08	\$ -
PVS	\$ 45.16	\$ -
TOTAL		\$ 1,471,711.10

III. ARMORY AMMUNITION

Median Spend	\$ 11.72
Median + 10%	\$ 12.89

Prison Code	Cost/Prisoner	Potential savings
ASP	\$ 1,577.92	\$ 9,674,984.34
CMC	\$ 46.51	\$ 75,528.32
RJD	\$ 39.85	\$ 121,994.20
COR	\$ 25.45	\$ 34,471.11
SVS	\$ 24.96	\$ 45,452.26
PVS	\$ 21.62	\$ 40,112.21
SOL	\$ 20.72	\$ 39,660.30
LAC	\$ 17.49	\$ 20,574.89
CRC	\$ 15.98	\$ 15,605.72
CAL	\$ 15.83	\$ 12,204.72
SCC	\$ 15.33	\$ 12,891.23
PBS	\$ 14.67	\$ 5,707.64
KVS	\$ 12.83	\$ -
FSP	\$ 12.39	\$ -
WSP	\$ 12.12	\$ -
STF	\$ 11.95	\$ -
SAC	\$ 11.49	\$ -
CCW	\$ 11.23	\$ -
CCC	\$ 11.20	\$ -
CIM	\$ 11.19	\$ -
VSP	\$ 10.91	\$ -
CCI	\$ 10.67	\$ -
CTF	\$ 9.55	\$ -
SQ	\$ 8.54	\$ -
CVS	\$ 8.34	\$ -
CIW	\$ 8.00	\$ -
DVI	\$ 7.43	\$ -
ISP	\$ 7.16	\$ -
HDS	\$ 6.99	\$ -
CMF	\$ 4.70	\$ -
NKS	\$ 2.44	\$ -
MCS	\$ 1.72	\$ -
TOTAL		\$ 10,099,186.94

IV. CLOTHING

Median Spend	\$ 25.16
Median + 10%	\$ 27.67

Prison Code	Cost/Prisoner	Potential savings
CIW	\$ 159.27	\$ 295,683.74
WSP	\$ 144.36	\$ 428,451.17
SCC	\$ 106.40	\$ 399,194.77
RJD	\$ 92.57	\$ 187,073.98
CCC	\$ 64.45	\$ 202,308.41
SQ	\$ 56.68	\$ 188,698.86
CVS	\$ 52.22	\$ 82,241.30
VSP	\$ 46.61	\$ 110,891.41
FSP	\$ 45.48	\$ 77,700.90
CMC	\$ 40.64	\$ 82,497.85
LAC	\$ 37.94	\$ 37,674.67
CAL	\$ 35.45	\$ 32,278.15
CEN	\$ 32.78	\$ 21,711.54
COR	\$ 32.65	\$ 25,218.11
DVI	\$ 29.58	\$ 7,292.75
CCW	\$ 28.54	\$ 3,207.30
CMF	\$ 25.16	\$ -
CRC	\$ 20.50	\$ -
SVS	\$ 19.89	\$ -
CTF	\$ 19.40	\$ -
ISP	\$ 17.41	\$ -
STF	\$ 12.31	\$ -
SOL	\$ 12.26	\$ -
NKS	\$ 11.62	\$ -
SAC	\$ 10.60	\$ -
PVS	\$ 10.39	\$ -
PBS	\$ 8.65	\$ -
ASP	\$ 7.57	\$ -
CIM	\$ 6.85	\$ -
CCI	\$ 5.02	\$ -
MCS	\$ 4.79	\$ -
KVS	\$ 4.64	\$ -
HDS	\$ 2.32	\$ -
TOTAL		\$ 2,182,124.90

V. PERSONAL CARE

Median Spend	\$ 18.15
Median + 10%	\$ 19.96

Prison Code	Cost/Prisoner	Potential savings
CIW	\$ 95.29	\$ 169,262.12
VSP	\$ 49.14	\$ 170,857.56
PBS	\$ 47.34	\$ 125,934.85
COR	\$ 42.27	\$ 112,998.18
CCW	\$ 38.92	\$ 70,164.69
WSP	\$ 35.56	\$ 57,268.17
STF	\$ 33.58	\$ 51,302.20
CMF	\$ 31.13	\$ 30,666.80
LAC	\$ 30.60	\$ 39,070.43
HDS	\$ 28.07	\$ 32,704.76
CAL	\$ 27.67	\$ 32,019.08
NKS	\$ 25.97	\$ 19,285.74
SAC	\$ 21.24	\$ 6,759.11
SVS	\$ 20.23	\$ 905.18
SQ	\$ 19.20	\$ -
FSP	\$ 18.88	\$ -
RJD	\$ 18.15	\$ -
CRC	\$ 18.02	\$ -
KVS	\$ 17.94	\$ -
CTF	\$ 17.78	\$ -
ISP	\$ 12.42	\$ -
CIM	\$ 12.21	\$ -
DVI	\$ 11.29	\$ -
CCI	\$ 10.31	\$ -
ASP	\$ 9.36	\$ -
PVS	\$ 8.91	\$ -
CMC	\$ 6.92	\$ -
CCC	\$ 6.72	\$ -
CVS	\$ 6.02	\$ -
MCS	\$ 5.24	\$ -
CEN	\$ 4.41	\$ -
SCC	\$ 4.09	\$ -
SOL	\$ 1.27	\$ -
TOTAL		\$ 919,198.87

VI. STATIONERY

Median Spend	\$ 18.45
Median + 10%	\$ 20.30

Prison Code	Cost/Prisoner	Potential savings
WSP	\$ 54.41	\$ 125,274.04
CMF	\$ 38.30	\$ 49,446.27
LAC	\$ 35.26	\$ 54,914.83
NKS	\$ 34.95	\$ 46,983.16
CIW	\$ 30.34	\$ 22,567.62
DVI	\$ 28.33	\$ 30,791.73
RJD	\$ 27.02	\$ 19,389.79
STF	\$ 26.86	\$ 24,731.72
SCC	\$ 24.69	\$ 22,290.85
HDS	\$ 24.55	\$ 17,142.86
PVS	\$ 24.03	\$ 16,884.58
CVS	\$ 22.50	\$ 7,368.06
SAC	\$ 22.27	\$ 10,413.49
CCW	\$ 21.14	\$ 3,124.86
KVS	\$ 18.88	\$ -
CTF	\$ 18.66	\$ -
COR	\$ 18.45	\$ -
SQ	\$ 17.72	\$ -
CMC	\$ 16.62	\$ -
CRC	\$ 16.55	\$ -
MCS	\$ 15.04	\$ -
CAL	\$ 14.71	\$ -
CCI	\$ 14.45	\$ -
CEN	\$ 13.80	\$ -
PBS	\$ 13.67	\$ -
ASP	\$ 13.24	\$ -
CIM	\$ 12.04	\$ -
SVS	\$ 11.34	\$ -
VSP	\$ 11.23	\$ -
CCC	\$ 10.86	\$ -
FSP	\$ 10.41	\$ -
SOL	\$ 9.52	\$ -
ISP	\$ 8.46	\$ -
TOTAL		\$ 451,323.86

VII. PRINTED FORMS

Median Spend	\$ 9.53
Median + 10%	\$ 10.48

Prison Code	Cost/Prisoner	Potential savings
NKS	\$ 43.81	\$ 106,886.47
WSP	\$ 32.81	\$ 81,971.49
RJD	\$ 28.97	\$ 53,276.09
COR	\$ 26.38	\$ 80,509.64
LAC	\$ 26.27	\$ 57,964.97
SQ	\$ 25.76	\$ 99,388.86
CMC	\$ 18.63	\$ 51,878.16
CIM	\$ 16.52	\$ 31,844.38
STF	\$ 16.19	\$ 21,517.38
KVS	\$ 15.65	\$ 23,131.84
VSP	\$ 15.09	\$ 26,963.33
CIW	\$ 13.08	\$ 5,829.49
CMF	\$ 11.72	\$ 3,392.91
FSP	\$ 11.54	\$ 4,608.99
CEN	\$ 10.26	\$ -
SOL	\$ 10.15	\$ -
HDS	\$ 9.53	\$ -
PVS	\$ 8.81	\$ -
CVS	\$ 8.28	\$ -
SCC	\$ 8.22	\$ -
CRC	\$ 8.10	\$ -
ISP	\$ 8.09	\$ -
MCS	\$ 8.05	\$ -
SAC	\$ 7.97	\$ -
CCW	\$ 7.36	\$ -
CAL	\$ 7.21	\$ -
CCC	\$ 7.19	\$ -
SVS	\$ 7.19	\$ -
ASP	\$ 5.41	\$ -
DVI	\$ 4.77	\$ -
CCI	\$ 3.86	\$ -
PBS	\$ 3.66	\$ -
CTF	\$ 1.47	\$ -
TOTAL		\$ 649,164.01

VIII. PHOTOCOPY

Median Spend	\$ 18.60
Median + 10%	\$ 20.46

Prison Code	Cost/Prisoner	Potential savings
CMF	\$ 176.28	\$ 427,953.51
VSP	\$ 56.16	\$ 209,061.63
KVS	\$ 48.07	\$ 123,582.44
RJD	\$ 43.55	\$ 66,567.77
WSP	\$ 33.63	\$ 48,352.48
CCI	\$ 32.88	\$ 72,109.88
CIW	\$ 30.77	\$ 23,162.11
COR	\$ 30.14	\$ 49,011.66
NKS	\$ 26.96	\$ 20,842.78
STF	\$ 25.08	\$ 17,411.24
SAC	\$ 23.08	\$ 13,865.10
CMC	\$ 22.90	\$ 15,552.32
CCW	\$ 21.86	\$ 5,172.55
PBS	\$ 18.98	\$ -
CTF	\$ 18.94	\$ -
SVS	\$ 18.89	\$ -
CVS	\$ 18.60	\$ -
LAC	\$ 18.14	\$ -
SOL	\$ 16.07	\$ -
PVS	\$ 14.09	\$ -
MCS	\$ 13.15	\$ -
CAL	\$ 12.57	\$ -
DVI	\$ 12.48	\$ -
CEN	\$ 12.36	\$ -
SQ	\$ 11.64	\$ -
CIM	\$ 10.94	\$ -
SCC	\$ 9.19	\$ -
CCC	\$ 9.00	\$ -
HDS	\$ 8.81	\$ -
ISP	\$ 7.83	\$ -
FSP	\$ 6.45	\$ -
ASP	\$ 4.43	\$ -
CRC	\$ 1.75	\$ -
TOTAL		\$ 1,092,645.47

IX. FROZEN FOODS

Median Spend	\$ 13.38
Median + 10%	\$ 14.72

Prison Code	Cost/Prisoner	Potential savings
LAC	\$ 66.89	\$ 174,770.28
CEN	\$ 59.71	\$ 191,161.56
CCI	\$ 47.52	\$ 190,424.69
HDS	\$ 31.96	\$ 87,307.71
PBS	\$ 30.82	\$ 64,908.92
SVS	\$ 26.32	\$ 37,192.12
STF	\$ 24.59	\$ 50,869.18
RJD	\$ 21.90	\$ 32,114.73
MCS	\$ 19.24	\$ 17,310.32
NKS	\$ 19.09	\$ 19,059.25
CCC	\$ 17.12	\$ 13,219.15
VSP	\$ 15.20	\$ 2,189.33
WSP	\$ 11.57	\$ -
COR	\$ 10.55	\$ -
CAL	\$ 8.52	\$ -
ISP	\$ 6.62	\$ -
SCC	\$ 6.27	\$ -
KVS	\$ 5.28	\$ -
CCW	\$ 5.25	\$ -
PVS	\$ 4.48	\$ -
ASP	\$ 4.31	\$ -
CTF	\$ 0.99	\$ -
CVS	\$ 0.90	\$ -
CRC	\$ 0.29	\$ -
TOTAL		\$ 880,527.25

X. COPIER SUPPLIES

Median Spend	\$ 2.75
Median + 10%	\$ 3.02

Prison Code	Cost/Prisoner	Potential savings
STF	\$ 29.48	\$ 99,677.42
RJD	\$ 29.44	\$ 76,147.67
VSP	\$ 26.39	\$ 136,842.69
SVS	\$ 25.41	\$ 75,026.28
CIW	\$ 18.37	\$ 34,487.29
WSP	\$ 17.99	\$ 54,973.12
LAC	\$ 10.02	\$ 25,664.47
CCI	\$ 9.89	\$ 39,847.13
CTF	\$ 9.37	\$ 41,471.52
SAC	\$ 6.84	\$ 20,177.09
PBS	\$ 3.96	\$ 4,298.07
CAL	\$ 3.46	\$ 1,831.08
CMC	\$ 3.10	\$ 469.93
COR	\$ 3.01	\$ -
NKS	\$ 2.95	\$ -
ISP	\$ 2.76	\$ -
CEN	\$ 2.75	\$ -
DVI	\$ 2.59	\$ -
CCC	\$ 2.53	\$ -
SCC	\$ 1.96	\$ -
ASP	\$ 1.87	\$ -
MCS	\$ 1.84	\$ -
CRC	\$ 1.40	\$ -
HDS	\$ 1.38	\$ -
CMF	\$ 1.14	\$ -
PVS	\$ 1.11	\$ -
SQ	\$ 0.92	\$ -
FSP	\$ 0.66	\$ -
CVS	\$ 0.34	\$ -
CIM	\$ 0.23	\$ -
KVS	\$ 0.16	\$ -
SOL	\$ 0.07	\$ -
CCW	\$ 0.03	\$ -
TOTAL		\$ 610,913.76

XI. MEDICAL SUPPLIES

Median Spend	\$ 0.31
Median + 10%	\$ 0.34

Prison Code	Cost/Prisoner	Potential savings
CMF	\$ 6.19	\$ 24,878.42
CVS	\$ 1.89	\$ 3,485.66
DVI	\$ 1.57	\$ 7,839.28
WSP	\$ 1.26	\$ 4,113.03
LAC	\$ 1.22	\$ 4,483.91
SQ	\$ 1.05	\$ 3,120.44
CCI	\$ 1.03	\$ 2,856.33
STF	\$ 0.58	\$ 986.00
PBS	\$ 0.39	\$ 172.92
NKS	\$ 0.31	\$ -
MCS	\$ 0.30	\$ -
CMC	\$ 0.26	\$ -
FSP	\$ 0.20	\$ -
CIM	\$ 0.13	\$ -
CAL	\$ 0.05	\$ -
SVS	\$ 0.04	\$ -
CTF	\$ 0.04	\$ -
SAC	\$ 0.03	\$ -
CIW	\$ 0.01	\$ -
TOTAL		\$ 51,936.00

Appendix D: Relationship of Purchasing Groups and Delegated Authorities

Department of General Services (DGS)

- Executes statewide contracts
- Has oversight responsibility over all CDCR purchasing (centrally and among institutions)

CDCR Office of Business Services (OBS)

- Executes purchasing for CDCR central offices and facilities
- Includes Strategic Acquisitions Unit to pursue consolidated purchases for common items
- Has delegated purchasing authority (from DGS) up to \$100,000, or less than \$250,000 for SB/DVBE option purchases
 - Any contract above this amount must get an exemption from DGS

Individual Purchasing Officers

- Execute purchasing for the institution at which they are employed
 - Report to wardens, not to OBS
- Have delegated purchasing authority (from CDCR) up to \$5,000, or \$50,000 for competitively bid contracts
 - Any contract above this amount must get a “freeze exemption” from CDCR
 - Contracts related to personal care not bound by freeze exemption

Appendix E: Florida Responses to Procurement Survey

This survey was completed and returned March 2012 by Shelley Kelly, Procurement Manager, Florida Department of Corrections.

1. What commodity categories are used in your office's procurements? What are the percentages of each of those categories of overall procurements?

Our state uses NIGP's commodity codes as a base but, over the years, many codes have been added to further categorize specific purchases. Please see Attachments – Florida Commodity-Contractual Service Codes and DC Most Frequently Used Commodity-Contractual Service Codes.

2. What is the annual dollar value of procurements made by your office? How many purchases are made annually by your procurement office?

The following are estimates: 40,000 P-card (credit card) transactions for \$7,500,000; 40,000 purchase orders for \$357,000,000; 1,000 agreements (no dollar), 400 service contracts for \$300,000,000; 500 local work squad agreements (no dollar), and; 100 commodity contracts for 14,000,000.00/yr.

3. Are IT and Non-IT purchases handled separately? **Yes**

4. In addition to mandatory procurement rules and regulations (State Administrative Manual, State Contracting Manual, etc.) do you utilize other internal procurement procedures or processes?

In addition to state statutes and the Florida Administrative Code Rules promulgated by the Department of Management Services (DMS), we have internal written procedures for all employees (end users) and a desktop manual written specifically for buyers.

5. Do your buyers have mandatory training requirements? If so, please describe. How often do they receive training? Do you conduct in-house procurement training? If so, please describe the training program. Do you train end users on proper procurement procedures? If so, describe the training.

All employees of the Department of Corrections are required to attend at least 40 hours of in-house training specific to Corrections. Training that is specific to procurement is provided through internal teleconferencing, classes provided by DMS and through our local Chapters of NIGP. Our Department of Management Services also provides procurement training & certifications.

6. Procurement offices with centralization/regionalization: What specific areas of your operation have or have not been centralized/regionalized? What are your efficiencies? What are the inefficiencies? If you could modify your procurement program, what would you modify? *Specific functions are centralized, i.e.; all formal solicitations and contracts, construction contracting, A & E and other design professional services, vehicles, I.T. equipment and services, communication equipment and services, equipment leasing and financing, health services, satellite phones and blackberry licenses. Purchases from the prison industry program (Pride), Respect of Florida (a non-profit agency established by our legislature that employs people with disabilities, state and agency contracts and informal procurements are handled by our four (4) regional offices. There are no buyers housed at our facilities.*

Efficiencies: *(1) Standardization (i.e. office supplies, PC's and laptops, copiers, medical supplies, security supplies, clothing, etc.) (2) Restricting P-card usage to specific items and dollar thresholds for each program office.*

Inefficiencies: *Budget cuts necessitated the removal of buyers from the institutions, which has affected the overall service provided to our customers.*

7. Procurement offices without centralization/regionalization: What are the efficiencies? What are the inefficiencies? If you could modify your procurement program, what would you modify? Is there a plan to move to a centralized process?

8. Do you have a centralized accounting office or is it regionally located? Please briefly describe your accounting operations. What are the efficiencies/inefficiencies in your accounting office? *We have a centralized F&A office and 4 regional F&A offices. Our inmate bank and restitution functions are centrally located but bill paying is handled by all offices.*

9. Can you provide us a copy of your organizational chart for your procurement unit?
Attached.
10. Do you utilize warehouse(s) to store your commodities? Centrally located or regionally located? Do you own or lease warehouse(s)? What is a typical inventory turnover time horizon and quantity? *We generally use a “just in time” method of procurement, with the exception of one warehouse that stocks inmate apparel, paper goods and personal items for redistribution to their regional facilities. However, all institutional warehouses maintain a limited supply of items needed for emergencies or natural disasters.*
11. How is forecasting done at your facility? How long does this process take from start to finish? How do you make sure it’s efficient and accurate? *Forecasting is generally done in the program areas.*
12. How do you choose vendors for procurement? Is there space for multiple vendors? What process do you use in the proposal process? How do you quantify your needs from the vendor? What kind of competition is in place? How do you decide on your budget? Do you have different vendors for centralized procurement versus decentralized procurement? What level of negotiations do you engage in? *All agencies under the Governor’s purview utilize a statewide Vendor Bid System to advertise all formal solicitations electronically. Vendors are automatically notified of bid opportunities for the items they have registered (by commodity code) to sell. Sealed competitive solicitations are required for all procurements exceeding the formal bid threshold of \$35,000. Our solicitations include Invitations to Bid, Requests for Proposals and Invitations to Negotiate. The state’s e-procurement system includes e-quoting functionality for informal (small) purchases, but our agency has not implemented this feature yet. However, we do use the system to identify vendors for solicitation purposes and we are required (by Rule) to solicit at least 2 quotes for purchases less than the formal bid threshold. The Department of Management Services has delegated their authority to us to conduct all levels of procurements/negotiations.*
13. Regarding state / Federal guidelines, what restrictions are there present? *It is not clear what you mean by “restrictions”. There are several Florida statutes governing*

- procurement, but the primary statutes are contained in Chapters 287, 255, 283 and 946. Compliance with all Federal Guidelines is required when utilizing federal funds.*
14. Do you use a custom system for purchasing (i.e. SAP-System Application Program), DGS purchasing system (eProcurement) or is there another method used for data/procurement capture? *All agencies under the Governor's purview are required to utilize the state's e-procurement system (from procurement to payment) in the Ariba format. This system is administered by the Department of Management Services. We also have an internal (department developed/department-owned) automated purchase request system.*
 15. How are shipping charges handled on purchases? How are they divided on centralized/consolidated purchases? *Solicitations generally require delivered pricing. However, in those instances where actual freight charges are applied separately, we require vendors to provide a copy of the freight tickets with their invoices.*
 16. Describe the process your department has in place to ensure buyers utilize Small Business Disabled Veterans Business Enterprise (SB/DVBE) vendors for procurements? Do you train your buyers to utilize SB/DVBE vendors in procurements? If so, please describe. *All solicitations contain standard language encouraging the use of Minority and Veteran's Business Enterprises. We do not set aside bids for this purpose, nor do we give pricing or scoring preferences, unless there is a tie bid.*
 17. In state agencies only: Can you characterize CAL-PIA products and pricing. Has your agency applied for and obtained exemptions from CAL-PIA? What commodities were you able to obtain those exemptions on?
 18. Out of State agencies only: Are you required to utilize a Prison Industry Authority program to procurement commodities? If so, please list the commodities purchased. Is your office able to apply for exemptions for specific commodities? If so, which commodities are you able to obtain exemptions for? *Yes. Commodities and Services available from PRIDE (Prison Rehabilitative Diversified Enterprises) can be viewed at: <http://pride-enterprises.org/products/products.html> Requests for exceptions are submitted to our procurement office in the central office for approval prior to purchasing from a source other than Pride. Requests must*

contain adequate information to allow for a reasonable determination that justification complies with Florida Statute 946.

19. Do you use CAL-Card or another state issued charge card? What is the percentage of procurements made using a CAL-Card or your state's charge card? What are the associated dollar amounts? What are the most commonly procured commodities using the CAL-Card? *Purchases via P-card, which is the terminology we use for a state-issued charge card, is restricted to specific items that are pre-approved for each individual program office, including travel. Our heaviest programmatic users are staff in the facility maintenance departments for repair parts or maintenance supplies needed urgently. Transactions are generally limited to \$1000. Total P-Card expenditures for all offices are approx. \$625,000/mo/statewide.*
20. Do you utilize interstate contracts, i.e. Western State Contract Alliance, National Association of State Procurement Officials, etc.? What is the percentage of purchases through those contracts? Benefits? Deficiencies? *Yes.*
21. Can you provide us with examples of detailed delivery schedules? *Generally, we do not use delivery schedules. Pricing is established by the purchasing office for various common items and blanket-type PO's are issued, allowing end users the ability to order on an "as needed" basis.*
22. Do you have a paperless process in place for your procurement documents? Has your state enacted digital signature laws? Does the state have rules promulgated regarding digital signatures? Does the state use digital signatures to route and approve documents internally? Is the state accepting digital signatures as legally binding signatures from the vendor community on procurement documents? *No, we are not currently paperless, but yes, it is the state's (DMS) intention for all procurement offices to be paperless. Digital signatures are allowed, in accordance with Florida Statute, Chapter 668, which basically states that electronic signatures have the same force and effect as a written signature. Yes, DMS accepts a digital signature as a legally binding bid.*

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