TOWN OF PALM BEACH

Town Manager's Office

TENTATIVE - SUBJECT TO REVISION

FINANCE AND TAXATION COMMITTEE

AGENDA

TOWN COUNCIL CHAMBERS

THURSDAY, OCTOBER 12, 2017

1:30 P.M.

I. CALL TO ORDER AND ROLL CALL
   Danielle H. Moore, Chair
   Richard M. Kleid, Member

II. PLEDGE OF ALLEGIANCE

III. COMMUNICATIONS FROM CITIZENS - 3 MINUTE LIMIT PLEASE

IV. APPROVAL OF AGENDA

V. REVIEW OF PURCHASING THRESHOLDS AND PROCESS IMPROVEMENTS
   [Dean Mealy, Purchasing Manager and Jane Struder, Finance Director]

VI. ANY OTHER MATTERS

VII. ADJOURNMENT

PLEASE TAKE NOTE:

Disabled persons who need an accommodation in order to participate in the Finance and Taxation Committee Meeting are requested to contact the Town Manager's Office at 838-5410 or through the Florida Relay Service by dialing 1-800-955-8770 for voice callers or 1-800-955-8771 for TDD callers, at least two (2) working days before this meeting.

TOWN OF PALM BEACH

Information for Finance and Taxation Committee Meeting on: October 12, 2017

To: Mayor and Town Council

Via: Thomas G. Bradford, Town Manager

From: Jane Struder, Director of Finance
Dean Mealy, Purchasing Manager

Re: Review of Purchasing Threshold and Process Improvements

Date: October 9, 2017

Background

During the past five months, the Purchasing Division has undergone a change of staffing with the hiring of a new Purchasing Manager and Assistant Purchasing Manager. With a fresh set of eyes, both individuals have reviewed efficiencies and best business practices within the existing policies, procedures and Code. From this review of existing procedures, the new managers have identified efficiencies to promote a leaner process for the procurement of goods and services for the operating departments both using Best Business Practices and Lean Six Sigma process improvements. During the past five months, the Purchasing Staff have identified $143,000 of cost savings by utilizing these methodologies. Some examples include $32,810 for Fire related to purchase of new Self Contained Breathing Apparatus (SCBA), negotiated cost savings of $38,345 for Parking Meters, negotiated cost savings of $35,764 for the Town Docks and $17,816 for the rental of a generator.

Purchasing has identified purchasing thresholds as the first efficiency measure to address and others measures will be reviewed during the next year. The review will have the goal of promoting efficient processes to achieve best value in the procurement for the Town.

The Town participates as a member of the South Florida Cooperative of Governmental Purchasing Chapter of National Institute of Government Purchasing (NIGP). The Chapter recently published a matrix of purchasing thresholds for various municipalities, which has been condensed to reflect surrounding communities and shown in Attachment "A". The majority of respondents reflect a higher monetary threshold to accommodate business models of leaner operations. The Town of Palm Beach has the lowest thresholds. These thresholds have not been changed in over 15 years.

Under the current Town of Palm Beach Code, any item, either goods or services valued greater than $25,000 and $100,000 for construction must be presented to Town Council by means of an agenda item in Novus and a resolution. The process is time consuming and requires multi-level review before presentation to the Council. The user department creates the backup, the Department Director has to review and approve, and the items are then forwarded to Purchasing, Finance, the Town Attorney and Town Manager for review, comments and subsequent approvals.

Florida State Statue 287.017 referencing competitive solicitations require any amount above $35,000, to be competitively bid via an Invitation to Bid, Request for Proposal, and Request for Qualification or Invitation

to Negotiate. In review of the local municipal thresholds, the majority are set between state levels of $35,000 and $65,000. Currently the Town's Town Council approval threshold and the formal sealed bid threshold is Electrical and Vehicles at $50,000 and above, Construction Projects at $100,000 and above, and all other purchases for goods or services at $25,000 and above.

Staff is proposing changes in the Town's purchasing thresholds. The proposed changes are listed in the chart below and compared against the current thresholds. For the purpose of this report, two years of purchase orders were reviewed against current thresholds. During the past two years, the Town Manager has had to review and approve 16% of all requisitions vs. 2% under the proposed purchasing threshold and the Town Council would reduce to 5% from the current 9%.

Current Threshold	Total	%	Final Approver	**Proposed Threshold**	Total	%	Proposed Final Approver
<$1,000	1890	50%	Purchasing Mgr.	<$2,500	2436	65%	Purchasing Mgr.
$1,000-$1,999	405	11%	Purchasing Mgr.	$2,500-$34,999	1052	28%	Purchasing Mgr.
$2,000-$4,999	534	14%	Purchasing Mgr.	$35,000-$64,999	93	2%	Town Manager
$5,000-$24,999	595	16%	Town Manager	$65,000 and up	183	5%	Town Council
$25,000 and up	340	9%	Town Council				
Total	3,764			Total	3,764		

Additionally, the current requirement for a competitive quote is established at over $1,000 in the purchasing manual. It recommended to move the minimum amount to $2,499 which is in line with other municipalities. This new threshold for competitive quotes would address 65% of all solicitations made by end users within the Town without significantly compromising savings.

Recommendation

It is recommended that the Town adopt a standard for purchasing thresholds that meet operational requirements of the user departments that promote lean operations while maintaining the highest standards for audit. The matrix on the following pages contains the current and the proposed purchasing thresholds.

By increasing the approval threshold for the purchasing manager up to the state identified threshold for competitive bid of $35,000, 93% of all requisitions would be processed within purchasing at the final level. This will enable a more streamlined approach to the management of requisitions. It should be noted that requisitions would still be processed with a review by Finance as well as the respective Department Head review and approval before being processed by purchasing.

The existing Town Purchasing Manual is currently under review and if approved will reflect the proposed threshold changes as well as additional guidance for best utilization of Town Purchasing staff. Palm Beach Code, Section 2-566 would have to be modified related to existing threshold amounts.

The goal of the Purchasing Division has been to identify efficiencies to promote leaner processes for purchasing goods and services for the operating departments.

By approving the recommendations put forth, the following efficiencies will be achieved:

- Increasing one quote from $1,000 to $2,500 which will enable user departments to spend less time securing quotes. This will also enable purchase orders to be processed faster to obtain the goods and services from purchasing. Purchasing will continue to benchmark best value by reviewing all submitted quotes to ensure best value.

- Increasing the quote threshold to allow user departments to solicit quotes for larger ticket items costing from $2,500 to $9,999. The majority of all purchases processed by purchasing fall within this category. This will expedite the timeline to secure the goods or services. Note, that purchasing will still verify pricing submitted to ensure that best value is obtained for the Town.
- Increases to the approval thresholds for Purchasing Manager and Town Manager to be in line with other local municipalities. The increase to $34,999 for the Purchasing Manager and $64,999 for the Town Manager will enable faster turnaround for the user agencies. The Town has sound internal controls within Eden to ensure review of all purchases. All purchase requisitions are reviewed by a variety of staff, from Department Directors or designee, Town Manager, Purchasing, and Finance to ensure compliance with policy and budget.
- Increase of threshold from $25,000 to $65,000 for Town Council review will eliminate many of the Council agenda backup items required. Utilizing the last two years of statistics, 157 less backup items would have to be created. Staff time and Town Attorney time would be reflect a cost savings to the Town. On average two hours are spent creating an agenda package including the resolution by the user department, at least thirty minutes for Department Director to review and approve, at least thirty minutes for purchasing, at least thirty minutes for finance to review and at lease thirty minutes or more depending on contract backup for the Town Attorney. This represents an estimated 273 hours of time could be refocused annually.

The following table reflects proposed changes to the existing thresholds.

Current Purchase Amount	Current Procurement Procedure	Current Approval Authorization	Proposed Purchase Amount	Proposed Procurement Procedure	Proposed Approval Authorization	Comments
Less Than $1,000	Open Market Department shall provide one (1) quote verbal or written	Purchasing Manager	Less Than $2,499	Open Market (One Quote) Department shall secure quote	Purchasing Manager	Requesting change of cap from $1,000 to $2,499.
$1,001 - $1,999	Two (2) written quotes, department shall provide quote	Purchasing Manager	N/A – collapsed to next threshold	N/A – collapsed to next threshold	N/A – collapsed to next threshold	Delete this threshold as the following incorporates these amounts
$2,000 - $4,999	Three (3) written quotes, purchasing shall secure quotes	Purchasing Manager	$2,500 to $9,999	Three (3) Written Quotes; Department shall secure quote between $2,500 and $9,999.	Purchasing Manager	Requesting change of cap from $4,999 to $9,999
$5,000- $25,000	Three (3) written quotes, purchasing shall secure quotes	Town Manager	$10,000-$34,999	Three (3) Written Quotes; Purchasing shall acquire quotes.	Purchasing Manager	Requesting change of cap from $25,000 to $34,999. The $34,999 cap is in line with State Statue 287.017 for permitting a formal sealed bid. Additionally requesting change of approver from Town Manager to Purchasing Manager to this threshold. Purchasing will produce monthly report of all awards with new threshold.

N/A – requested new threshold	N/A	N/A	$35,000 to $64,999 (non-construction)	Formal Sealed Bid, Invitation to Bid, Request for Qualification or Request for Proposal. Secured by Purchasing.	Town Manager	Requesting change of cap from $24,999 to $64,999 for Town Manager which is in line with Palm Beach Gardens and Delray Beach.
N/A – requested new threshold	N/A	N/A	Over $65,000 (non-construction)	Formal Sealed Bid, Invitation to Bid, Request for Qualification or Request for Proposal. Secured by Purchasing.	Town Council	Requesting change of authorization from $25,000 to greater than $65,000 for non-construction to Town Council. Palm Beach Gardens and City of Delray Beach have changed threshold for council review to greater than $65,000 and allow Manager to approve to that threshold.
Electrical Projects and Vehicles: $5,000 - $49,999 Construction Projects: $5,000 - $99,999 All Other Purchases: $5,000 - $24,999	Three (3) written quotes secured by purchasing	Town Manager	Construction Projects: $35,000 - $99,999	Three (3) written quotes secured by purchasing. Secured by Purchasing.	Town Manager	Eliminate the following language: Electrical Projects and Vehicles; $5,000 - $49,999 and All Other Purchases: $5,000 - $24,999 as it is now covered by new authorization threshold for Town Manager. Modify construction project language from $5,000 to $99,000 to read $35, 000 to $99,000.
Electrical Projects and Vehicles: More than $50,000 Construction Projects: More than $100,000 All Other Purchases: More than $25,000	Formal Sealed Bid	Town Council	Construction Projects: More than $100,000	Formal Sealed Bid, Invitation to Bid, Request for Qualification or Request for Proposal. Secured by Purchasing.	Town Council	Eliminate the following language: Electrical Projects and Vehicles: More than $50,000 and All Other Purchases: More than $25,000 as it is now covered by new authorization for Town Council. Maintain language of construction for greater than $100,000

The Town has numerous Internal Controls within the ERP Software whereby the requesting program manager and department director must review the majority of purchases. Finance reviews all requests over $1,500 for Information Technology purchases and $2,500 for general commodities and services to ensure proper account designation and that budget exists to proceed. These steps are completed before purchasing can approve and generate a requisition.

Staff looks forward to discussing this matter with the Finance and Taxation Committee and ultimately the Town Council.

Attachment A – Summary of SE Florida NIGP Comparative Study of Thresholds

Cooperative Survey							
	Town of Palm Beach	**Boca Raton**	**City of Palm Beach Gardens**	**City of Delray Beach**	**Town of Jupiter** (see note 3)	**Village of Wellington**	**City of West Palm Beach**
What is the threshold for a non-competitive quote	under 1,000	5,000	2,500	under 2,500	under $2,500	under 2,499	10,000
What is the threshold for a competitive quote	1,000-25,000	5000-49,999	greater than 2500	$2,500-$64,999	25,000	2,500 to 25,000	10,000-50,000 and 100,000 for construction
Who obtains the quotes, Purchasing or the end-user Department	End User and Purchasing	End User under 5, Purchasing	End User & Purchasing	End user < $10K, Purchasing >10K	user department	End User and Purchasing	end user and purchasing
What is the threshold for an advertised competitive bid	25/50/100 (See note 2)	25/50/100 (See note 1)	10,000	64,999	49,999	25,000	greater than 50,000 and 100, 000 for construction
What is city/town/village manager threshold	25/50/100 (See note 2)	49,999	64,999	64,999	49,999	25,000	50,000 and 100,000 for construction
What is the threshold for Council/Commission approval	25/50/100 (See note 2)	50,000	65,000	65,000	50,000	25,000	greater than 50,000 and 100,000 for construction
Notes:							
1) 25,000 Term Contract, 50,000 Services/Supplies, 100,000 Construction						Village of Wellington is currently reviewing threshold approval.	
2) 25,000 Services/Supplies, 50,000 Vehicles & Electrical Construction , 100,000 Construction							
3) Town of Jupiter does not participate in SE FL NIGP, thresholds pulled from their website							

FINANCE AND TAXATION COMMITTEE MEETING
OCTOBER 12, 2017
1:30 P.M.

PROCESS IMPROVEMENT – PURCHASING THRESHOLDS

Efficiencies and Process Improvement

Purchasing is reviewing processes with the goal of eliminating unnecessary operating steps that provide no value or are duplicated within the procedure(s).

- To accomplish this task, **Best Business Modeling** and **Six Sigma** principals are being utilized to achieve optimal results.

Six Sigma is recognized world-wide as a metric to review existing processes and eliminate waste by identifying unnecessary processes utilizing the following tools:

- **Define** the goals of the improvement activity.
- **Measure** the existing system.
- **Analyze** the system to identify ways to eliminate the gap between the current performance of the system or process and the desired goal.
- **Improve** the system.
- **Control** the new system.

Improvement Accomplishments To-Date

- Outreach to user departments to learn both short and long term needs with goal of providing best value contracts to Town.
- Eliminated printing of purchase orders generated daily, time spent faxing to vendors and replaced with system generated purchase order sent via email after final approval in Eden.
- Reviewed slow moving inventory in stock and coordinated review with user departments. Approximately 40% of the inventory was identified as obsolete.
- Contracted with Public Surplus to auction obsolete fleet and equipment with goal of increasing surplus revenue by 20%. The Town has previously utilized the County Thrift Store for sale of equipment which only had a local Palm Beach County audience. Public Surplus will give access to two continents for sale of equipment.
- Have worked with provider of online services for the posting of bids (ITB's) to electronically receive them vs. mailing them in which will provide greater transparency.
- Identified cost savings of $143,321 since May 22, 2017. Several examples include $32,810 for Fire related to the purchase of their new Self Contained Breathing Apparatus, Negotiated cost savings of $38,345 for the Parking Meters, Negotiated cost savings of $35,764 for the Town Docks and $17,816.25 for the rental of a generator.
- Switched boxed paper from Office Depot to 20 weight which will represent a cost savings of $10 a box. This began October 1st.

Process Improvements In Process

- Several of the first processes being reviewed are:
  - Purchasing Thresholds to provide a quicker and more efficient process for ordering goods and services.
  - How inventory parts are purchased and maintained in the central storeroom.
  - P-card – The Town will be implementing new a new purchasing card system to provide better internal controls, track commodity purchases and for the Town to obtain annual rebate for use of card.

Improvements for the Future

- Just in Time Inventory (JIT) – goal is to reduce inventory to 50% of current stock levels.
- Build a solid negotiation team to review proposals and obtain cost savings to Town. - Negotiation training later in October.
- Best value in solicitations. It will be the goal of purchasing to review all needs and solicit bids to gain best advantage. Purchasing has recently been focusing procurement of goods and services by commodity code. In some cases it may be more efficient for the Town to have one supplier vs. several. As single provider contracts are rolled out, it would be the goal to negotiate pricing and discounts to be the most advantageous to the Town.
- It will be the goal to meet with user departments to understand their needs and to develop bids, RFP's and RFQ's collaboratively using best procurement methodologies and take a fresh look at all contracts. All solicitations should be reviewed; explore options and develop scopes of work that will benefit the long term needs of the Town.
- Annual performance evaluation for all vendors.

Efficiency and Process Improvement

Purchasing is recommending streamlining the approval threshold for the Purchasing Manager, Town Manager and Town Council based on the SE Florida National Institute of Government Purchasing Survey (NIGP).

Recommended Change	Efficiencies Gained
Increase Purchasing Manager threshold for requisitions and contracts from $4,999 to $34,999 (the current threshold is $4,999 for the Purchasing Manager)	Currently Purchasing Manager approves 65% of all requisitions, the requested change will change that amount to 93%. Requisitions will be able to be processed faster enabling staff to complete work more efficiently.
Increase Town Manager threshold for requisitions and contracts from $25,000 to $64,999 (the current threshold is $24,999 for Town Manager)	Currently the Town Manager approves 16% of all requisitions, the requested change will change that amount to 2%. Streamlining the approval process will provide greater efficiency. The requisition will have already been reviewed by purchasing agent, department manager or director, Finance and Purchasing Manager.
Increase Town Council threshold for all new requisitions, contracts and renewals for amounts greater than $65,000 (the current threshold is $25,000 or greater for Town Council)	The Town Council currently reviews 9% of all requisitions and contracts. The requested change would decrease the amount to 5%.

Efficiencies To Be Achieved by Change of Threshold

Recommended Changes	Efficiencies Gained
Increase one quote threshold from $1,000 to $2,500 that user departments secure	User departments will spend less time securing quotes for goods or services. This will allow requisitions and purchase orders to be processed faster to obtain necessary goods and services. Note that purchasing will still verify pricing submitted to ensure that best value is obtained for Town.
Increase quote threshold to $2,500 to $9,999 that user departments secure	The majority of all purchases processed by purchasing fall within this category. This will expedite the timeline to secure the goods or services. Note that purchasing will still verify pricing submitted to ensure that best value is obtained for the Town.
Increase approval threshold for Purchasing Manager, Town Manager and Town Council	Increase to approval thresholds would bring us in line with other local municipalities. User departments would benefit by expedited approval process. The Town has sound internal controls within Eden to ensure review of all purchases. Process would provide streamlined approach to approvals.

Highlight of Efficiencies Gained by Change of Threshold

- Town Council approves the operating and capital budgets when the budget is reviewed and approved. By eliminating agenda items less than $65,000, a reduction of approximately 90 agenda items would be achieved.
- Based on a review of the last two years of agenda and resolution backup, if the change of threshold was increased to $65,000, approximately **273 hours of time could be reallocated to other tasks annually**. This includes the time for the administrative staff that prepare the backup, and the time of the Department Directors, Program Managers, Purchasing Manager, Finance Director, Town Attorney and Town Manager review of the Town Council backup.
- Changing the threshold for obtaining one quote to $2,500 would represent a savings of an estimated **300 hours of labor hours** by operating departments, without significantly compromising potential cost savings.
- The time savings can be reallocated to other efficiency measures that departments may wish to pursue. Purchasing staff time would be allocated to do more research on consolidation of commodities and other initiatives to save costs throughout the Town.

Between June 27, 2015 and June 27, 2017, the Town processed 3,764 Purchase Orders. The chart reflects percentage of change creating greater efficiency for user departments/division/purchasing.

Current Threshold Dollar Amount	Total No. of Purchase Orders	%	Current Approver	Proposed Threshold Dollar Amount	Total No. of Purchase Orders	%	Proposed Approver
<$999	1890	50%	Purchasing Mgr.	<$2,500	2436	65%	Purchasing Mgr.
$1,000 - $4,999	939	25%	Purchasing Mgr.	$2,500 - $34,999	1052	28%	Purchasing Mgr.
$5,000 - $24,999	595	16%	Town Manager	$35,000 - $64,999	93	2%	Town Manager
>$25,000	340	9%	Town Council	>$65,000	183	5%	Town Council

SE Chapter of NIGP Purchasing Threshold Comparison 2017 Study

Cooperative Survey	Town of Palm Beach	Boca Raton	City of Palm Beach Gardens	City of Delray Beach	Town of Jupiter (see note 3)	Village of Wellington	City of West Palm Beach
What is the threshold for a non-competitive quote	under 1,000	5,000	2,500	under 2,500	under $2,500	under 2,499	10,000
What is the threshold for a competitive quote	1,000-25,000	5000-49,999	greater than 2500	$2,500-$64,999	25,000	2,500 to 25,000	10,000-50,000 and 100,000 for construction
Who obtains the quotes, Purchasing or the end-user Department	End User and Purchasing	End User under 5, Purchasing	End User & Purchasing	End user < $10K, Purchasing >10K	user department	End User and Purchasing	end user and purchasing
What is the threshold for an advertised competitive bid	25/50/100 (See note 2)	25/50/100 (See note 1)	10,000	64,999	49,999	25,000	greater than 50,000 and 100, 000 for construction
What is city/town/village manager threshold	25/50/100 (See note 2)	49,999	64,999	64,999	49,999	25,000	50,000 and 100,000 for construction
What is the threshold for Council/Commission approval	25/50/100 (See note 2)	50,000	65,000	65,000	50,000	25,000	greater than 50,000 and 100,000 for construction

Notes:

1) 25,000 Term Contract, 50,000 Services/Supplies, 100,000 Construction

2) 25,000 Services/Supplies, 50,000 Vehicles & Electrical Construction , 100,000 Construction

3) Town of Jupiter does not participate in SE FL NIGP, thresholds pulled from their website

Village of Wellington is currently reviewing threshold approval.

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Internal Controls/ Check and Balances

All purchases for goods and services are processed by means of a requisition before a purchase order can be issued within the ERP Software, Tyler Eden regardless of dollar amount.

For the majority of requisition approvals, the requesting employee's supervisor, the division manager, department director have to approve the requisition before it can be sent to purchasing for processing.

Once purchasing approves the requisition within Eden, the requisition is forwarded electronically to Finance, and depending on amount, Town Manager for approval.

- Finance verifies if the budget exists to move the requisition forward for approval and reviews whether the item is a capital asset for asset tracking. Finance reviews Information Technology purchases greater than $1,500 and general commodities and services valued at $2,500 or more.
- Purchasing verifies if the appropriate vendor was contacted for quote and that all subsequent paperwork is properly attached to requisition to ensure a good audit trail. More importantly, purchasing ensures that competition for goods and services is sought.

Next Steps

Section 2-566, Code of Ordinances would need to be modified. The Code currently states dollar thresholds for construction as well as commodities and services.

Other local municipalities have modified their Code to reference procedure manual for threshold amounts vs. within Code.

- The National Institute of Government Purchasing (NIGP) recommends placing approval thresholds within the Purchasing Manual as they are easier to modify as business models and technology advances change. Any future changes would still be reviewed and approved by the Town Council.