

Fiscal First Aid for the Procurement Office

Strategies for balancing the budget while maintaining critical services during a financial crisis



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Government Finance
Officers Association

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This paper builds off of previous work done by GFOA in Fiscal First Aid. Readers are encouraged to explore other resources available at www.gfoa.org/ffa.



The Government Finance Officers Association (GFOA) represents approximately 20,000 public finance officers throughout the United States and Canada. GFOA's mission is to promote excellence in state and local government financial management. GFOA views its role as a resource, educator, facilitator, and advocate for both its members and the governments they serve and provides best practice guidance, leadership, professional development, resources and tools, networking opportunities, award programs, and advisory services.

Introduction

The COVID-19 pandemic has challenged governments to provide essential services to their community, initiate efforts to fight the disease, pivot almost overnight to address the new challenges of employees working from home, and address staggering unemployment and economic hardships at the same time. As governments are now tasked with doing more, their own revenue is taking a huge hit from a reduced tax base creating grim budget scenarios, the difficulty of forecasting with extreme uncertainty, and the need to implement cutback measures to reduce expenses. Nowhere is that conflict more apparent than in procurement, where staff is left doing an almost impossible dance to both supply operations during an emergency and cut spending to meet a new budget reality.

As a critical member of the government's finance team, procurement officers must be in sync with overall budget strategies. At the same time, procurement officers must continue to serve a critical role in a government's service delivery team by supporting operations and ensuring that program staff have the needed equipment, supplies, and contracted services to fight this national emergency and provide basic services that all communities need. Procurement staff must find ways to adapt to the current challenges in an environment where physical contact with suppliers may be limited or where staff are working remotely.

GFOA's Fiscal First Aid program lays out a 12-step process for recovering from financial distress. Included in this framework are strategies for recognizing, addressing, and reversing a pattern of financial decline. The strategies relate to all areas of finance, but facing this challenge is a team effort and requires collaboration and coordination across many disciplines, departments, and levels

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of the organization. This research paper addresses these Fiscal First Aid strategies from the perspective of the procurement officer and offers strategies for addressing the challenges of the COVID-19 pandemic and related economic recession.

The strategies are grouped to provide opportunities related to common processes and functions managed by procurement staff. Each provides benefits especially helpful in dealing with the financial crisis and ensuring that governments can continue to provide critical services during this emergency.

When applying these strategies, governments must understand that all are not without risk and that getting through this financial crisis may require procurement staff to take actions that otherwise would be unpopular or risky. Also, procurement officers must recognize their leadership role and work with others across the organization. Communication is critical to ensuring effective use of the strategies that follow.

OPPORTUNITY 1: Contracts and purchase orders

As a primary step, procurement officers need to evaluate existing contracts and purchase orders to find out if there is potential for savings or ways to redirect unused but encumbered budget for more pressing needs.

Initial Strategies

- **Review open purchase orders.** When purchase orders are created, an encumbrance is held against the budget to commit funding for that purpose. When the goods or services are received and the invoice is paid, that encumbrance is then converted to an expense. However, when the goods or services received are less than the purchase order amount, the remaining encumbrance can be left holding budgeted funds. In addition, conditions could have changed since the initial order and the government may no longer need the quantity of goods or services ordered. This would be true with any service impacted by stay-at-home orders. For example, canceling programs, including those offered by parks and recreation departments, or shifting to remote work for office employees may offer ways to reduce supply orders. Governments should examine all open purchase orders to find out if funds can be “released” back to the budget, freeing up resources.
- **Review blanket purchase orders.** Blanket purchase orders allow for the preauthorization of a set level of spending with a particular vendor. Often, governments will open blanket purchase orders with vendors at the beginning of the year within purchasing policy threshold amounts, for small routine work and the vendor will simply invoice intermittently when work is performed. However, because the actual quantity of these services is hard to determine upfront, governments issue blanket purchase orders for amounts that exceed actual need. Governments may issue blanket purchase orders with multiple vendors to provide options. During the financial crisis, these blanket purchase orders should be examined and reduced if possible. Also, if blanket purchase orders were



put in place assuming a certain level of activity, governments may need to reevaluate if needs have changed during the emergency. Demand for some services may have increased; though in most cases, demand has likely waned.

- **Review routine purchases.** Procurement staff can help review routine expenditures. For some departments, many routine expenditures are on “autopilot.” Because of drastic changes in services during the COVID-19 pandemic, routine spending patterns may need to be adjusted. In other cases, governments may be spending money on lower priority items that are hard to justify during a fiscal emergency. Even if these changes do not result in big savings, they help create a culture of frugality and make sure that staff in all departments are focused on making smart purchases.
- **Review contracts for savings opportunities.** Evaluating options within existing contracts may provide opportunities for savings. Procurement staff should work with departments to check contracts for prompt payment discounts, savings opportunities if payments are made electronically (or invoiced electronically), or how ordering could be done more efficiently to save money. For example, by changing ordering behaviors on a contract, governments may be able to save significantly on shipping costs. Also, if contracts have any penalty clauses for late payment, rush orders, emergency services, etc., it would be helpful to know in advance what behavior triggers additional cost and avoid it if possible.

Caution

- Be careful of any contractual requirements for minimum order quantities or orders that governments may not have the option to cancel.
- Procurement staff need to be careful to avoid the perception that they are “second-guessing” spending decisions by the departments they serve. The purpose of these review strategies is to find ways to save without causing an impact on services. If there are questions about what the government should be spending money on and if purchases are still warranted, it should be a collaborative discussion between representatives of finance, budget, procurement, and the operating departments. For more information, see Step 2 in GFOA’s 12-Step Fiscal First Aid Recovery Process at www.gfoa.org/ffa.

Secondary Strategies

- **Review software contracts.** Many local governments own software licenses to hundreds of different products—many that require annual maintenance and support costs, entitling the government to help desk support and new versions of the software. However, for many governments, upgrading to a new version during a financial crisis is not a viable option or may not even be possible given the industry shift to cloud-based products and software-as-a-service (SaaS) options. Also, for a product nearing the end of its life, a complete replacement would be more likely than an upgrade. In either case, the government can stop paying maintenance and support, or it can hire a third party that supports the system at a lower price and continue to use the licensed software. Additionally, for software products supporting relatively static functions or those that do not support critical functions, having the availability of support/upgrade resources may not be necessary or worth the cost. In addition, with annual price increases, many governments are surprised to learn that the annual cost of maintenance has grown substantially since the software was first purchased and, in some cases, might even be more expensive than the license cost to purchase new software.
- **Renegotiate contracts.** Consider opening and renegotiating your largest supplier contracts. In an environment of fiscal distress, market prices may have changed, allowing you to take advantage of lower prices, improved service levels, or more favorable terms and conditions. Governments can also explore multiyear contracts with vendors in exchange for pricing concessions. There may also be opportunities to reduce the number of contracts by expanding the scope of each. Many suppliers offer products and services that may be currently under contract from another provider. While increasing the reliance on specific vendors adds risk, it may offer pricing advantages and provide economies of scale in terms of reduced shipping costs, more frequent deliveries (less inventory cost), or higher levels of service.
- **Rebid contracts.** Governments should reevaluate vendors regularly. Too long with any provider may create complacency. All contracts—including professional services, equipment, supplies, and commodities—should be purchased competitively and utilize a competitive process is considered an overall best practice and standard expectation for public procurement. Governments may find that more firms are interested in bidding during an economic recession. Before issuing an invitation to bid or request for proposal, procurement staff should identify the potential market and vendors that may be interested in participating. Governments need to reach out to the vendor community and provide information on how to participate, communicate about solicitations coming in the future, and requirements or registration steps necessary to complete prior participating.

⚠ Caution

- Eliminating software maintenance expenses may present challenges if the government is not able to follow through with software replacement in the future. In addition, by foregoing updates, governments may become more susceptible to cybersecurity issues. Before ending support, governments should evaluate how critical the software is to business operations and the sensitivity of the data contained within it.
- While the current economic climate may bring out more competition, governments should also be careful of firms that may not be financially stable. Procurement staff needs to make sure that contracted vendors can deliver when required. It may be necessary to begin arranging backup suppliers if one firm goes out of business during the term of the contract.
- Changing suppliers for key goods and services often brings some level of disruption. Governments should consider the impact on business from transitioning to a new vendor for critical services and decide if it is an appropriate time to make that shift. For example, while GFOA recommends governments regularly evaluate banking services providers, doing so while key employees are working from home and in the middle of a financial crisis may not be a good move.

OPPORTUNITY 2: Asset Management

Procurement staff coordinate the purchase of large capital assets (vehicles and equipment). In times of financial crisis, it may be necessary to adjust how assets are acquired or think creatively about how to provide options.

Initial Strategies

- **Extend the useful life of assets.** GFOA recommends that governments adopt written policies related to asset replacement. Many governments set aside funding for regular replacement of vehicles and large equipment and replace those assets at the end of their useful life. However, governments may find that assets are still practically useful beyond the predefined “accounting” useful life. During times of fiscal stress, governments may be able to delay replacing assets or implement a policy to extend the useful life (or replacement schedule) for assets. Similarly, staff can work to identify the condition of assets and replace only those facing increased maintenance costs or risk degradation of service. While this may not be possible for all assets—some may be required to be replaced based on manufacturer or industry standard (for example, safety equipment)—procurement officials can work with department staff to identify ways to save. In addition, being selective and purposeful regarding asset replacement may provide opportunities to avoid across-the-board freezes



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for large purchases and allow the government to invest where necessary.

- **Repurpose assets.** In addition to delaying the purchase of new assets, procurement staff can coordinate strategies for repurposing assets. Not all assets need to perform at the same level. There may be opportunities to repurpose assets and transfer ownership from one department to another. For example, vehicles past their useful lives and no longer able to meet performance demands of their original purpose, such as in the sheriff's office or police department, may be sufficient for functions in the parks and recreation department, with public works, or in a limited-use capacity for the administration department.

Secondary Strategies

- **Borrow capital assets.** Some functions performed by governments require expensive, specialized equipment. However, for some services, the equipment is used infrequently or only at select periods of time throughout the year. For these applications, it could be beneficial for governments to borrow assets from a neighboring jurisdiction. Some states have established frameworks for governments to exchange equipment similar to popular urban car services like Zipcar, to enable access to vehicles without incurring the significant capital costs to buy one. In other cases, governments have been able to develop partnerships or rental agreements to share assets. Procurement staff can use their network of contacts to assist deliver access to this equipment at a fraction of the cost.
- **Disposal of surplus equipment.** When assets are replaced, governments can generate some revenue by selling surplus equipment. In typical conditions, it generally is most efficient for governments to deal with auction firms to dispose of vehicles and equipment quickly. However, during a recession, opportunities for resale may be limited. Governments may want to explore other options for the sale of surplus equipment. Reaching out

directly to other governments may provide an opportunity for another government to acquire an asset (although used) at a fraction of the cost of a new one. Similarly, governments may be able to find buyers in their own community. Many citizens or businesses may be looking for replacement assets and might not have money to acquire new assets. Procurement staff can utilize its supplier network to see if alternative options for disposing unwanted vehicles and equipment provide some value.

- **Consider outsourcing or leasing options.** In times of financial crisis, it may be beneficial to reconsider lease-purchase decisions as a way to save money or delay large expenditures. Other times, it might make sense to consider private-sector alternatives to outsource the service entirely. With the financial crisis, options for leasing assets may have changed to be more beneficial to the government (lower interest rates, vendors with excess capacity). If there are questions about the level of demand for services in the future, especially if the government is considering staff reductions in the future, then pursuing short-term strategies may be more cost-effective.

Caution

- If governments are extending the life of assets, staff need to consider the full life cycle costs of those assets. This strategy loses its effectiveness if maintenance costs increase or if governments end up ultimately replacing the asset in a rush at a later point.
- Some equipment and assets come with restrictions on usage or age (for example, some safety equipment). In such cases, governments must be careful not to overuse assets or they could face added costs from workplace injuries, penalties, or other unintended consequences.

OPPORTUNITY 3: Inventory Management

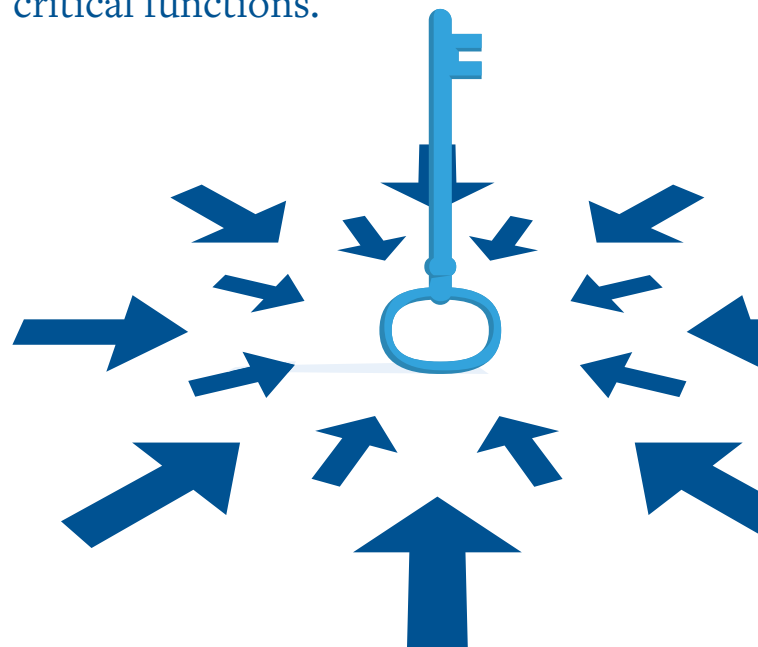
Procurement staff play a critical role in providing departments with the needed supplies to perform critical functions. Procurement staff also can play an important role in helping governments use inventory effectively.

Initial Strategies

- **Inspect orders.** After purchases are made, staff should inspect received quantities for defective items, excess quantities, or added costs that were not part of the agreement between the supplier and government. While these are practices that governments should use at all times, they become even more important as budgets tighten. Governments focusing on this strategy have found a surprising percentage of orders that contained unneeded or unusable materials. Simply put, governments should not be paying for quantities that were not ordered, prices above the agreed-upon contract or purchase order pricing, or defective items. Hold vendors accountable. Also, during normal times, it may be reasonable to hold excess orders for future use, but storing that inventory could have cost impacts and tie up funding that otherwise could be used elsewhere.
- **Draw down inventory.** Many governments store common supplies and equipment in a warehouse for future use. These practices can provide efficient and reliable supply lines for government operations. However, stockpiling inventory has a cost, and governments may be able to draw down on inventory levels to reduce expenses in the short term. Procurement staff should analyze spending patterns, work with department staff to identify future spending needs, and reevaluate necessary inventory stock.
- **Consider alternative options for supplies.** When inventory items run low, procurement staff should consider alternative sourcing

options to determine if there are opportunities for savings. The COVID-19 pandemic has caused significant disruption in business activity, and some departments may be experiencing a surplus of the same items that others are in need of. For example, during the early stages of the pandemic, some governments were able to acquire personal protective equipment that was desperately needed in hospitals (and that was in short supply with vendors) from schools that were recently closed for the year. Similarly, there were stories of governments procuring hand sanitizer from breweries or distilleries who had capacity to produce it, as their traditional line of business was shuttered. In this role, procurement staff have the ability to shine and demonstrate their value in coming up with creative solutions to problems.

Procurement staff play a critical role in providing departments with the needed supplies to perform critical functions.



Secondary Strategies

- **Standardize.** Governments should develop standard specifications for commodity items across the organization. Not only does this allow flexibility and transferability of shared supplies from department to department, it will also allow for better terms to be negotiated with vendors, reducing operating costs. For example, standardizing IT purchases allows for greater interoperability and reduced expenses from maintaining different types of equipment. If vehicle purchases are standardized, governments can better utilize parts and work more effectively to train or cross-train staff. While it may not be possible for complete standardization across a government's various program areas, the fiscal crisis can provide an opportunity to initiate the discussion to explore options where it can be beneficial.
- **Consider just-in-time inventory.** Except for strategic items that are necessary to maintain critical stock on hand, governments should consider just-in-time inventory practices to reduce costs associated with a government storing and distributing inventory. With delivery networks improving and overnight or same-day delivery becoming a reality for many supply needs, it is no longer necessary to maintain large warehouses of products that are available in other formats or to take on the costs associated with managing that inventory.

Caution

- While drawing down inventory levels can save money, governments need to consider critical stock requirements and the value of inventory to maintain business operations. Especially with the COVID-19 pandemic, where supply chains may be disrupted and certain goods may face regional or national shortages, governments need to consider the strategic role of inventory management as a business continuity function.

OPPORTUNITY 4: Consider changes to overall procurement policies.

A financial crisis can provide an opportunity to improve long-standing purchasing processes or policies that may be outdated or provide a spotlight to make necessary reforms. Procurement staff should work with their peers from across the organization to identify opportunities and work collaboratively to implement improvements. The following are suggested opportunities based on GFOA's experience on similar projects.

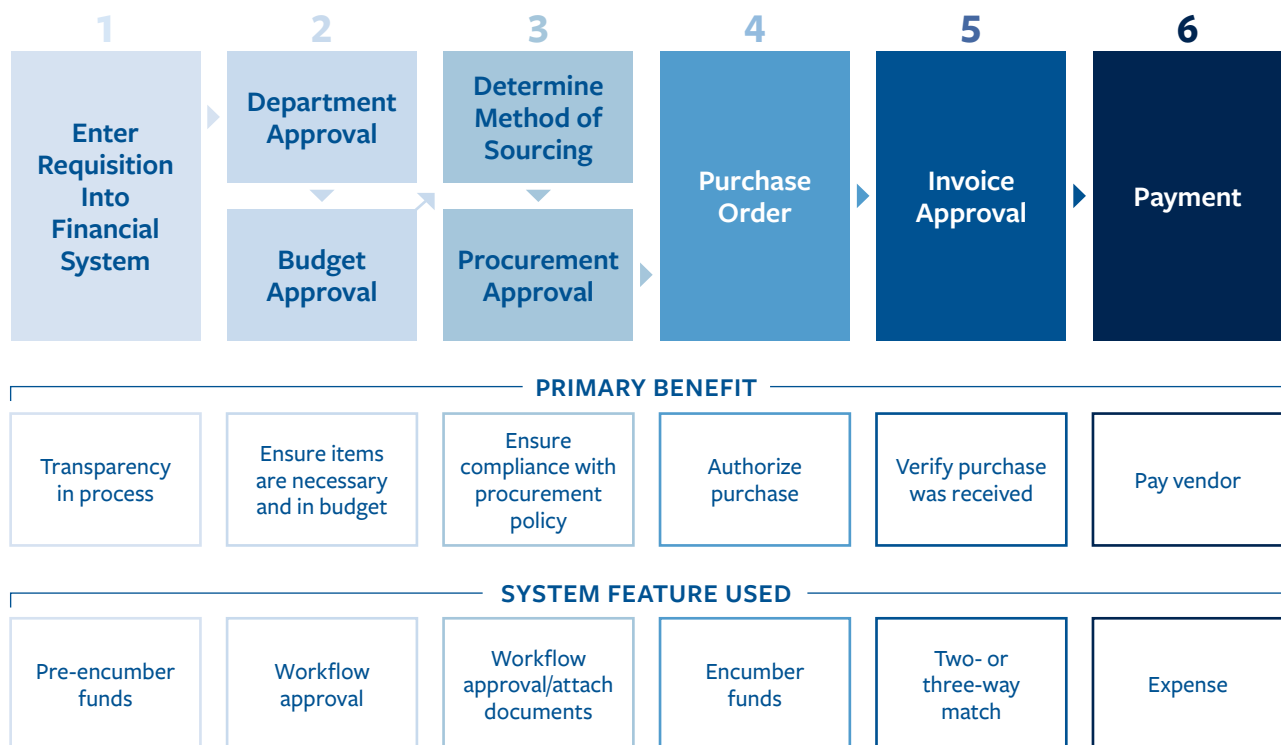
Initial Strategies

- **Identify changes to the procurement process.** Public procurement requires compliance with policies, fair and objective evaluation of proposals/bids, and transparency. With the COVID-19 pandemic, governments may need to adjust policies to accommodate public health requirements or work-from-home restrictions. Many governments have been forced to find workarounds for paper-based processes and “wet” signature requirements. GFOA's [research report on eliminating paper](#) provides examples for governments to quickly adapt more electronic forms of processing. However, for procurement, accommodations may need to go a step further. For example, it may not be possible to conduct in-person pre-proposal meetings, provide on-site locations to examine bid documents, or hold public bid openings. It also may not be a good idea to require paper proposal submissions. Procurement staff need to evaluate their procurement policies in the context of this new environment to make sure that the principles of transparency and fair competition are met.
- **Enforce use of requisitions.** GFOA recommends the government use purchase requisitions at the beginning of a purchase process and before any request for proposal/bid, order, contract, or purchase activity. This allows staff to track approvals, properly reserve funding, and perform necessary budget checks. It forces

approval for the purchase *before* the purchase. It is also the only way that governments can accurately monitor their budget. Under this process, all purchases would follow the same process; and all requests for purchases would be entered into the financial system, creating transparency and auditability. Most, if not all, governments deal with departments or certain staff that struggle to comply with purchasing policies for issuing purchase orders, adhering to spending thresholds, or utilizing competitive solicitations. However, during a financial crisis, getting approvals and making sure funds are available is essential—especially when every dollar counts. GFOA recommends that all governments follow a process similar to the one depicted in the table below and use common features found in your financial system for using the procurement process to support budget control. Procurement staff should be working with peers in budget and finance to make sure spending controls are in place and can be easily monitored. GFOA has a best practice on monitoring the budget that provides guidance on appropriate controls.

- **Use procurement cards.** The use of purchase requisitions and purchase orders is not feasible for all purchases. Governments make many small dollar, routine purchases. Getting procurement staff involved would be incredibly inefficient. However, there remains a need for transparency and accountability for these smaller purchases. Using a procurement card (P-card) can simplify processes and add efficiency to a government’s procurement function. It can also be critical to ensure business continuity when standard payment processes may not be functioning. At any time of the year, P-cards offer many benefits, including lower transaction costs, a reduced need for inventory, and the ability to earn rebates on purchases. During the COVID-19 pandemic, where it is difficult to process paper, P-cards can help to reduce the volume of invoices and checks to process. This is critical for accounts payable staff who may be working from home or for department approvers without the capacity to manually sign for payment. GFOA has a [best practice on P-card use](#). Procurement staff should coordinate P-card use into an overall purchasing strategy.

Figure 1: Recommended Purchasing Process



- **Combine purchases.** In addition to P-cards, procurement staff may be able to employ strategies to reduce the number of purchases, saving processing time, and allowing the government to earn greater discounts. Procurement staff can play an important role in the organization for coordinating purchases between departments. By combining purchases, the government can also reduce its workload by cutting down the number of RFPs it is required to issue.

Secondary Strategies

- **Evaluate outsourcing options.** If governments experience staffing reductions, hiring freezes, or need to avoid large capital purchases, outsourcing may become an option. Procurement staff can play a lead role in exploring outsourcing options as a method of saving money or providing alternatives to programs or services currently struggling to reduce costs or meet expected outcomes. Outsourcing options may include private sector alternatives but could also take the form of partnerships with neighboring jurisdictions, governments with overlapping geographic boundaries (for example, cities, counties, or school districts), or other entities that may have excess capacity. Also, nonprofit organizations may provide options worth considering. With any outsourced initiative, governments must ensure an appropriate level of control over service levels, accountability for results, and terms and conditions that maintain flexibility given changing economic conditions or a government's fiscal situation.
- **Revise emergency purchase policy.** During this COVID-19 pandemic, many governments learned that they were not as prepared to deal with emergencies as they would have hoped. As governments recover from the initial shock of the disaster, there are opportunities to learn from experiences and put in place reforms to better prepare for the next one. Procurement staff should be working with staff from across the organization to address weaknesses in emergency purchasing policies. Issues like remote approvals, budget override authorization, emergency

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contracts execution, and overall business continuity provisions should be evaluated and improved to better ready the organization for the next disaster. While the COVID-19 pandemic presented unique challenges from a public health and work-from-home perspective, the crisis of the future could involve a natural or man-made disaster that could present a similar situation.

- **Consider a paperless procurement process.** While a 100% paperless procurement process may not be possible, governments should evaluate options for implementing technologies that enable electronic vendor registration, requisitioning, RFP/bid posting, proposal submissions, signatures, contract management, and payment. Many of these technologies may already exist in your current financial or procurement system but have yet to be implemented. For others, third-party products may be available at affordable prices.
- **Consider local options/diversified supply chain.** As private businesses suffer under this pandemic, procurement staff will need to pay close attention to supply chain disruptions and avoid being too dependent on single vendors to meet supply needs. Also, governments spending money in their own community may have benefits that achieve other community goals for the organization. Procurement staff may need to consider the broader initiatives and goals beyond the current transaction and should communicate with other leaders in the organization how procurement strategies can be used to help communities in need.

- **Process and policy improvements should be made to last.** While the COVID-19 pandemic provides an excellent opportunity to change, governments want those changes to be sustainable. Where possible, procurement staff should create a long-term vision for planned changes, work collaboratively with their peers to consider feedback and different perspectives on critical issues, communicate with all involved, and document decisions so they can be administered fairly going forward. GFOA has developed a leadership framework—Financial Foundations for Thriving Communities available at www.gfoa.org/financial-foundations—that provides additional guidance for effective governance related to process and policy change.

Summary

Procurement staff play a critical role on the leadership team of all governments. Throughout the COVID-19 pandemic and for the much longer resulting financial crisis, governments will need to rely on procurement professionals to help develop strategies for balancing the budget, becoming more efficient, stretching dollars further, and working with peers both in finance and throughout the organization to implement financial recovery plans while also maintaining critical services for the public.



For more information about GFOA's Fiscal First Aid program, visit www.gfoa.org/FFA.



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