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By David Yarkin

It's not an exaggeration to say that on April 24, 2007, the eyes of the government procurement world were on Washington. That was the day that the new mayor, Adrian Fenty, announced that he was appointing David Gragan to be the district's chief procurement officer.

For years, the district was notorious in the procurement community for being a challenging place to work. In recent years, audits by the District of Columbia government and the federal government's Government Accountability

Office (GAO) unearthed significant structural and cultural problems within the district's procurement operations. The GAO, renowned for its dispassionate analyses, best summed up the system that Gragan would inherit in the title of its report: "District of Columbia Procurement System Needs Major Reform."

No one was as intimately familiar with the district's dysfunctional procurement system than City Administrator Dan Tangherlini, who served as co-chairman of Fenty's mayoral transition team. A hands-on department head who held a variety of leadership roles in Washington—including general manager of the Washington Metropolitan Area Transit Authority and director of the District Department of Transportation—Tangherlini was well-aware of the procurement department's shortcomings.

"My two biggest problems as an agency head were personnel and procurement. One of the reasons I was excited to come back as city administrator was to help change those two areas," Tangherlini said. "Along with our outstanding personnel director, we now have David, a nationally respected leader and the kind of change

How the district's Office of Contracting and Procurement derailed—and how it plans to get back on track

agent to fix one of our two core supporting processes. David has a missionary zeal to fix procurement.”

The 70-page GAO report on the district’s procurement operations catalogues a list of practices that would make public procurement officials shudder: multiple-award schedules; broad sole-source authority; legislators awarding contracts; agencies exempted from the procurement rules; buyers with limited commodity specialization; abnormally long cycle times; and constant turnover in leadership positions.

Into this environment stepped Gragan, one of the most experienced and respected public procurement practitioners in the nation. When Gragan arrived, the question on the minds of procurement officials across the country and stakeholders in the District of Columbia was simple: “Can Gragan reform such a dysfunctional system?”

‘Paying close to retail prices’

According to Gragan, Fenty was cognizant of the problems in the Office of Contracting and Procurement (OCP) from his years as a member of the Council of the District of Columbia City.

“His attitude when he became mayor was, ‘We better fix it,’” Gragan said. “The mayor hired me to correct the things that surfaced in the GAO’s findings.” Showing the reformer’s optimism, Gragan added: “When we do, I hope that cities across the country will look at Washington as a model for other cities and will want to study what we have done.”

One of the first things that Gragan did was issue a solicitation to hire consultants to methodically review the district’s procurement operations. The district awarded the contract to the National Institute of Governmental Purchasing’s Procurement Management Assistance Program (PMAP). The PMAP report gave Gragan a fairly exhaustive list of areas for concern from a chief procurement officer’s perspective and a roadmap for reform.

The PMAP report pointed to severe organizational challenges.

“We were oriented around agencies, not commodities,” Gragan said. “Our buyers were assigned to procure goods and services for departments. The buyer who buys complex multimillion-dollar technology systems for the Unified Communications Center is also responsible for buying furniture. He certainly can’t be an expert in both IT systems and chairs. So when he is asked to buy chairs, he can’t do it as well as a buyer whose only responsibility is to buy furniture. It is no coincidence that at the UCC today, we have chairs that are literally breaking.”

“Organizing by agency rather than commodity is an old-fashioned and well-known poor practice. Like all central procurement organizations, we have a dual mission: Facilitate agencies getting the goods and services

they need, while at the same time controlling expenditures. The public’s interest is protected by the control function. It seems we had focused on making buying easy at the expense of exercising appropriate control of contracting on a citywide and aggregated basis.”

The department-facing organizational structure also made enterprisewide strategic-sourcing initiatives more challenging. The UCC procurement officer who was buying chairs on a certain day would have no idea that his colleagues who serve the Police Department or the Department of Mental Health may be buying chairs the next. As a result, the district was unable to capture the needs of all of its agencies and go to market in a single procurement.

“Rather than having a paper contract, for example, with pricing that reflects the buying power of every agency that uses paper, we are basically buying paper in small volumes for single customers over and over again,” Gragan said. “We are paying close to retail prices for many of the things we buy.”

‘The only game in town’

Less than three months after the PMAP review was completed, Gragan took a decisive step to fix the organizational problem that has plagued district procurement for years. He began a wholesale reorganization of the Office of Contracting and Procurement by creating commodity teams of buyers organized according to the types of commodities that they procured rather than the types of customers that they served.

On Gragan’s first day on the job, he asked his staff



“We are paying close to retail prices for many of the things we buy.”

—David Gragan, chief procurement officer for the District of Columbia

something that any new chief procurement officer would ask: “Give me a list of all our citywide term contracts.” While most entities the size of the D.C. government have at least a hundred contracts for high-spend, commonly used commodities that are needed by multiple agencies, Gragan was shocked to learn that very few existed in the district.

Instead, buyers in the OCP relied on a number of rela-



tively uncompetitive contracting processes to buy goods and services for their customers. For any orders smaller than \$100,000, buyers used the D.C. Supply Schedule (DCSS). The DCSS is a multiple-award schedule made up of local small disadvantaged business enterprises. As part of the process, buyers must solicit three firms from the DCSS and utilize the firm with the lowest quote. However, buyers often would receive only one acceptable quote and consider that a good procurement—without going back to the competitive marketplace to ensure that they were receiving truly competitive pricing.

Upon learning of this common practice within the OCP, Gragan immediately issued a directive to his staff that three “live” quotes had to be received for all procurements using the D.C. Supply Schedule.

Ann Calvaresi Barr, director of acquisition and sourcing



Even Einstein would be hard-pressed to understand why District of Columbia law grants such broad sole-source authority to district procurement.

management at the GAO, was skeptical that the D.C. Supply Schedule offered the type of vigorous competition that a public entity should ensure.

“Just because you buy off D.C. Supply Schedule doesn’t mean you have adequate competition,” Calvaresi Barr asserted. “We found a number of examples where one firm was listed as the only game in town.”

Broad sole-source authority

While Gragan’s change will limit the number of DCSS procurements in which a single supplier is chosen without meaningful competition, D.C. procurement law gives broad authority to make explicitly sole-source awards.

Public procurement officials will concede that sole-source authority is a needed option when the requirements of a procurement are so specific and rare that only one firm can perform the work. However, it is the vowed mission of most chief procurement officers to keep the number of sole sources to a minimum for a fairly obvious reason. As protectors of the public trust, CPOs have a responsibility to ensure that competition exists and that

the taxpayers get the best deal possible. When a supplier is granted a sole source, there is little incentive to ensure the most aggressive pricing.

The GAO report details three separate provisions allowed by D.C. law to make sole-source awards.

The first provision allowing a sole source is that only one supplier, referred to as a “single available source,” can provide the good or service requested.

The second provision enables the OCP to grant a sole-source award for a good or service that ordinarily would be competitively procured but cannot be because of a declared emergency. The emergency procurement provision is typical in most public procurement organizations and set off no red flags with the entities that reviewed the OCP’s operations. The single-source provision also is typical and unlikely to create much controversy, provided that each

procurement is thoroughly researched to ensure that no competing supplier could provide the good or service.

However, the third provision flies in the face of generally accepted procurement practices. It has two parts. The first part allows the OCP to grant a sole-source award to a supplier that holds a contract with any federal agency.

The second part is even more egregious. It allows the OCP to contract on a sole-source basis with any vendor that agrees to match the pricing of another vendor on a federal contract. This means that even if there is a robust supply base that could meet the district’s needs, a company that has no contractual relationship with the district or with any government can win a no-bid contract simply by

matching the price of any supplier on a federal contract or schedule.

As those familiar with the GSA schedules can attest, the pricing on the schedules usually is fairly high, because users of the contract are expected to negotiate the prices down. But in Washington, the published GSA price was the price that the district paid.

Washington’s broad sole-source authority was particularly perplexing to the GAO.

“We have seen no other jurisdiction with sole-source rules as broad as those in Washington,” Calvaresi Barr said. “The district stands out as a one-and-only in this case.”

Given the liberal sole-source rules allowed by the district, it’s no wonder that there have been so many sole sources approved by Gragan’s predecessors.

The GAO reported that in fiscal 2005, the district awarded 700 sole-source contracts, collectively worth \$173.2 million. Of those sole-source contracts, 402 contracts (57 percent of all sole sources awarded, totaling \$92.5 million in value) fell into the third category in which multiple suppliers could have competed for the contract and no emergency existed.



Limited negotiation using GSA schedules

Because of the District of Columbia’s unique status as the nation’s capital, it is able to access GSA schedules that other cities and states cannot. While this could be an invaluable tool for the OCP if used strategically, it has become a crutch instead. OCP buyers use the D.C. Supply Schedule—with all its inherent problems—for purchases under \$100,000, but they use GSA schedules for many purchases over \$100,000 that have not gone through the sole-source process.

While using the GSA schedule undoubtedly is easier than developing one’s own solicitation and managing a procurement, the PMAP report concluded that for the GSA schedule—like the D.C. Supply Schedule—“competition is limited and there is little incentive for a supplier to offer its best price.”

“Although we would get three quotes from GSA vendors, we typically just accepted the GSA price,” Gragan said.

In a brutally honest assessment, Gragan asserted that the modus operandi of most OCP buyers has been to take the path of least resistance when procuring goods and services.

“Behavior at the buying level leans toward what is convenient as opposed to what is correct—which is squeezing every dollar of public money,” Gragan said. “We often use these vehicles without thinking. Our approach hasn’t been, ‘Let’s be a tough and demanding customer in the face of our suppliers.’ Instead, it’s exactly the opposite.”



The district’s unique status as the nation’s capital—which enables it to access GSA schedules that other cities and states cannot—has become a crutch rather than an advantage.

A shift from multiple-year term contracts

Even with a slew of processes and contract vehicles at their disposal to speed up the procurement process, OCP staff is exceptionally busy and has had a difficult time keeping up with the workload. As discussed earlier, part of the problem stems from the old organizational structure that forced an OCP buyer to procure all goods and services on a “one-off” basis when the agency that he or she served had a requirement.

In part, the problem was caused by the OCP’s shift away from multiple-year term contracts. The preference for one-year contracts was due in part to statute that required city council approval for any contract longer than a year, regardless of the dollar value. Data collected by PMAP illustrates the fact that the OCP has been consumed by scores of high-volume, low-dollar transactions. Purchase orders of less than \$5,000 represent more than 50 percent of the district’s transactions but less than 5 percent of its total spend.

Most well-run procurement organizations will establish multiple-year contracts (five years is fairly standard these days) for everything from office supplies to IT services. A multiple-year contract allows a supplier to amortize its costs over a longer period of time and give the government

a lower price. In addition, while a multiple-year contract still requires regular contract management efforts, it frees the government buyer from having to run a time-consuming procurement every year.

In the case of the District of Columbia, anecdotal and empirical evidence paints the picture of a procurement organization that is overtaxed by the need to run procurements over and over and over again in the same year for the same commodity. When it has to go out to bid, the district’s cycle time is an order of magnitude slower than comparable government organizations. The PMAP’s analysis found that the number of calendar days required for an invitation for bid and request for proposal (RFP)

were double the time required by other governments.

“We simply have to get procurement out of doing onesies and twosies,” Tangherlini said. “They need to be more proactive in looking for opportunities to conduct procurements that could serve multiple agencies over multiple years. If an agency asks for a one-year contract for lawn mowing, the buyer needs to ask if the lawn is going away after a year.”

Symptomatic of the OCP’s slow pace is the district’s “letter contracts.” The agency sometimes sends letters to a supplier informing the supplier that a contract is forthcoming but not prepared yet. The letter itself binds the district to pay for goods or services provided by the supplier. Even a seasoned procurement professional such as Gragan said that he had never heard of such a practice before his arrival at the OCP.

Frustration among stakeholders

While the OCP has been empowered to manage procurements for all agencies, in recent years the department’s shortcomings have generated frustration among some department heads and members



of city council—which has served to undermine the chief procurement officer’s authority.

The GAO report cites an instance in 2006 when the director of the district Department of Health was given an exemption from the competitive procurement regulations to award a contract to perform an air-quality study at a local park. Another exemption was granted in 2006 to allow the Department of Youth Rehabilitation Services to contract for the construction of a youth center without going through the district’s competitive procurement processes.

“We found that procurement law doesn’t apply to all entities in the district,” GAO’s Calvaresi Barr said. “That’s a big red flag. If some agencies follow different rules, that’s a problem.”

Reasons for optimism start at the top

The litany of problems laid bare by the GAO and PMAP reports and by Gragan’s own assessment are enough to overwhelm the most optimistic procurement change agent. Still, even with so many challenges plaguing the OCP, there are plenty of reasons to be optimistic about the agency’s future.

The first reason to be optimistic is Gragan himself. Gragan has had a long and storied career as a first-rate manager and innovator inside and outside of public procurement. He is one of a handful of individuals to be the chief procurement officer of two states (Indiana and Texas). He consulted with state and local governments on technology and strategic-sourcing efforts with top-notch consulting and IT firms such as Oracle, Accenture and CGI.

One Washington newspaper hailed his appointment with the headline: “Procurement chief nominee long on experience.”

“David is a no-nonsense guy who is incredibly ethical. He knows what is right and what is wrong,” asserted Jeff Holden, director of the Office of Procurement Management in South Dakota and president of the National Association of State Procurement Officials. “Dave is the consummate public procurement professional who has the respect of his peers. Part of his strength comes from having been on both sides of procurement as a state director and a supplier. If there’s anyone who can get a public procurement system moving in the right direction, it’s Dave.”

Douglas Richins, chief procurement officer for the state of Utah and the dean of state procurement officials, testified on Gragan’s behalf at the time of his council appointment hearings. In a letter to D.C. Councilwoman Carol Schwartz, Richins called Gragan, “a professional giant among his peers,” “one of the finest public procurement professionals in the nation” and “a beacon of integrity.”

Richins closed his letter with the ultimate complement: “There is not a better candidate and fit for this position to be found anywhere in the world.”

Officials from the GAO who were quite critical of past practices at the OCP lavished praise on Gragan—and on Fenty for recruiting him. “We were highly encouraged that the mayor recognized the need to bring someone in with the right kinds of credentials like David Gragan,” the

GAO said. “I don’t think anyone could look at his background and not think he was a terrific hire.”

‘Invisible muscle’

As every public procurement official knows, the most important ingredient for success in leading an overhaul is support from above. The GAO report noted that one of the reasons problems festered within the OCP was because the procurement director was lower on the organizational chart than the agency heads that he served. Often, he lacked the clout to carry out his mission, the report concluded.

Fenty adopted the GAO’s recommendation that the chief procurement officer role needed to be elevated to a cabinet-level post. After a decade that saw five procurement directors come and go, Gragan’s appointment brings some stability to the department’s leadership. As the first chief procurement officer confirmed by the city council in years, Gragan’s efforts to reform district purchasing are backed by the mayor and city council—providing what Gragan called “invisible muscle.”

Tangherlini has helped provide that muscle. In the past, when something went wrong, the OCP and its customer agency would blame each other for the failure, Tangherlini explained. As a result of constantly being the scapegoats, staff members at the OCP would find the fastest way—not necessarily the best way—to procure products and services for their customer agencies. “My job now is to support Dave so procurement can’t be blamed,” Tangherlini said.

“[Gragan’s] people have to be confident in their abilities so they won’t succumb to the temptation to go in through the back door,” Tangherlini said. “By doing better planning and getting the agency heads invested in what David is trying to do, they will have the time to do procurements the right way and to stop doing so many sole sources.”

Gragan credited Fenty with creating an environment that is designed to enable him and his fellow department heads to succeed.

“This mayor is progressive and intent upon change, passionate and dedicated to making this city truly the nation’s capital in every sense,” Gragan said.

Gragan is adept not only at diagnosing the illnesses that plague D.C. procurement but also at prescribing the fixes. His ambitions are to fix everything at once. However, he is realistic that change cannot occur overnight.

“I find it hard to accept that reforms are going to take time,” Gragan said. “I want to snap my finger and do it immediately. But I first need to build a team of stakeholders who will be supportive of these changes—from city council members to my staff to my customers.”

Using the Web to provide transparency

While Gragan understands that comprehensive change takes time, he is eager to begin making that change piece by piece. His first major action—reorganizing the department from an agency-oriented structure to a commodity-oriented structure—is

under way. The OCP is in the process of establishing its first citywide term contracts to replace the dozens of small purchase orders in a given commodity, which previously was standard operating procedure.

Gragan knew that another problem in the district was the perception that the procurement process lacked transparency. Consequently, the first step he took was to webcast bid openings and post them online to enable suppliers, the media and the general public to see firsthand that awards were made in accordance with the district's protocols.

To provide great transparency and the opportunity for collaboration, Gragan teamed with the district's chief technology officer, Vivek Kundra, to create a home page for the district's procurement of an evidence warehouse to replace a facility that, by all accounts, was not properly securing critical evidence found during criminal investigations. The home page, <http://www.evidencewarehouse.ocp.dc.gov>, which is modeled after the popular Wikipedia Web site, allows vendors to watch the pre-proposal conference, download important documents and fill out required forms. By posting the information on the Web, all vendors have equal access and equal opportunity to respond.

On the heels of a nonprocurement-related scandal involving the theft of more than \$20 million in tax revenue by a district employee, Gragan created the Office of Procurement Integrity and Compliance (OPIC), and he tapped a 30-year veteran of public procurement to run it. The OPIC will be responsible for ethics and integrity training of OCP staff and others with contracting authority and regular and ad hoc auditing of the contracting process.

Gragan understood that nothing would stop his reform agenda in its tracks faster than a procurement-related scandal in his own backyard. By creating the OPIC, he sent a message throughout his ranks that improper activities would not be tolerated.

Striving to be a model procurement agency

The structural advantages that the OCP possesses are another cause for optimism. With 152 total staff members overseeing \$1.7 billion in annual spend, the size of Gragan's team at the OCP is in line with staffing resources in comparable government procurement organizations. Power has been centralized within the OCP so that Gragan will not have to suffer through the turf battles that many of his colleagues in state procurement offices have had to endure to bring procurement authority back within the central procurement organization.

Also boding well for the OCP is the fact that District of Columbia statute is fairly progressive in allowing best practices such as best-value procurements and cooperative purchasing. While some jurisdictions are required to make all awards on a competitive sealed basis, Gragan and his team have the authority to use RFPs to make best-

value awards that consider factors including performance, service, quality and supplier diversity in addition to just cost. This will allow the OCP to make multiple-year term agreements that will drive savings for district taxpayers while at the same time recognizing the importance of supporting the district's small minority- and women-owned business community.

Lastly, the district has made considerable investments in technology, purchasing Ariba's procurement software several years ago. To date, the district has implemented only Ariba Buyer. However, the district plans to use more of Ariba's functionality in coming years, including its

For City Administrator Dan Tangherlini, the criteria for a successful procurement reform effort are responsiveness, transparency, efficiency and accountability.

strategic-sourcing and contracts software. Successful implementation of these upgrades will give Gragan's buyers more tools in their toolbox to begin establishing world-class contracts.

Asked what his criteria for successful reform are, Tangherlini said that the OCP, like all district agencies, should possess four qualities: responsiveness, transparency, efficiency and accountability.

"If we do that, we'll squeeze out concerns about whether it's honest, whether it serves its customers well and whether we're paying a competitive price," Tangherlini said.

While district employees and taxpayers have long bemoaned the state of the district's procurement operations, it's clear that under the leadership of Mayor Adrian Fenty, City Administrator Dan Tangherlini and Chief Procurement Officer David Gragan, there is good reason to believe that Washington can meet Tangherlini's criteria and become the type of agency that it aspires to be: a model municipal procurement organization. □

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