

A Roadmap to Better Procurement: Performance Management

By Katherine Barrett and Richard Greene

There are few areas of state government more important to finances and operations than procurement. Although there are no aggregated figures for 50-state spending on goods and services, the importance of the state procurement function is demonstrated by the substantial sums posted by individual states. An audit several years ago in Arizona put procurement spending at \$9.8 billion, about 27 percent of the total state budget.¹ An October 2016 report from New Mexico's Legislative Finance Committee estimated the slice of the budget spent on goods and services at as much as \$13 billion out of a total budget of \$18 billion.²

What exactly is covered by the rubric of procurement? Most central procurement offices deal with the kinds of purchases that are utilized state-wide, like furniture, motor vehicles, office supplies, temporary staffing services, and building supplies. Procurement can also be used to extend to major, contracted services like addiction support centers, health care services, complex technology and road construction. The latter group of services are more frequently decentralized, though state-wide offices often have some oversight. One of the key characteristics of state procurement is the wide variation in practice.

The appropriate use of data is key to running this part of government well. In 2015 and 2016, the National Association of State Procurement Officials, or NASPO, published a list of the top priorities for its members. Ranking priorities was a new exercise for the organization and in both years, the technology systems that supply data and the measurement of performance made the top 10 priority list. For 2017, they were listed in the third and fourth spot.³

According to NASPO, good performance measurement and data analytics can help forecast future needs and measure the performance of vendors, which may impact future contracting decisions. It also provides greater transparency to the public on spending decisions, helps reduce prices, improves the state's negotiating position with vendors and leads to changes in purchasing methods.

In Florida, performance measures were used last year to track the training of more than 3,000 individuals throughout the state in contract management.

This task, as directed by the Legislature, allowed the purchasing department to track the number of people who were trained and certified. By the end of December 2016, the department had achieved the Legislature's requirements and remained on track to obtain its goal by resisting scheduling changes.⁴

But measurement of the many different elements that go into procurement is far from simple, even if staffing is in place. Virginia is widely recognized for its long-standing use of technology to track its purchases. But, pinpointing what to measure can be complex. "I'm struggling about what to measure and then how to measure it," said Virginia Procurement Director Robert Gleason.⁵

With increasingly sophisticated technology systems and the ability to track thousands of data points, states are both awash in data and starved for ways to best analyze and utilize it. Improving the analytic skills and abilities of staff is a task every state in the country is working on. "Anyone who is operating in public procurement today has to use data analysis to be able to effectively procure for their customers," Rosalyn Ingram, Florida's chief procurement officer said.⁶

One addition to the many other complications in measuring procurement is the fact that states buy many kinds of goods and services which cannot be measured in the same way. "All contracts are not alike and should neither be awarded nor measured nor managed in similar ways," said Shelley Metzenbaum, a national expert in performance measurement and management and the associate director of performance and personnel management at the Office of Management and Budget under President Obama. "Buying laptops and paper is different than buying a new aircraft."⁷

Opportunities for Improvement

A 2016 procurement report from The Governing Institute analyzed both what states know about their operations and pinpointed the information that is lacking.⁸ The project, which will be repeated every three years, was led by Dugan Petty, senior fellow at the Governing Institute and the Center for Digital Government.⁹ Thirty-seven states responded to an in-depth fall 2015 survey with their comprehensive answers analyzed and assessed by three judges, including Petty and authors of this article. The study found that about three-quarters of the states compiled performance measurement information at least once annually and two-thirds said they utilized measures to inform their organizational and business practices. But overall, the study found the state of the art of performance measurement to be disappointing.

A third of the states in the Governing Institute study did not utilize a performance measurement system to drive or inform organizational procurement or business practices. While they may have had rudimentary performance measurement systems, a third did not share their metrics with stakeholders. Several other specific weaknesses stood out. One was the lack of customer satisfaction data, which was missing from more than half the states.¹⁰ “States were happy to represent that their customers were satisfied, but very few tended to survey their customers,” Petty said. Another clear weakness is only 35 percent of the states had formal systems to track vendor performance and share results.¹¹

One issue typical of performance measurement systems across government was that the measures used are frequently focused on the aspects of procurement that are easiest to measure: how long it takes to process a requisition, for example, or how many requisitions are processed. “That doesn’t equate to what improved outcomes are,” Petty said. “You can say, last year I processed this many transactions and this year I processed 15 percent more and it took 48 days instead of 50, but none of that tells you that you’re utilizing effective procurement solutions. They may be measuring, but are they measuring the right things?”

In his recent procurement memo to national leaders through the National Academy of Public Administration, Harvard professor Steve Kelman selected a handful of critical issues that need special attention. As he and others have observed, in both state and federal procurement procedures, a lion’s share of attention goes to the award process

itself. Often neglected is the post-award period of the contract and the oversight needed to make sure it’s delivering as expected. In the federal government, about 40 percent of discretionary dollars are spent through contracts. Yet, Kelman points out neither the government itself nor the public have solid information on how well procurement performs.¹² The same can be said in many states.

Signs of Progress

Sophisticated data systems provide a promising tool to help states in the measurement task. E-procurement systems and increasingly sophisticated enterprise-wide technology provides states with the ability “to look at the data in a new and more robust way, which then allows state central procurement offices to develop measures that are easily trackable,” said Krista Ferrell, director of strategic programs for NASPO. While perfect solutions to measuring the success of procurement are not yet in sight, “the increase in the technological capacity has really moved the ball forward.”¹³ A 2015 survey of its members by NASPO found that a little more than three-quarters of the 47 responding states had acquired e-procurement systems.¹⁴

Some are quite robust. For example, Virginia’s procurement system provides a wide range of data that tells the procurement office how contracts are being used (or not.) “If there isn’t much traction on a contract, we can dial it back,” Virginia Procurement Director Gleason said. Or, if the data show that the contract is only being used by one agency, then it may require less horse power from the central state procurement office “and we can reallocate our scarce resources.”¹⁵

There is, of course, enormous variation in the technological capabilities of the states. A little less than half of the states told the Governing Institute that they believed technology had improved efficiency and effectiveness while increasing accountability and integrity. Only 35 percent of states surveyed said they could rely on a “robust, up-to-date database of spending information, market metrics, benchmarks and other quantitative information.”

Of course, it’s not just the technology. Taking advantage of new tools depends on having a new kind of procurement professional who understands data analysis.

Georgia has been hiring data analysts to crunch the numbers and do market research. The state targeted young people with math backgrounds. The new team of data analysts were dubbed

“mathletes”—a catchy and immediately understandable designation for employees who enjoy being labeled as math whizzes and have found themselves in high demand for their skills. In 2016, all four “mathletes” were promoted, two internally and two to new jobs outside the purchasing agency. Now a new team is in place. “They’re a tremendous support to us,” said Lisa Eason, deputy commissioner of purchasing in Georgia.¹⁶

Two other important aspects of measurement and evaluation involve states’ efforts at benchmarking and their drive to solicit customer satisfaction information from both vendors and clients. For instance, Florida compares its performance to other large states. Chief Procurement Officer Rosalyn Ingram keeps a constant eye on the prices negotiated in Texas, New York and California. Her goal is to match or surpass their prices whenever she can and beat retail prices in Florida by at least 28 percent. How the state does against retail prices and how it compares to Texas, New York and California “gives me a great yardstick,” she said.¹⁷

Challenges and Solutions

State procurement systems have been in an almost constant state of reform for about three decades. The ever-shifting ground, constant technology advances and their multiple conflicting missions provide ample complications for managers set on effectively measuring what they do.

One clear obstacle to staying abreast of data and technology advances is that technology is changing so rapidly that states can’t keep up with the latest tools. “Technology is old in 10 months,” Ingram said. “We are grappling with that.”

Another key issue is building up support the procurement professionals get from the rest of government, as well as the support from decision-makers. Georgia’s Eason notes that one of her big problems is the data entry mistakes made by customers—the agencies that are using statewide contracts. Knowing exactly who is buying what products helps the state get the best price, as it increases negotiating power. When the codes for a purchase are entered incorrectly, that information is thrown off. “When they don’t do it correctly, we have to use multiple ways to decipher the data we get back,” she said. “It has a huge impact on us.”

To solve this problem, the purchasing office has worked closely with the largest agencies to improve coding and believes it has cut down the error rate by about half. Another tactic is to do audits of agencies to track how accurately they

are coding. Attached to this idea is a plan to offer incentives to agencies that do a good job by sharing some of the rebates that come back from the state’s purchasing card program with agencies that have the best accuracy records.¹⁸

One key to getting support is building up the understanding of the part procurement plays—not just among procurement professionals, but among other government officials and agency staff outside of procurement workers. Many agency customers of central procurement offices still perceive the role of their procurement partners as fundamentally regulatory rather than having a strategic part to play in meeting an agency’s mission. In the Governing Institute survey, only about a quarter of states said that stakeholders perceived procurement to have a critical strategic function that can help reduce the overall cost of government.

One of the biggest obstacles to greater analysis of a state’s procurement information is simply the lack of time available to the procurement staff to engage in measurement, evaluation and analysis of what they do. In the Governing Institute study, 91 percent of respondents from 37 states said they were eager to develop and improve procurement methods, but nearly a quarter said their workloads kept them from trying new approaches, and about a fifth said workload kept them from doing market analysis.

Procurement officials know that evaluation of what they do is critical, but it can’t happen without outside support and it can’t happen just occasionally. “If that’s what you want consistently, you need a procurement organization that is focused on high value outcomes across the board,” Petty said. Beyond that, you also need a clear understanding of the importance of these issues outside of the procurement community. “If we want high performance organizations with effective outcomes, then the leaders in government need to set those expectations.”¹⁹

Notes

¹“Arizona Department of Administration—Department should strengthen its management, support and oversight of the state-wide procurement system,” Arizona Auditor General, March 17, 2015, <https://www.azauditor.gov/reports-publications/state-agencies/administration-department/report/arizona-department-5> (Note: The Arizona audit provides the estimated procurement figure; the total budget for Arizona in FY2014, minus bond funding, was \$35.7 billion, according to the State Expenditure Survey, published by the National Association of State

Budget Officers, Table 1, page 8, [https://higherlogicdownload.s3.amazonaws.com/NASBO/9d2d2db1-c943-4f1b-b750-0fca152d64c2/UploadedImages/SER%20Archive/State%20Expenditure%20Report%20\(Fiscal%202014-2016\)%20-%20S.pdf](https://higherlogicdownload.s3.amazonaws.com/NASBO/9d2d2db1-c943-4f1b-b750-0fca152d64c2/UploadedImages/SER%20Archive/State%20Expenditure%20Report%20(Fiscal%202014-2016)%20-%20S.pdf)).

²⁴“Program Evaluation: Obtaining Value in State Procurement and Issues with Non-Competitive Methods,” New Mexico Legislative Finance Committee, October 27, 2016, https://www.nmlegis.gov/Entity/LFC/Documents/Program_Evaluation_Reports/Obtaining%20Value%20in%20State%20Procurement%20and%20Issues%20with%20Non-Competitive%20Methods.pdf.

³⁴“Top Ten Priorities for State Procurement in 2017,” National Association of State Procurement Officials, January 5, 2017, <https://www.naspo.org/Publications/ArtMID/8806/ArticleID/3408>.

⁴Interview by authors with Rosalyn Ingram, chief procurement officer for the State of Florida, Feb. 9, 2017.

⁵Interview by authors with Gleason, Feb. 1, 2017.

⁶Authors’ interview, Feb. 9, 2017.

⁷Interview by authors with Metzenbaum, Feb. 7, 2017.

⁸Farmer, Liz, “Purchase Power: A Special Report on State Procurement,” *Governing*, February 17, 2016, <http://www.governing.com/topics/finance/gov-procurement-special-report.html> (Note: This is the initial feature article that covered the initial release of the research; the full report will be available in Spring, 2017.)

⁹Dugan Petty has served as both the Chief Information Officer for the State of Oregon and its purchasing manager. He also was formerly the chief procurement officer in Alaska and is currently the education and outreach director for the National Association of State Procurement Officers’ cooperative purchasing arm, ValuePoint.

¹⁰Petty, Dugan, “State Procurement Reform: A Work in Progress,” Virginia Procurement Forum, Nov. 29, 2016, <https://forum.dgs.virginia.gov/assets/m24stateprocurementreform.pdf>.

¹¹Interview by authors with Petty, Feb. 6, 2017.

¹²Kelman, Steve, “Procurement: Focusing on Performance and Results,” 2016 Memos to National Leaders, The National Academy of Public Administration, <http://memo-stoleaders.org/procurement-focusing-performance-and-results>.

¹³Interview by authors with Ferrell, Feb. 6, 2017.

¹⁴Interview by authors with DeLaine Bender, executive director, NASPO, Feb. 15, 2017.

¹⁵Authors’ interview, Feb. 1, 2017.

¹⁶Interview by authors with Eason, Feb. 10, 2017.

¹⁷Authors interview, Feb. 9, 2017.

¹⁸Authors interview, Feb. 10, 2017.

¹⁹Authors interview, Feb. 6, 2017.

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