

### STANDARD

The placement of Procurement<sup>1</sup> should be operationally distinct from other departments and divisions within the entity. The Chief Procurement Office (CPO) should hold an actual and distinct position at the C-level, executive level of management (e.g., Chief Executive Officer (CEO), Chief Operating Officer (COO), Chief Information Officer (CIO)). Regardless of the size or structure of the entity, the CPO should maximize working relationships with other departments, including Finance, Human Resources, Budget, Information Technology, and Legal. The professional expertise of the CPO is critical to the success of the entity and is best leveraged when Procurement is involved in the development of the strategic plan of the entity.

#### Definition

The Place of Procurement refers to positioning Procurement within the entity to optimize the influence and impact of Procurement on internal and external stakeholders as recommended in the American Bar Association (2000) Model Procurement Code (MPC). The Place of Procurement also refers to the horizontal separation from other departments, which ensures organizational checks and balances and reinforces the public trust.

This best practice document builds a case for the strategic placement of the procurement function. This positioning maximizes the effectiveness of Procurement within the entity and is critical for the entity to fully benefit from Procurement operations. The following elements equip procurement professionals with support to establish a “seat at the table” with executive level positioning, responsibility, and authority.

#### **Element 1: The CPO should hold procurement award authority commensurate with a strategic C-level position within the entity and should participate with other executives at the highest level.**

“Procurement’s inclusion on a public entity’s leadership team ensures procurement strategies are aligned with organizational goals and enables procurement to proactively identify and capitalize on opportunities that improve operational and financial outcomes” (Demel et al.).

#### **The C-level position of Procurement within the entity:**

- Provides Procurement with cross-functional knowledge of the challenges facing each department and opportunities for effective collaboration and strategic planning.
- Enables the development of procurement strategies that align with the strategic plan of the entity.
- Provides a strategic perspective and authority to execute the responsibilities of Procurement and contribute value to entity-wide planning, budget resolution, and project execution.
- Enables Procurement to leverage strategic knowledge of the entity to maximize efficiency and effectiveness through timely planning of cost-effective purchases and identification of opportunities (e.g., economics of scale, cooperative purchasing).
- Provides authority for Procurement to make decisions that can manage risk to the entity.

<sup>1</sup> “Procurement” refers to the procurement department, group, or CEO



## Public Procurement Practice

### THE PLACE OF PUBLIC PROCUREMENT WITHIN THE ENTITY

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Article 2 of the MPC, “Procurement Organization,” advocates a C-level position for Procurement and recommends the creation of the “Office of the Chief Procurement Officer, headed by the Chief Procurement Officer.” The MPC §2-201 Commentary asserts that “statutes assigning those duties should ensure that any official to whom such duties are assigned has plenary authority over the [entity’s] procurement system, including or similar to the duties and authorities set forth in this Part for the Chief Procurement Officer.” In §2-202, the MPC states that “The Chief Procurement Officer shall have relevant, recent experience in public procurement and in the large-scale procurement of supplies, services, or construction, and shall be a person with demonstrated executive and organizational ability.” The MPC suggests that Procurement and Procurement Policy offices and functions be separate from other departments within the entity.

#### **Element 2: The professional expertise of the CPO is critical to the success of the entity and best leveraged when Procurement is involved in the development of the strategic plan of the entity.**

- Procurement expertise contributes practical knowledge of available options for achieving the goals of the strategic plan (e.g., timing, competition among suppliers, alternatives for achieving sustainable (green) procurement, cooperative purchasing opportunities).
- Procurement knowledge of internal and external stakeholders helps in aligning the strategy of the entity with end user needs.
- Procurement influence serves to communicate and assist in the achievement of the strategic plan of the entity.

#### **Element 3: Procurement should be positioned at the executive level of management with a centralized function to allow for best practices and standardization.**

Professional procurement associations advocate for and the private sector recognizes that Procurement should be positioned at the C-level, where the influence within and usefulness to the entity can be maximized. Examples include:

##### **National Procurement Institute**

The National Procurement Institute, Inc.’s (NPI) Achievement of Excellence in Procurement (AEP) Award for best practices states: “Centralized procurement is a central function within the organization and may also operate other central services such as warehousing and surplus.”

NPI’s AEP award for best practices “recognizes agencies that place the procurement function at a high level in the organizational structure. This ensures sufficient authority, independence, and resources to foster the goals and objectives of the procurement function. Procurement reporting to the Finance Department does not meet this criterion. Procurement must be at least on the same organizational level as Finance. It is recognized that many agencies are structured differently. In order to receive points towards the award, an organizational chart showing where Procurement and Finance are located in the organization is required. In addition, a narrative explaining how your organization meets this criterion is necessary.”

- Procurement departments that have achieved C-level positioning and centralization can achieve optimal procurement function and further the entity’s strategic plan by establishing standard policies, procedures, formats, and templates for all procurement functions.

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### **NIGP: The Institute for Public Procurement**

NIGP's Outstanding Agency Accreditation Achievement Award (OA4) recognizes entities that lead the public procurement profession through the implementation of best practices. Examples of these best practices include:

- CPO participation in the development and implementation of the strategic plan.
- Strategic positioning of the procurement function no more than one level below the CEO.

### **National Association of State Procurement Officials (NASPO) and the U.S. Government Accountability Office (GAO)**

"NASPO and the GAO agree that the central procurement office's effectiveness is clearly linked to its location in the government structure and that placing the office at a high level is critical to ensuring effective direction, coordination, and control over a government's procurement spend. When that occurs, procurement is rightly viewed as a strategic service function within the executive branch, with the Chief Procurement Officer being a key policy and management resource for the chief executive" (NASPO, 15).

### **Private Sector**

The private sector has long recognized the need to seat Procurement "at the table." The Dutch company ASML positions their CPO at the executive committee level to impact the strategic plan of the company as a core business partner (Nowosel, Terrill, & Timmermans).

The Association of Colleges states that "in the private sector, procurement is viewed as a strategic function working to improve the organization's profitability. Indeed, in many organizations the importance of the procurement function is recognized by having the head of the procurement function placed at the Executive Board level." A report by the Economist Intelligence Unit states that current CEOs expect that by 2015, 60% of corporations will have a CPO reporting directly to the CEO (Jacoby).

### **Element 4: The function and agenda of Procurement should be distinct from other departments and are enhanced when Procurement interfaces with other departments or divisions.**

Historically, Procurement has been located within the Finance Department (i.e., the department that handles the budget and other financial aspects of the entity). Although Procurement works jointly with Finance to ensure that funds and authority are in place for procurements, Procurement does not perform a finance function (i.e., the processing of funds to support a procurement). The functions of Procurement are strategic and operational, more akin to Human Resources, Information Technology, Legal, and other departments that work with the budget to achieve entity goals. Like those departments, Procurement maintains relationships with internal and external stakeholders.

- Procurement functions include sourcing, life-cycle costing, managing contracts, negotiating, developing specifications, and maintaining supplier relationships. Finance functions include analyses, projections, budgeting, and accounting.
- Although, Procurement and Finance staff may receive comparable education in effective communication, critical thinking, and analysis, procurement training is specific to the profession and may include supplier relationship management, supply chain management, contract law, specifications, sourcing, and evaluation. In contrast, finance training may include budgeting, financing, and accounting procedures.
- The day-to-day operations of Procurement necessitate:
  - Interaction with internal and external stakeholders such as the CEO, governing board, elected officials, citizens, and supplier community
  - Protection of the public trust
  - Knowledge of codified processes



PRINCIPLES AND  
PRACTICES OF  
PUBLIC PROCUREMENT



## Public Procurement Practice

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- To achieve the dual role of interaction with internal and external stakeholders and protection of the public trust, Procurement must:
  - Maximize working relationships with colleagues in other departments, including Finance, Human Resources, Budget, Information Technology, and Legal
  - Achieve separation of duties — the function of Procurement to solicit bids and proposals must be separate from the functions of Finance to invoice and process payments
  - Establish and maintain procurement procedures that support departmental goals and comply with laws and policies
- Separation of duties is a key concept of internal controls for protection from fraud, errors, and other potential risks.
- Keeping the Finance and Procurement Departments separate and positioning Procurement with C-level authority help to ensure that there is no undue influence on the agenda of Procurement, which is to serve in the best interest of the entity and the public.

#### **Potential risks from Procurement reporting to Finance include:**

- Authority of Finance to impose an agenda on Procurement.
- Lack of checks and balances.
- Loss of potential savings or revenue generating opportunities.
- Reluctance to recognize procurement best practices.

The Finance planning function determines the budget that the Procurement, Human Resources, Information Technology, and other operational departments use to achieve best value. The Association of Certified Fraud Examiners (ACFE) Fraud Risk Assessment and generally accepted accounting principles (GAAP) provide support for separation between the Procurement function and the Finance function.

#### **Element 5: A strategy should be developed to achieve the optimal positioning, responsibility, and authority of Procurement.**

Although the best practices herein provide support for a plan and desired outcome, each entity will need to consider the unique context of the entity (e.g., politics and organizational culture). Before implementing change:

- Assess and understand current processes and policies.
  - Conduct a baseline assessment of current processes and policies
  - Estimate the impact of change in responsibility and authority
- Build internal support (e.g., executive management, department heads, directors, elected officials) for Procurement.
  - Establish, build, and maintain a credible reputation within the entity that Procurement is service-oriented towards clients and end users
  - Increase awareness of procurement education, expertise, professional certification, and experience in delivering best value
- Focus on the business case. At the executive level, Procurement is positioned to:
  - Maximize return on investment
  - Approach procurement matters strategically
  - Leverage purchase volume
  - Effectively lead standardization efforts and streamlining of processes
  - Maximize the accountability and transparency of the procurement process

#### **Background**

According to the MPC §2-301 Commentary, “State and local public procurement systems are the means through which critical and strategic services, supplies, and construction are purchased to support essential public functions. To operate effectively, it is imperative in those systems that there be central leadership to provide direction and cohesion.”

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Through the mid-20th century, Procurement remained a transactional function reporting to lower-level functional managers. Public procurement professionals have become increasingly sophisticated in their understanding and application of methods to achieve best value, balancing multiple factors regarding costs, quality, risk, and other values. To optimize purchasing decisions and align them with entity goals, public procurement professionals now look at the total cost of ownership and other strategic areas of public procurement. Consequently, the procurement practitioners of today must master an understanding of the practices and methodologies that achieve best value outcomes. This change has led to a higher-level public procurement professional with executive-level education and training, as well as a higher level of operation<sup>2,3</sup> for the procurement function. Public procurement officers are increasingly examining the overall strategic needs rather than the strictly transactional needs of the entity.

This evolution suggests involvement of Procurement in the development of the strategic plan of the entity. The first-hand knowledge of the goals and values of the entity will allow Procurement to align procurement processes with the strategic plan. For example, if the goals and values of the entity include environmental sustainability, then the expertise of Procurement in the use of life cycle cost analysis and the application of eco-labels and standards can be translated into solicitations with specifications that achieve environmentally responsible outcomes.

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<sup>2</sup> Clark, Jean. (Aug. 2015) Pathway to a High Performance Organization. PowerPoint at NIGP Forum.

<sup>3</sup> CIPS-NIGP Public Procurement Profiler

