



**STRATEGIC SOURCING:**  
Projected savings not achieved –  
program poorly implemented

A REPORT FROM THE CITY AUDITOR  
July 2007



Office of the City Auditor  
Portland, Oregon





CITY OF  
**PORTLAND, OREGON**

OFFICE OF THE CITY AUDITOR  
Audit Services Division

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July 3, 2007

TO: Mayor Tom Potter  
Commissioner Sam Adams  
Commissioner Randy Leonard  
Commissioner Dan Saltzman  
Commissioner Erik Sten  
Ken Rust, Chief Administrative Officer  
Jeff Baer, Bureau of Purchases Director

SUBJECT: *Strategic Sourcing: Projected savings not achieved – program poorly implemented,*  
Report #349

Attached is Report #349 containing the results of our audit of the City of Portland's implementation of Strategic Sourcing, a cost savings initiative which began in 2004. The audit was included in our annual audit schedule and was conducted in accordance with generally accepted government auditing standards.

As a follow-up to our recommendations, we ask that the Director of the Bureau of Purchases prepare a status report in one year detailing steps taken to address the report's recommendations. The status report should be submitted to the Audit Services Division and coordinated through the City's Chief Administrative Officer and the Commissioner in Charge of the Office of Management and Finance.

We appreciate the cooperation and assistance we received from personnel in the Bureau of Purchases as we conducted this audit.

  
GARY BLACKMER  
City Auditor

Audit Team: Drummond Kahn  
Doug Norman  
Kari Guy

Attachment



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## STRATEGIC SOURCING:

### Projected savings not achieved – program poorly implemented

#### **Summary**

In May 2004, the City of Portland hired a consultant to implement Strategic Sourcing, an initiative designed to achieve savings by improving the way goods are purchased – from paper clips to computers. Under the initiative, the City’s buying power was to be leveraged to negotiate lower prices with the companies that supply goods to the City. The City’s former Purchasing Director told Council that it could save over \$5 million a year through successful implementation of Strategic Sourcing.

Three years later, however, the City has failed to demonstrate projected cost savings from Strategic Sourcing. The initial estimate of \$5 million a year in savings was lowered to \$1.7 million a year in 2005 by a consultant hired to implement Strategic Sourcing. But even this lower estimate cannot be verified because the City does not have systems in place to track spending or document savings. It is not clear that the City has recovered the \$911,000 it paid the consultant hired to implement the program.

While the City has achieved savings for some commodities, such as office supplies, computers, and cell phones, new contracts for other commodities have resulted in problems that make achievement of projected savings unlikely. Fleet parts and services, construction equipment, industrial water supplies, asphalt, and aggregate (i.e., rock and sand) are all examples of commodities with product and logistical complexities that have prevented the City from realizing benefits from Strategic Sourcing.

In some cases, the consultant's failed efforts left City bureaus without contracts to purchase the goods they need to perform their operations. In other cases, contracts were established that were troublesome for bureaus logistically. Several bureaus resorted to using local purchase orders to buy the goods they needed. In addition, many bureau representatives we interviewed told us that the City's relationship with some vendors has been strained by some of the consultant's contracting strategies and negotiation tactics.

We believe many of the problems associated with the Strategic Sourcing initiative resulted from a lack of scrutiny and oversight by the City. The City entered into a contract with the consultant to implement Strategic Sourcing even though it lacked adequate systems to support the program once the consultant left the City. The City also failed to obtain critical contract deliverables from the consultant, including the methodology it used to project cost savings. Moreover, the City paid the consultant \$700,000 for the second phase of the project without obtaining documentation or verification of savings, as required by the contract.

In addition, the consultant's implementation of Strategic Sourcing was done with little involvement by Bureau of Purchases staff. As a result, there was little transfer of knowledge to Purchases staff, leaving the City ill-equipped to move the Strategic Sourcing program forward.

We recommend that the Bureau of Purchases:

- Ensure contract deliverables are provided before making payments to consultants.
- Work with City bureaus to evaluate contracts established for complex commodities such as aggregate, asphalt, and industrial water supplies, and revise these contracts as appropriate when the opportunities arise.
- Develop methods to track commodity spending and cost savings achieved through alternative purchasing strategies.

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**Background**

The federal Office of Management and Budget defines Strategic Sourcing as:

“...the collaborative and structured process of critically analyzing an organization’s spending and using this information to make business decisions about acquiring commodities and services more effectively and efficiently.”

Commodities that can be purchased in high volume, that involve multiple departments, and are not specialized or complex, typically are good candidates for applying the alternative procurement strategies associated with Strategic Sourcing.

Strategic Sourcing began in the business community, and spread to state governments in 2002. In 2003, the Oregon legislature changed state purchasing law, allowing more innovative approaches to contracting. Motivated by a need to find budget efficiencies, and by claims of large savings by state governments, the City of Portland formed a steering committee to analyze the potential of a Strategic Sourcing effort in the City. With guidance from the steering committee, the Bureau of Purchases issued a request for proposals. In May 2004, a consultant – Silver Oak Solutions – was hired to implement the first phase of Strategic Sourcing.

The City paid \$196,000 for this first phase, during which the consultant reviewed thousands of invoices to create a baseline of City spending and evaluated opportunities for savings, according to the Bureau of Purchases. Following this opportunity assessment, the consultant estimated annual savings of \$1.7 million for 13 commodities ranging from office supplies to aggregate (see Figure 1).

**Figure 1 Projected average annual savings from strategic sourcing by category\***

|   |                    |
|---|--------------------|
| Computer Hardware and Peripherals                     | \$432,000          |
| Materials – Asphalt Concrete                          | \$127,000          |
| Commodity Trucking                                    | \$ 98,000          |
| Construction and Industrial Equipment                 | \$ 83,000          |
| Uniforms  | \$164,000          |
| Industrial Water Supplies                             | \$ 94,000          |
| Fleet Parts and Maintenance                           | \$ 80,000          |
| Office Supplies                                       | \$175,000          |
| Telecom. – Wireless Equipment and Service             | \$ 72,000          |
| Copiers – Equipment and Maintenance                   | \$160,000          |
| MRO and Electrical Supplies                           | \$ 98,000          |
| Materials – Rock and Sand                             | \$ 37,000          |
| Parking Equipment and Service – Parking Meter Tickets | \$ 62,000          |
| <b>Total projected savings</b>                        | <b>\$1,682,000</b> |

Source: Status Update with the Strategic Sourcing Steering Committee, Silver Oak Solutions, August 18, 2004.

\* The figures in this table are the computed average between the consultant’s low and high projected savings for each category.

The City considered several options for the second phase of Strategic Sourcing, during which contract negotiations for the targeted commodities were to be initiated. Options included continuing with the existing consultant, issuing a new request for proposals, or continuing the effort with in-house staff. The City decided to extend the contract with Silver Oak Solutions and, in September 2004, increased the contract amount by \$700,000 and authorized the consultant to initiate contract negotiations. By contract completion in May 2005, the consultant had initiated contract negotiations for nine of the 13 targeted commodities.

In a separate contract the consultant was paid \$15,000 to provide Bureau of Purchases staff with training on Strategic Sourcing. In September 2005, after completing its contracted work for the City, Silver Oak Solutions was acquired by CGI-AMS.



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**Objective, scope, and methodology**

The objective of this audit was to determine if the Strategic Sourcing initiative begun in 2004 achieved projected savings, while maintaining or improving levels of quality and service. To achieve this objective, we interviewed Bureau of Purchases staff to gain an understanding of the history and current practices of the City's Strategic Sourcing program. We reviewed program documentation provided by Purchases staff and asked them for baseline spending data and documentation of actual savings.

We interviewed members of the Strategic Sourcing Steering Committee. We interviewed purchasing staff from the Bureau of Water Works, the Office of Transportation, the Bureau of Technology Services, CityFleet, and the Bureau of Fire, Rescue, and Emergency Services concerning commodities purchased under Strategic Sourcing and their views on the effectiveness of the program. We also interviewed representatives from the State of Oregon, the State of Washington, and the State of Illinois concerning the experiences of their organizations with Strategic Sourcing.

In addition, we reviewed various reports and articles published on Strategic Sourcing, including reports issued by the United States Government Accountability Office, articles published in *Government Procurement and Inside Supply Management*, and discussions papers published by the National Association of State Procurement Officers and the National Electronic Commerce Coordinating Council.

This audit was included in the City Auditor's FY 2006-07 audit schedule, and we conducted our work in accordance with generally accepted government auditing standards.

**Projected savings not documented and likely not achieved**

In a presentation to City Council on Strategic Sourcing, the former Bureau of Purchases Director told Council, "...we're conservatively anticipating a savings of approximately \$25 million over the next six years." While it was noted that this would be the first time the consultant had attempted Strategic Sourcing at the local government level, it was assumed the savings claimed at the state level could also be realized by the City of Portland. One City Council member questioned the high cost of the consultant, and asked if the City should consider doing Strategic Sourcing with its own staff. Portland's former Chief Administrative Officer stated that the consultant would help the City "get our act together on our data collection" and after the initial assessment, would help identify structures needed to perpetuate the Strategic Sourcing program.

The Bureau of Purchases Director indicated that, with adequate funding and staffing, Strategic Sourcing could be expected to generate over \$5 million a year in savings. This estimate of annual savings dropped to \$1.7 million after the consultant completed its opportunity assessment during phase one of the project. The additional cost of \$700,000 for the consultant to conduct phase two of the project was approved by Council with the assurance from the Bureau of Purchases that accrued savings would be tracked and that an audit to verify savings would be conducted. These assurances were consistent with contract provisions that required the consultant to provide:

- a methodology to quantify cost savings for each commodity
- a method to document and verify savings
- "hard" and "soft" savings for each commodity type
- a summary of best practices for each commodity

However, the Bureau of Purchases did not follow through on these promises to Council and did not hold the consultant responsible for providing the above deliverables. The process improvements discussed in Council meetings, including methods to track spending and savings, have not occurred. Moreover, the contract required that before payments were made for the second phase of the project, the consultant was to document savings realized, and a third part selected by the City was to review the consultant's savings documentation.

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The City paid the consultant \$700,000 for the project's second phase without the required documentation and verification of savings.

The Bureau of Purchases has provided documentation for slightly more than \$61,000 in savings in FY 2006-07. This \$61,000 in savings is due to annual rebates and increased contract oversight that resulted in invoice corrections. Additional savings for commodities such as office supplies, cell phones, and computers have not been determined because the City lacks a system to track spending and savings.

### **Lack of spending data**

Professional literature we reviewed on Strategic Sourcing consistently points to the importance of credible, reliable, and timely data on purchases, and ongoing analysis to identify opportunities for savings. Without this data and analysis, not only is the City unable to verify savings, it is unable to capitalize on the initial work by the consultant and identify new savings opportunities.

Bureau of Purchases staff told us that some of the spending data provided by the consultant may have been outdated. Moreover, because the City's existing financial information system does not provide useful tracking of invoices, the baseline of City spending has not been verified or updated.

### **City bureaus charged for consultant's fee based on estimated savings**

Professional literature also points to the need to capture the savings that are generated by Strategic Sourcing. In a public agency, the unused budget capacity resulting from these savings can be used for other program priorities. In the spring of 2005, an estimate of savings that was expected to be generated by the new Strategic Sourcing contracts was allocated to each City bureau. A total of \$665,000 was charged to City bureaus in FY 2004-05, based on this savings estimate, to pay for the consultant's second phase of the Strategic Sourcing project (see Figure 2). However, no new contracts were entered into until the end of FY 2004-05, and no savings were documented for that fiscal year.

**Figure 2 FY 2004-05 charges to City bureaus to pay for the strategic sourcing consultant**

|                                    |                  |
|------------------------------------|------------------|
| Portland Office of Transportation  | \$170,919        |
| Police Bureau                      | \$163,889        |
| Office of Management and Finance   | \$135,075        |
| Water Bureau                       | \$ 69,453        |
| Fire Bureau                        | \$ 44,861        |
| Bureau of Environmental Services   | \$ 41,665        |
| Parks Bureau                       | \$ 10,000        |
| Office of Emergency Management     | \$ 9,827         |
| Bureau of Development Services     | \$ 7,573         |
| Bureau of Community Development    | \$ 4,310         |
| Office of the Mayor                | \$ 2,785         |
| Office of Neighborhood Involvement | \$ 2,249         |
| All Other Bureaus                  | \$ 2,067         |
| <b>Total charges to bureaus</b>    | <b>\$664,673</b> |

Source: Office of Management and Finance spring FY 2004-05 budget analysis.

### **Failure to transfer critical knowledge to City staff**

Professional literature emphasizes the importance of training staff who will be responsible for conducting Strategic Sourcing activities. The City paid the consultant \$15,000 to provide a seven-module, 21-hour training program for all Bureau of Purchases buyers. However, the former Director of Purchases noted in meetings with City Council that real training on Strategic Sourcing occurs when City staff work with the consultant to plan and negotiate new contracts.

While the consultant's staff sought input from affected City bureaus, they led negotiations and acted without the oversight or involvement of the Bureau of Purchases. We were told by Bureau of Purchases staff that because the consultant was pushing to complete contract negotiations, they did not want to be responsible for any delays. During the negotiations, City bureaus had a single point of contact

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in the Bureau of Purchases – the manager hired to oversee Strategic Sourcing in the City. However, this manager was hired after the formal training and was not directly involved with the negotiations led by the consultant. As a result, transfer of critical Strategic Sourcing knowledge from the consultant to City staff did not occur.

### **Other governments have struggled with strategic sourcing**

Portland is not alone in struggling to implement Strategic Sourcing. In the State of New Mexico, a legislative finance committee found that all savings achieved were being used to pay the Strategic Sourcing consultant. In the State of Washington, initial savings estimates of \$100 million dropped to \$17 million, and the costs in staff time were significant. The state is building its own data system to track highest spending volume by vendor, and is working directly with vendors to lower prices. Representatives of the State of Oregon told us they had realized savings from Strategic Sourcing, but did not provide us with specific dollar amounts. The top Strategic Sourcing staff who left the State of Oregon after initial implementation of the program said that Strategic Sourcing was languishing and that savings could not be documented. The State of Illinois, a jurisdiction that achieved and validated savings through Strategic Sourcing, is unable to do more than sustain existing contracts unless additional funding is allocated to the program.

### **Consultant's contract negotiations: mixed results**

There are mixed results from the consultant's effort to negotiate new contracts under Strategic Sourcing. It does appear that savings were achieved for some commodities, such as office supplies, computers, and cell phones. However, efforts to negotiate new contracts for some commodities, such as fleet parts, construction equipment, industrial water supplies, asphalt, and aggregate, resulted in various problems, including delays in the acquisition of needed products and the purchase of some products by local purchase orders. Figure 3 shows the consultant's original estimate of annual savings for each product category compared to actual outcomes to date.

**Figure 3 Estimated annual savings compared to documented savings by product category**

| <b>Product Category</b> | <b>Annual savings estimates August 2004</b> | <b>FY 2006-07 savings documented through April 2007</b> | <b>Comment</b>   |
|-------------------------|---|---|--|
| Computers               | \$432,000                                   | Unknown   | Savings not tracked  |
| Asphalt                 | \$127,000                                   | \$43,158  | Documented savings attributed to rebates and invoice corrections |
| Commodity Trucking      | \$98,000                                    | \$2,912   | Documented savings attributed to negotiating price request down  |
| Construction Equip.     | \$83,000                                    | \$0   | No contract completed  |
| Uniforms                | \$164,000                                   | Unknown   | Savings not tracked  |
| Water Supplies          | \$94,000                                    | Unknown   | Savings not tracked  |
| Fleet Parts             | \$80,000                                    | \$0   | No contract completed  |
| Office Supplies         | \$175,000                                   | \$15,299  | Documented savings attributed to annual rebates                  |
| Telecom                 | \$72,000                                    | Unknown   | Savings not tracked  |
| Copiers                 | \$160,000                                   | \$0   | No contract completed  |
| MRO & Electrical        | \$98,000                                    | Unknown   | Savings not tracked  |
| Aggregate               | \$37,000                                    | Unknown   | Savings not tracked  |
| Parking Equip./Serv.    | \$62,000                                    | \$0   | No contract completed  |
| <b>Total</b>            | <b>\$1,682,000</b>                          | <b>\$61,369</b>   |  |

Source: Strategic Sourcing Opportunity Assessment, status update with steering committee, Silver Oak Solutions, August 18, 2005; and data provided by Bureau of Purchases.

### **Problems with complex and specialized products**

In our interviews with representatives from City bureaus, we were repeatedly told that the consultant's staff was inexperienced and discounted product and logistical complexities associated with the commodities. For some commodities, negotiations stalled and no new contracts were awarded. For other commodities, the resulting contracts were time-consuming and costly to implement.

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**Fleet parts.** The consultant proposed to CityFleet that all fleet parts be consolidated in order to achieve a projected annual savings of \$53,000 to \$106,000. The consultant developed a master list of fleet parts and services, and issued a request for proposals. However, CityFleet staff told us that fleet parts and services are very specialized. For example, vendors for automotive parts are not the same vendors for construction equipment parts. As a result, some vendors spent days putting bids together in order to find secondary sources for some of the parts. The bids that resulted could not be evaluated effectively, and no contract was issued. By ignoring the complexity of the product line, the contracting process failed and no savings were achieved.

**Construction and industrial equipment.** There was a similar failure in the attempt to revise contracts for construction and industrial equipment. In the past, the City either purchased such equipment using the State of Oregon contract, or developed unique specifications and negotiated directly with local franchise dealers. The Strategic Sourcing consultant, however, proposed a standard set of specifications and negotiating directly with manufacturers, which the consultant estimated would result in annual savings of \$45,000 to \$121,000.

The Strategic Sourcing consultant issued a request for proposals directly to the manufacturers for backhoes; however, no bids were received. One manufacturer's representative told Water Bureau staff that Portland was too small of a customer to obtain a volume discount from national manufacturers, and was foolish to destroy its relationship with local dealers. The end result was that no contract was issued, causing a long delay in the purchase of new equipment.

In addition, CityFleet staff told us that the consultant's 'cookie cutter' approach for trailers, backhoes, dump trucks, and utility pickups was not appropriate because the City has many specialized uses for heavy equipment. They believe the City benefits by working with local franchise dealers because they have faster and better equipment availability, and can provide ongoing support for equipment following its purchase. In addition, local franchise dealers will honor prices available under the State of Oregon contract. The consultant's proposal to bypass local franchise dealers may have overlooked the City's specialized needs and the life-cycle costs of heavy equipment.

**Industrial water supplies.** In the past, industrial water supplies such as pipes, valves, and fittings were purchased from four suppliers. The Strategic Sourcing consultant proposed consolidating all water supply purchases, for a projected annual savings of \$62,000 to \$125,000. Like the process for fleet parts, the consultant developed a list of all industrial water supplies purchased by the Water Bureau. The consultant reduced the list to 150 essential items, divided the items into two categories, then issued a request for proposals that required vendors to bid on every item in a category. None of the existing vendors could bid on all the items on a list, and Water Bureau staff received numerous complaints about the process from vendors.

Ultimately, the City received one bid for water supplies, and that vendor planned to buy some items on the secondary market, then re-sell them to the City. Almost all purchasing was shifted to this one vendor, with two vendors receiving small contracts for a few items the primary vendor could not supply. However, no contracts were signed until October 2005 and, for almost 10 months, the Water Bureau ordered all supplies through limited purchase orders. Now, with a list of over 150 items on one contract, Water Bureau staff noted that the ordering process is overly time consuming.

Water Bureau staff told us they believe that having only one vendor bid on the request for proposals led to higher prices, and now other vendors have no incentive to help the City with unusual orders or emergency items. They also said that any savings claimed by the Strategic Sourcing consultant were more than offset by the effort spent by Water Bureau staff to educate the consultant, by the cost of ordering most items under limited purchase orders, and by the increased time required to administer a more complex ordering process.

**Asphalt and aggregate.** The consultant proposed that purchases for both asphalt and aggregate (i.e., rock and sand) be consolidated in order to achieve lower prices and projected annual savings of \$69,000 to \$184,000 for asphalt and \$20,000 to \$54,000 for aggregate. The new contract for general use aggregate was awarded to one primary supplier located in North Portland (there are additional aggregate contracts for narrow purposes such as the City's golf courses and the



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Bull Run Reservoir). Prior to the contract, the City purchased general use aggregate from six suppliers, spread geographically throughout the City. Now, price controls for most aggregate products reside in only one contract with one supplier. Water Bureau staff said they routinely bypass the new contract if distance to the supplier would delay the job, add staff time, or increase wear and tear to the equipment used to haul the aggregate. To purchase from the closest supplier, they pay the latest market prices using one-time, limited purchase orders. Similarly, while the Office of Transportation crushes most of the aggregate it uses, when its crews need specialty items they purchase the items through limited purchase orders. By ignoring the logistical complexities of aggregate use, any cost savings attributable to Strategic Sourcing have likely been offset by the cost of buying off-contract or traveling a greater distance for aggregate supply.

Similarly, the new asphalt contracts negotiated under Strategic Sourcing have limited the Office of Transportation to two primary suppliers, compared to earlier contracts with four different suppliers located throughout the City. We found a variety of problems with the new contracts in Report #324C which we issued in September 2006. For example, we found that Transportation staff used secondary vendors in a manner not permitted by the contracts and did not take full advantage of volume discounts available under the new contracts. We also found that the price stability of the new contracts was undermined by a price adjustment granted to one of the primary vendors outside contract provisions. Although the new contracts resulted in favorable prices compared to neighboring jurisdictions, it is not clear that savings were achieved because the new contracts contained prices that were 9 to 18 percent higher than prices effective the previous year.

In negotiating the contracts for aggregate and asphalt, the Strategic Sourcing consultant ignored the logistical complexities of these products. Because of the reduced number of suppliers, the new contracts were difficult to administer, with City staff sometimes purchasing aggregate and asphalt outside contract provisions. Moreover, purchasing experts warn that reducing the number of suppliers to one or several large vendors may have the result of reducing prices in the short run, but prices may drift upward in years to come.

**More success with commodities that fit good candidate profile**

The consultant's efforts to negotiate new contracts was more successful for products that more closely fit the good candidate profile identified in professional literature, namely:

1. the product is purchased in high volume
2. there are multiple departments that purchase the product
3. the product is not specialized or complex

Specifically, the City appears to have achieved savings by consolidating the purchase of office supplies, computers, and telecommunication services.

**Office supplies.** Office supplies are purchased by virtually every bureau in the City. The consultant proposed creating a high discount essentials list, increasing contract compliance by bureaus, and negotiating rebates, and projected annual savings of \$150,000 to \$200,000. The consultant analyzed all City office supply purchases, created an essentials list of 1500 products, and issued a request for proposals. Five bids were received, and the consultant brought bidders back for two more rounds of negotiations. Bureau of Purchases staff checked prices in the final contract against those in the State of Oregon's purchasing contract and a nationwide community's contract, and found the City's prices were lower, in both cases. In addition, the contractor provided the City with a \$50,000 bonus at contract signing.

The office supplies contract reflects City socioeconomic purchasing goals for small businesses and sustainable purchasing. In addition, the contract is linked to City purchasing cards, so the City gets lower prices even on last-minute buying. Also, the vendor provides purchasing reports to the Bureau of Purchases, which monitors the contract and ensures that annual rebates are paid. However, Bureau of Purchases staff told us that when the current office supplies contract expires, they will not be able to repeat the negotiation process because they do not have a system in place to re-create the essentials list. And as with other commodities, there is no methodology to calculate or document savings.

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**Computers.** The City's Bureau of Technology Services (BTS) was moving towards centralized computer purchases before the Strategic Sourcing initiative began. The Strategic Sourcing consultant recognized that BTS was ready to standardize equipment, and recommended that a single source be selected for each product. The consultant projected annual savings of \$345,000 to \$518,000 for computers.

The consultant issued a request for proposals patterned after the computer contract it had recently completed for the State of Oregon. After multiple rounds of negotiations, vendors were selected for servers and personal computers, and a contract with a third local vendor was added later. BTS staff told us they believe the resultant contract prices are good. In addition, because the contracts allow the City to purchase from local vendors and provide for asset disposal, the City's socio-economic purchasing goals are being met as well. However, BTS staff told us the consultant added little expertise to the negotiation process, and the City would likely have developed City-wide contracts without the Strategic Sourcing initiative.

**Telecommunication services (cell phones).** As with computers, BTS was in the process of centralizing and re-negotiating cell phone contracts when the City's Strategic Sourcing effort began. The consultant projected annual savings of \$48,000 to \$96,000 through standardization of rates across all vendors.

BTS staff told us the City's focus on Strategic Sourcing helped them get over the hurdle of convincing bureaus to allow BTS to negotiate cell phone minutes. However, the consultant's role was not well defined, and the consultant did not initially understand the City's existing purchase methods involving a multi-state compact. Once the consultant understood the City's system, the background data on baseline purchases proved helpful in determining how to best pool minutes within the City to save money. BTS staff stated that the City is saving money, and they are looking at how they compile pools to ensure that the savings continue.

**Conclusions and recommendations**

The City of Portland did not do adequate research before it hired a consultant to initiate Strategic Sourcing in the City. The City failed to adequately assess the costs and benefits of hiring a consultant, did not adequately consider its relatively small spending base, and underestimated the importance of having adequate information systems to support the program. In addition, the Bureau of Purchases did not provide sufficient oversight of the consultant's work, and did not ensure that the consultant provided all contract deliverables. As a result, the City was ill-equipped to carry-on Strategic Sourcing once the consultant left the City. We believe that targeted application of Strategic Sourcing can produce savings for the City, as evidenced by successful strategies to lower prices for office supplies, computers, and cell phones. In the future, we recommend that the Bureau of Purchases:

- 1. Ensure contract deliverables are provided before making payments to consultants.**
- 2. Work with City bureaus to evaluate contracts established for complex commodities such as aggregate, asphalt, and industrial water supplies, and revise these contracts as appropriate when the opportunities arise.**
- 3. Develop methods to track commodity spending and cost savings achieved through alternative purchasing strategies.**

# RESPONSES TO THE AUDIT





Office of Mayor Tom Potter  
City of Portland

June 26, 2007

Gary Blackmer, Auditor  
City of Portland  
1221 SW Fourth Avenue  
Portland, Oregon 97204

Dear Auditor Blackmer:

Thank you for the opportunity to review and comment on your audit entitled, "Strategic Sourcing: Projected Savings Not Achieved -- Program Poorly Implemented."

As the Commissioner-in-Charge of the Office of Management and Finance, I am disappointed that the forecast savings under the Strategic Sourcing initiative are lower than projected. Our oversight of this process and the contractors involved appears to fall well short of my expectations.

I will ask Interim CAO Ken Rust and Purchasing Director Jeff Baer to develop a plan for my review that addresses the key conclusions and recommendations in your audit and how they can be best implemented.

Thank you again for the work of your office. I am confident the changes we make will significantly improve the service we provide Portlanders.

Sincerely,

Tom Potter  
Mayor







**CITY OF PORTLAND**  
OFFICE OF MANAGEMENT AND FINANCE

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**Ken Rust, Chief Administrative Officer**  
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Tuesday, June 26, 2007

TO: Gary Blackmer  
City Auditor

FROM: Ken Rust *KLR*  
Interim Chief Administrative Officer

SUBJECT: Formal Response to Strategic Sourcing Audit

Thank you for allowing us the opportunity to respond to your Strategic Sourcing audit report. Strategic Sourcing was promoted by the Office of Management and Finance (OMF) as a new way of doing business within the city. The program looked at using alternative buying arrangements recently authorized by changes in state law while also leveraging the buying power of the City of Portland. The project also required bureaus to work within a city-wide structure of purchases, which was a change to past practice. As with any new or innovative program, there are always risks associated with fully achieving expected benefits or savings. The systems, training, and knowledge transfer requirements needed to make Strategic Sourcing a success provide lessons that can be applied to other similar programs that the City may consider in the future.

We view the audit report as covering two separate issues. The first is the performance of the consultant, Silver Oak. We agree with your audit findings that Silver Oak did not deliver as they had agreed on issues such as tracking savings and knowledge transfer, and they may not have taken into account the complexities involved in the purchase of certain commodities. OMF will work to ensure that its contract compliance systems are in place and that contract managers aggressively monitor vendor performance.

The second issue is whether the Strategic Sourcing initiative produced savings for the City, irrespective of whether they were adequately tracked at the time. We believe that the program achieved significant savings as a result of the purchasing methods used as part of the initiative. For example, the City's contract for computers and servers significantly lowered the unit price for each computer and server purchased by the City. The new contract, which was a direct result of the Strategic Sourcing program, has saved the City hundreds of thousands of dollars

over the last two years, and will continue to do so into the future. We believe that a more exhaustive review would show that while the savings may have fallen short of initial projections, the City as a whole has saved far more than we paid to Silver Oak, and will continue to reap those savings into the future.

OMF agrees with your recommendations and will use the results of this audit to assess the future of the Strategic Sourcing program. We currently have a Strategic Sourcing effort budgeted for FY 2007-08, and we will make any necessary changes to the program in the Fall Budget Monitoring Report.

Cc: Mayor Tom Potter  
OMF Leadership Team



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*Strategic Sourcing: Projected savings not achieved  
– program poorly implemented*

Report #349, July 2007

Audit Team Members: Doug Norman, Kari Guy

This report is intended to promote the best possible management of public resources. This and other audit reports produced by the Audit Services Division are available for viewing on the web at: [www.portlandonline.com/auditor/auditservices](http://www.portlandonline.com/auditor/auditservices). Printed copies can be obtained by contacting the Audit Services Division.

Gary Blackmer, City Auditor  
Drummond Kahn, Director of Audit Services

**Other recent audit reports:**

*Portland Police Sexual Assault Response and Investigation:  
Portland efforts fall short of a victim-centered approach  
(#342, June 2007)*

*Financial Condition in the City of Portland (#326, April  
2007)*

*Pandemic Flu Planning: City bureaus aware of national  
plans (#345, March 2007)*

*City of Portland Service Efforts  
and Accomplishments: 2005-  
06 (#330, December 2006)*

