COUNCIL AGENDA : 9/9/2025
FILE : 25-941
ITEM : 3.3

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Toni J. Taber, MMC
City Clerk

SUBJECT: **SEE BELOW**

DATE: August 27, 2025

SUBJECT: Procurement Audit Report

Recommendation

As recommended by the Public Safety, Finance and Strategic Support Committee on August 21, 2025, accept the audit report on the City's procurement process for goods and services.
CEQA: Not a Project, File No. PP17-009, Staff Reports, Assessments, Annual Reports, and Informational Memos that involve no approvals of any City action. (City Auditor)
[Public Safety, Finance and Strategic Support Committee referral 8/21/2025 Item (d)2]

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Office of the City Auditor

Report to the City Council
City of San José

PROCUREMENT: THE CITY SHOULD REVIEW ITS RISK STRATEGY, PERFORMANCE MEASUREMENT, AND GUIDANCE TO IMPROVE THE PROCUREMENT PROCESS

Report 25-03
August 2025

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CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Office of the City Auditor
Joe Rois, City Auditor

August 14, 2025

Honorable Mayor and Members
Of the City Council
200 East Santa Clara Street
San José, CA 95113

Procurement: The City Should Review its Risk Strategy, Performance Measurement, and Guidance to Improve the Procurement Process

Procurement plays a vital role in the City's operations by helping staff obtain goods and services. The Finance Department's Purchasing Division (Purchasing) oversees many types of procurements, excluding consulting services and public works projects. While some changes have been implemented in recent years, the timeliness of procurement has continued to be an area of concern Citywide. The objective of this audit was to assess the efficiency of the City's procurement processes for goods and services, not including public works projects. This audit was requested by the Mayor and a Councilmember.

Finding 1: Re-Assessing Risk Strategies in Key Areas Could Improve Procurement Timeliness. The City Administration is responsible for balancing the risks of procurement with the business needs of departments. Forty-five percent of surveyed staff reported that procurements were not completed in time to meet their department's business needs. We found:

- Purchasing's expectation is that Requests for Proposals (RFPs) take 6-9 months. Three-quarters of RFPs handled by Purchasing between 2019 and 2024 took longer; nearly half took more than one year.
- The Administration should review five key areas to examine and re-assess whether the current policies align with its desired risk strategy: the competitive procurement threshold, minimum insurance requirements, software subscription approvals, delegations of authority, and the City's standard terms and conditions.
- Pilot program procedures are not well defined and can present challenges for approval.
- The escalation process for management review of contracts that are stalled during negotiations is informal and lengthy.

Recommendations: To effectively balance risks and timeliness of procurements, the City should:

→ Re-assess practices and policies for key procurement areas to align the risk strategy with the need for timely procurements.

→ Define and document processes for pilot programs and escalation of problems with contract terms or insurance.

Finding 2: Better Tracking of Strategic Procurements Would Help Measure Progress and Performance. Purchasing's current tool for tracking strategic procurements does not consistently capture key milestones, limiting insight into project timelines and areas for improvement. We found:

- Purchasing's internal log contains inconsistent and incomplete data, making it difficult to use for performance measurement or supervisory review.
- Other jurisdictions have implemented tracking systems and performance measures that support transparency and help manage procurements.

Recommendations: To strengthen procurement operations and improve oversight, Finance should:

→ Implement a workflow system to track procurement progress and develop performance measures for strategic procurement cycle times.

Finding 3: Purchasing Should Consolidate and Update Procurement Guidance for Departments. The City's procurement guidance is spread across over 100 separate links and documents, leaving City departments without a single, easy-to-navigate reference for policies and procedures. We found:

- More than half of respondents to an auditor survey of department fiscal officers and contract managers said they needed more guidance.
- Scope development has been a persistent challenge for departments.
- Some sections of the City Policy Manual related to procurement have not been updated for many years and do not reflect current processes.

Recommendations: To improve support to City departments, Finance should:

→ Develop a consolidated procurement handbook and guidance and templates for scope development.

→ Review and update the City Policy Manual to align with current procurement practices.

This report has eight recommendations. We plan to present this report at the August 21, 2025, meeting of the Public Safety, Finance, and Strategic Support Committee of the City Council. We would like to thank the Finance Department, the City Attorney's Office, and the City Manager's Office for their time and insight during the audit process. The Administration has reviewed the information in this report, and their response is shown on the yellow pages.

Respectfully submitted,

Joe Rois
City Auditor

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This report is also available online at www.sanjoseca.gov/audits

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Background

Procurement is a crucial function in the City that helps staff buy the goods and services needed to maintain operations. The City has a hybrid procurement model: departments lead some types of procurements, such as consulting agreements, and the Finance Department's Purchasing Division is responsible for other types of non-public works procurements.

While some changes have been implemented in recent years, the timeliness of procurement has continued to be an area of concern Citywide. The objective of this audit was to assess the efficiency of the City's procurement processes for goods and services, excluding public works projects.

Roles and Responsibilities

The Finance Department's Purchasing Division (Purchasing) is charged with the centralized procurement and contracting of all goods, supplies, equipment, non-consulting services, and information technology (IT) products for City departments, with some exceptions. Purchasing staff positions make up 18 of 128 budgeted FTE in Finance for FY 2025-26 and are organized into the Tactical and Strategic Procurement teams.

Exhibit 1: Division of Work Within the Purchasing Division

Tactical Procurement Team	Strategic Procurement Team
• General services and commodities procurements • Non-IT purchase orders • P-card program	• General services (RFPs) and IT procurements • IT purchase orders • Contracts

Source: Auditor analysis of the Tactical and Strategic Procurement Guidelines, other Purchasing guidance, and the San José Municipal Code.

The Tactical Procurement Team handles procurement activities that ensure the City's needs for products and non-consulting services are met by processing purchases for price-focused acquisitions such as supplies, materials, equipment, and trade services.[1] The Tactical Procurement Team also administers the City's procurement card (p-card) program. The Strategic Procurement Team is responsible for all evaluative procurements, IT-related purchases, contract amendments, and other complex procurement matters.

In addition to the Tactical and Strategic Procurement teams, the Risk Management team provides departments with contract insurance specifications and reviews

[1] A purchase order is a contractual document typically used for lower-value and short-term purchases, while a contract is a more detailed, legally binding agreement used for complex, higher-value, and long-term procurements.

certificates of insurance for compliance with contract requirements, among other services.

Role of Department Staff

Departments are individually responsible for procuring all specialized consulting services with guidance from the City Manager's Office of Administration, Policy, and Intergovernmental Relations. Finance Purchasing is generally not involved in consulting services procurements.

Drafting the scope of work is a critical role that departments play in procurements, as they are the subject matter experts best positioned to define the technical requirements and desired outcomes. A well-developed scope of work ensures that solicitations align with operational needs, attract qualified vendors, and result in contracts that deliver the intended services or products.

Also, Public Works conducts procurement for construction, architectural, and engineering projects, which are not included in this audit.

Process of Conducting Procurements

A typical procurement may involve:

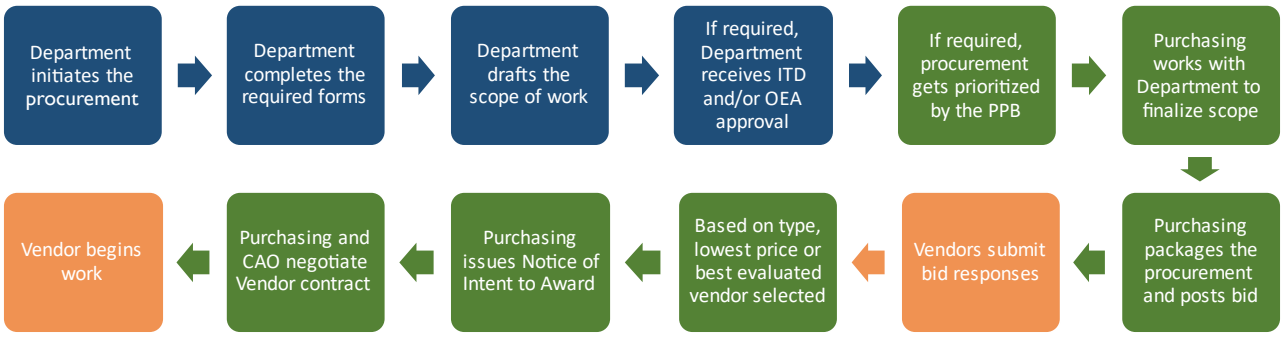
- The department that needs to procure a good or service,
- The Finance Department's Purchasing and Risk Management Division,
- The Procurement Prioritization Board (PPB)[2] for non-consulting RFPs over $250,000,
- The City Attorney's Office for contract review or negotiations when needed,
- The Information Technology Department for software or other IT purchases, and
- The Office of Equality Assurance (OEA) from Public Works for a service that may have Living or Prevailing Wage requirements.

Before departments submit a solicitation to Purchasing, they must first complete required forms. These can include: evaluation criteria, minimum qualifications, questionnaires, and cost proposals.

Exhibit 2 is a flowchart of the competitive procurement process, based on a 2022 consultant report and Purchasing's own materials.

[2] The Procurement Prioritization Board (PPB) is comprised of executive staff from the City Manager's Office and the Finance Department. Its purpose is to align the prioritization of new Requests for Proposals with Citywide goals.

Exhibit 2: Competitive Procurement Process Flowchart



Source: Auditor depiction based on process flowcharts from Guidehouse Current State Assessment and Purchasing.

Note: Blue refers to the procuring department, green to Purchasing, and orange to the vendor. This flowchart does not reflect non-competitive processes, such as informal three quote purchases, sole source/unique services/brand name requests, emergency purchases, cooperative agreements, and other non-competitive procurements. Required forms may include evaluation criteria, minimum qualifications, questionnaires, and cost proposals.

Procurement Thresholds

The City's Municipal Code establishes rules for procurement, including dollar thresholds for when competitive, informal, and formal procurements should be used.

There are four main types of procurements: Non-competitive, Request for Quote, Request for Bid, and Request for Proposal. Exhibit 3 shows the City's dollar threshold, competition level, and evaluation type for each form of procurement.

Exhibit 3: Overview of Procurement Types (as of July 2025)

Procurement Type	Dollar Threshold	Competition Level	Evaluation Type
Non-competitive	≤$10,000	None, use Purchase Order or p-card based on type	N/A
Request for Quote	$10,001 – $250,000	Three quotes or informal bid based on purchase	Lowest price or best value
Request for Bid	>$250,000	Formal bidding	Lowest price only
Request for Proposal	>$250,000	Formal bidding	Best value only

Source: Auditor summary of Purchasing guidance and the San José Municipal Code as of July 2025.

Note: Thresholds are established by the San José Municipal Code. In June 2025, the City Council approved changes to the thresholds with a second reading in August 2025.

The Municipal Code also establishes exceptions to competitive procurement, which are:

- Emergency Purchases.
- Cooperative Agreements – direct purchases from vendors made by leveraging the results of competitive procurement processes done by other public agencies.
- Sole Source/Unique Services/Brand Name – goods or services only available from one vendor or instances where competitive procurement is not in the public's interest.

Purchasing Division's Workload

In FY 2024-25, Purchasing processed about 1,450 purchase orders for goods and services for an estimated total worth of $325 million. Purchasing also processed new contracts, amendments, options, service orders, and change orders.

Since transitioning to the current electronic procurement platform in November 2019, Purchasing has posted over 700 bids through March 2025, including RFQs, RFIs, RFPs, and RFBs. Exhibit 4 shows the number of each bid type processed.

Exhibit 4: Purchasing-Led Bids by Type (November 2019 – March 2025)

Solicitation Type	Number of Bids
Request for Quote (RFQ)	383
Request for Information (RFI)	22
Request for Proposal (RFP)	54
Request for Bid (RFB)	244
Total	**703**

Source: Purchasing staff via City's electronic procurement platform.

Note: Data includes awarded, closed, and cancelled bids, but does not include department-led consulting bids. The closed category is used temporarily for bids that are no longer posted and are in the process of either being awarded or cancelled, depending on the outcome.

History of Changes to Procurement Processes

In February 2019, the Finance Department and City Manager's Office launched a Procurement Improvement and Readiness Program. This was done "in response to Citywide year-over-year increases in demand for procurement services". The program called for a "comprehensive assessment of the City's procurement and contracting processes to identify opportunities for improved efficiencies". The City hired a consultant for this work, which was completed in April 2022. The

report included current and future state assessments, strategies for procurement, and resources needed for implementation.

In October 2023, the City updated Chapters 4.04 (Contract Authority) and 4.12 (Procurement of Goods and Services) of the Municipal Code to:

- Link the Competitive Procurement Threshold to the Federal Micro-Purchase Threshold.
- Raise the Informal Procurement Threshold from $100,000 to $250,000, aligning it with the Federal Simplified Acquisition Threshold.
- Permit the City to leverage other public entities' solicitations more broadly, provided those solicitations or resulting contracts include language allowing such use.

These changes aimed to simplify procurement, shorten timelines, and reduce the existing solicitation backlog.

In June 2025, the City Council approved changes to the Municipal Code regarding procurement. These included raising the competitive procurement and informal procurement thresholds, recategorizing some goods and services, and modifying the City Manager's contract authority, among others. The ordinance changes were heard for a second reading by the City Council in August 2025 with implementation expected shortly thereafter.

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Finding 1 Re-Assessing Risk Strategies in Key Areas Could Improve Procurement Timeliness

Summary

The City Administration is responsible for balancing the risks of public procurement against the business needs of departments. Policies and oversight help protect the City from a myriad of risks. Conversely, a system that is too risk averse can lead to overly long, untimely procurements. Forty-five percent of surveyed staff reported that their procurement was not completed in time to meet their department's business needs. There are five areas that the City Administration should examine to re-assess whether the current practices and policies align with the desired risk strategy. These are: the competitive procurement threshold, minimum insurance requirements, approvals of software subscriptions, delegation of department authority, and the City's standard terms and conditions.

Additionally, the City should clearly formalize processes or policies in two areas: pilot programs and escalation of contracts with non-standard terms or disagreements regarding insurance. Pilot program procedures are not well defined and can present challenges for approval. When contracts have non-standard terms, leading to stalled negotiations, the escalation process for management review can be lengthy and inconsistent. There is no escalation process for disagreements about what insurance is required.

Rebalancing the City's Approach to Risks Could Speed Up and Simplify Procurements

Every procurement comes with risks. Controlling those risks through policies and procedures can protect the City, but can come at a cost: additional time, effort, and staff. Ideally, the City maintains a system that clearly controls for the biggest risks while still allowing procurements to move through on a timeline that management and City departments deem acceptable.

Procurement risks can take several forms. Examples include:

- Legal risks of exposure to legal liability and contract terms that risk violation of law;
- Contractual risks, whereby a vendor does not perform the services or deliver the goods expected by City staff;
- Physical risks impacting health and safety; and
- Financial risks of overpayment for goods or services.

Policies and oversight can help control these risks. In the procurement process, this takes the form of:

- Municipal Code regulations, City Policy Manual sections, and Purchasing's internal procedures.
- Competitive bidding for contracts above certain dollar thresholds.
- Oversight from Purchasing staff to help develop and review complex solicitations.
- Review from the City Attorney's Office for legal and contractual concerns.
- Review from the Information Technology Department for IT-related purchases.
- Insurance requirements provided by Finance Risk Management.

These rules and procedures mitigate risks but take time and staff. The decision of how strict the rules and oversight should be—and thus, how much risk is controlled—is up to management and the City Council. There is no one correct approach to setting the level of procurement risk for the City. It is a policy choice.

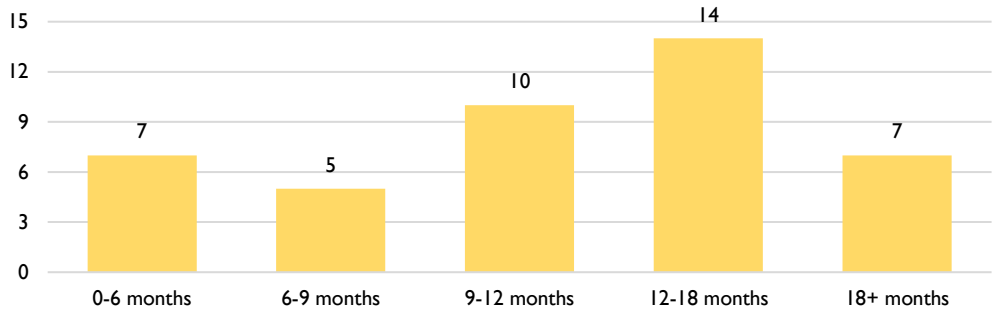
Procurements Take a Long Time

Procurements can take months or over a year, exceeding Purchasing's timeline expectations. Department staff expressed frustration with the time it takes to complete procurements. In a survey of department fiscal officers and staff with recent strategic procurements, 38 of the 85 respondents (45 percent) reported that their procurement was not completed in time to meet their department's business needs. Timeliness was one of the most common difficulties reported with the procurement process. Staff also commented on the number of steps in the process and lack of flexibility in the requirements.

Purchasing's expectation is that RFPs are completed within 6-9 months, from assignment to Purchasing staff through completion. Based on internal data kept by Purchasing, three-quarters of the RFPs handled by Purchasing completed between 2019 and 2024 took longer than that.[3] Nearly half took more than one year.

[3] This does not include RFPs for consultant agreements. These are not handled or tracked by Purchasing.

Exhibit 5: Most RFPs Took Longer Than Expected Nine Months to Complete



Source: Auditor analysis of Finance Purchasing's internal strategic projects log. Data shows RFPs completed between 2019 and 2024 with manually entered assignment and completion dates. Data does not include RFPs that were canceled or closed or consulting agreements not handled or tracked by Purchasing.

Starting in the FY 2025-26 Proposed Operating Budget,[4] all purchase orders, regardless of dollar value, have a target of completion within 90 days. Nearly 95 percent of purchase orders met this target in FY 2024-25. It took 31 days on average to process a purchase order in FY 2024-25.

The City Administration Should Re-assess Current Policies and Practices in Five Areas

Currently, City staff describe the City as averse to taking on procurement risk. The City does not have a formal policy about procurement risk or a stated level of risk appetite. The risk appetite, or willingness to take on risk, is shaped by different aspects of the procurement rules. This includes dollar thresholds for different types of procurements, minimum requirements for vendors, and oversight from Procurement staff.

There are five areas that the City Administration should re-assess to determine if the current approach to controlling risks aligns with the City's risk appetite. Staff have raised concerns that requirements in these areas have impacted the ability for the procurements to be timely and meet their business needs.

For any of these areas, adjusting the approach to take on more risk or allow for more flexibility could help reduce cycle times, making procurements move more quickly. It could also free up staff capacity. By reducing time spent on smaller value procurements or tied up in negotiations, Purchasing staff could focus their attention on higher risk RFPs. However, adjusting the City's approach could also expose the City to more legal, contractual, physical, and financial risks.

[4] Previously, the performance measure distinguished different time targets based on the dollar value of the purchase order.

The following section presents each of these five risk areas and the potential adjustment to the current approach that the City Administration should evaluate.

1. Competitive procurement threshold

   As of July 2025, any procurement over $10,000 required a competitive process, with few exceptions. That threshold had been in place for at least 18 years.[5] Due to inflation, $10,000 in 2007 is the equivalent of over $16,000 today.

   In June 2025, the City Council approved a change to the Municipal Code to raise the competitive threshold to $15,000. This ordinance change was heard again in August 2025 with implementation expected shortly thereafter.

   Potential Adjustment

   The City could further raise the competitive procurement threshold above $15,000. The City Administration has direction to explore opportunities to further increase the competitive procurement threshold for procurements that do not have state prevailing wage requirements.[6] The cities of Los Angeles and San Diego have $25,000 competitive procurement thresholds. A higher threshold would reduce the number of competitive solicitations, freeing up staff time in departments and Purchasing. Between May 2024 and May 2025, 100 competitively procured purchase orders (12 percent of the total, or roughly 2 per week) were for $10,000 – $25,000.

   The City would have to ensure that federally funded contracts still comply with all relevant federal requirements and procurement limits. Additionally, Finance staff notes that non-competitive procurement can have long contract negotiations. Without bidding on a contract, vendors may be less aware of the City's terms and less willing to negotiate. For contracts that have state prevailing or living wage requirements, bidding ensures that vendors are aware and agree to comply.

2. Insurance Requirements

   Risk Management within Finance provides insurance requirements for the City's agreements. The Risk Management team generally requires:

   1) Commercial general liability insurance,

[5] The limit for purchases of goods on a City p-card is also $10,000. If the City Administration chooses to change the p-card policy, aligning the p-card limit to the competitive procurement threshold could streamline those procurements.

[6] The State of California has prevailing wage requirements for certain contracts over $15,000. In June 2025, the City Council approved direction to the City Administration to explore the possibility a threshold above $15,000 for procurements that do not involve state prevailing wage requirements.

2) Worker's Compensation insurance (required by the state),
3) Automobile liability insurance, and
4) Cybersecurity insurance, when applicable.

Commercial insurance protects the City and the vendor and is required whenever there is an indemnification clause in a contract. Per Risk Management, automobile liability insurance is required for almost all vendors as the vendor may use a vehicle for City business. There is a process to waive Worker's Compensation insurance, following state exceptions.

Potential Adjustment

The City could use a risk assessment to determine insurance requirements and waive insurance in specific, low-risk situations.

A commonly cited concern about insurance was regarding automobile liability insurance. Department staff reported being unable to contract with vendors due to a lack of automobile liability insurance, even if the contract scope of work did not involve driving. Per Risk Management staff, automobile liability is a common area of contract risk.

The City of Long Beach waives automobile liability insurance if the vendor states in writing that they will not use a vehicle in relation to the contract. The County of Santa Clara has a similar practice. The City of Los Angeles only requires auto insurance when vehicles are used in performing work on the contract.

The State of Oregon has a publicly available risk assessment tool to determine what insurance is required for a given contract. Considerations include the type of work and the frequency of higher-risk activities. Contracts with higher scores have higher insurance requirements; contracts with lower scores have lower requirements or, in some cases, can have certain types of insurance waived.

3. Software Subscriptions

Software subscriptions can be difficult to procure because of vendors' required end-user terms and conditions. City staff are not allowed to click to agree to standard end-user terms and conditions that commonly come with a subscription, also called end-user license agreements.

In some cases, these subscriptions are low cost and low risk. Also, there may be low likelihood of the vendor agreeing to the City's terms and conditions. In such situations, the City Attorney's Office may not find it worthwhile to negotiate with the vendor. The options would be to use the software with the

vendors' terms, or not use it at all. This has caused frustration and delays for departments.

For example, one office wanted to procure a subscription for a specific website builder. The subscription reportedly cost $25 per month and it was not viable to negotiate the terms with the vendor. The office reported the issue to the Director of Finance. After escalating the matter to the City Manager's Office, the Assistant City Manager reviewed and approved the purchase as an exception.

Potential Adjustment

An expedited approval process for certain subscriptions would speed up procurements and potentially reduce frustration for department staff. Per the City Attorney's Office, this would be best applied to subscriptions that are for small amounts, limited durations, and have low chances to negotiate with the vendor. Some past approvals have also required some additional oversight and reporting requirements.

The County of Santa Clara and the City and County of San Francisco state that their standard terms and conditions supersede any end-user license or click-through agreements, and that the latter are null and void. The County of Santa Clara includes this as a standard contract provision, and San Francisco has passed an ordinance regarding this. The City Attorney's Office expressed concern that an ordinance has not been tested in court and a contract provision could be challenged by a vendor during negotiations.

4. Department Authority

Departments handle some types of procurements more independently. Specifically, Purchasing allows departments to conduct some informal procurements (i.e., procurements valued at less than $250,000) that are straightforward to determine the lowest-price vendor. Once they have procured three quotes, they send those and the documentation to Finance to process the final requisition. For informal procurements that are more complex to evaluate, Purchasing has greater involvement.

Departments also handle consulting agreements on their own, with guidance from the City Manager's Office.

Potential Adjustment

Finance could delegate more authority to departments, freeing up time for Purchasing staff and streamlining those procurements. There are two areas where this could be beneficial.

- Department authority to handle informal procurements: In some other jurisdictions, departments have authority over all small-dollar procurements, rather than only a subset like in San José. In Long Beach, departments handle all procurements under $40,000. In the City of San Mateo, this threshold is $50,000. In Milpitas, it's $100,000. San José could allow departments to handle any procurement under a certain threshold, regardless of the type of evaluation. Finance's involvement would only be required for larger procurements that have more complex evaluations.

- Authority to approve some sole source/unique services exceptions: Finance currently approves all requests for sole source, brand name, or unique services exceptions to competitive procurements. One option would be to allow department heads to approve some of these exceptions in limited circumstances, such as the continuation of an existing contract or software if its useful life extends beyond the original contract term.

5. Standard Terms and Conditions

The City has standard terms and conditions for its agreements. The purpose of the standards is to protect the City from legal and financial risks. Per City staff, some terms and conditions are strict while others have some room for flexibility.

The City has strict requirements regarding indemnification and the limitation of liabilities. The City requires that vendors indemnify, or compensate, the City for certain damages or losses that may arise relating to their work, and requires a minimum amount that the vendor is liable for. Per the CAO, the indemnification and limitation of liability requirement can be a hurdle in negotiations with vendors.[7]

The City requires a minimum limitation of liability of $1 million, but vendors sometimes do not accept that.[8] The CAO will sometimes agree to negotiate down the limitation of liability relating to cybersecurity. This decision is based on the risk, as determined by an assessment from staff in the Information Technology Department. However, the CAO reports that the City Manager's Office would need to accept the risks associated with a general limitation of liability lower than $1 million, regardless of the risk exposure.

CAO staff report that there are other terms and conditions that they can negotiate. For example, the City does not typically agree to pay penalties on

[7] Other jurisdictions surveyed, including City of Los Angeles and the Counties of Santa Clara and Los Angeles, require vendors to indemnify the city or county, like San José.

[8] In a contract, the limitation of liability stipulates what and how much the City could recover from the vendor in the event of a default or non-performance of the contract terms.

late fees. However, if the contract requires the vendor to continue services even if the City has not paid promptly, then the CAO would allow limited penalties in the contract. If the vendor has in writing in the contract that they will never set foot on City property, there are some clauses that can be excluded from the contract.

Potential Adjustment

Overall, the City Administration should agree that the terms and conditions that the City Attorney's Office negotiates are in line with the desired risk appetite.

For example, how much the City requires for the limitation of liability is a policy decision. If the City is comfortable accepting more financial risk, lowering the limitation of liability for some procurements may speed up the negotiation timeline. CAO staff reported that they can offer vendors alternative amounts which are acceptable to the City Administration, but said the precedent so far has been to require $1 million.

Recommendation:

1: To align the City's risk strategy with the business need of having timely procurements, the City Administration should re-assess policies for key areas, including:

- **a. Raising the competitive procurement threshold.**
- **b. Establishing formal criteria for waiving certain types of insurance based on an assessment of the risk of the contract.**
- **c. Developing a process to allow procurement of small-dollar software subscriptions without the need for City Attorney's Office review.**
- **d. Granting approval authority to department heads for more low-risk contracts.**
- **e. Examining the current standard contract terms and conditions.**

The City Should Clarify Rules for Pilot Programs

The City does not have clear guidelines around procurements for pilot programs, which can cause delays and confusion. City staff reported problems procuring software for pilot programs, in particular. In one case, a department wanted to test an AI software product for a specific use case. It was a no-cost pilot, but it

took several months to approve because of concerns about it being a non-competitive procurement.

Finance and Information Technology Department staff reported concerns about how pilot programs align with the City's desire for competitive procurements. Pilot programs often start small, but if the pilot is successful, staff may want to continue using the software. In some cases, the software may not have been competitively procured because the value was below the competitive threshold. As costs grow, a competitive process becomes required. To get around this, staff may request a sole source/unique service procurement.

Council Policy 0-40 "Framework for Establishing Demonstration Partnerships" includes a process for pilot programs. It states that pilot programs "should to the extent possible follow the procedures established by the Finance Department/Purchasing Division or the Public Works Department, if the project is a public work." There are no procedures specific to pilot program procurement currently in place. The policy further states that all demonstration partnerships should have a "limited duration," but that is not clearly defined.

The County of Santa Clara requires that pilot programs last less than one year and total less than $50,000. Additionally, the policy states:

> *Pilot project and product demonstration agreements may not serve as a basis for any non-competitive purchase and may not serve as the sole basis of the public interest justification of any single or sole source approval relating to the relevant agreement.*

Clear parameters would help department staff understand what qualifies as a pilot program and how to navigate the process. To preserve open competition, the rules should spell out how to avoid having a pilot interfere with competitive procurements. This could include requiring that the City stops using the product or service for a period of time before they begin a competitive procurement.

The rules could also require that information about the pilot be in later solicitation documents, so all vendors are aware of the pilot's success or failure when they bid. This way, a successful pilot can still lead to a competitive process, where the piloting vendor's performance can be evaluated against other bidders. This is the policy in Santa Clara County.

At the time of the audit, Finance staff were working with the Information Technology Department on guidelines regarding pilot program procedures. The expectation is that these will be finalized in the coming months.

Recommendation:

2: The City Administration and the Finance Department should clarify and document rules for pilot programs including the allowed duration, maximum value, procurement types, and transition to a competitive procurement.

The City Should Formalize the Process for Handling Exceptions

The process for escalating contract exceptions to the City Manager's Office is not well documented and can be lengthy. When a contract should be escalated and to whom should be formalized and documented to make the process quicker. Per Purchasing, exceptions primarily arise on contracts for software products.

Currently, contracts are escalated when the City Attorney's Office cannot come to an agreement with the vendor on certain terms and conditions in the contract. The attorney, Purchasing, the Information Technology Department, and department staff prepare information about the contract and the risks on a standard form. The information is sent to the City Manager's Office to review and determine, based on the risks, whether to accept the non-standard terms.

In some cases, the City Manager's Office has declined to sign the agreement, and it was sent to the City Council. The City Council has the ultimate authority to accept risks associated with the City's contracts. Per the San José Municipal Code, the City Manager is not authorized to sign any contract that "[m]ay expose the city to an extraordinary risk which the city council has not authorized."[9] However, "extraordinary risk" is not defined in the Municipal Code. In one instance, the City Attorney's Office explicitly stated that the contract was low risk, but it was still elevated to the City Council for approval. The City Council approved the agreement **two years** after the contract negotiations began.

For one contract for a software product, the department's purchase order term ended, and they needed to sign a new agreement.

- → The department had been using the product for fifteen years, under the terms of a previous agreement.
- → The City's requirements had changed from the original agreement.
- → Negotiations took months, a joint meeting, and over 90 emails between City staff and the vendor. The City Attorney's Office and the vendor's attorneys could not align the vendor's requests with the City's updated standard terms.
- → The contract was sent to the City Manager's Office for approval **one year** after the City began contract negotiations with the vendor.

[9] San José Municipal Code §4.04.070 (B) "Limitations on Contract Authority."

- → The City Manager determined that the exceptions need to be approved by the City Council. At the time of the audit, that approval was still pending.
- → Meanwhile, the department continued to use the software product without a current agreement.

The Current Approval Chain Is Not Formalized

Department staff can approve some contract exceptions if they relate directly to business needs. For example, the City usually does not allow a vendor to terminate a contract. If this is a hurdle in negotiations, the CAO will ask the department if it is acceptable to agree to that. The department can determine what would be suit their operations.

However, there is no formal policy as to when a contract should get escalated beyond the department, Purchasing, and the City Attorney's Office, or to whom precisely it should be sent to. There is also not a clear process for escalating problems up to the Finance Director.

The standard form includes a line for signature by the Director of the Administration, Policy, and Intergovernmental Relations within the City Manager's Office. However, the City Attorney's Office staff noted that the City Manager can delegate authority to accept risks, and that different Deputy City Managers had approved non-standard terms in the past. For a recent review, the Assistant City Manager approved the contract exception.

Risk Management Decisions Do Not Have an Escalation Process

Per the Finance Department, there is not an escalation process for disagreements regarding decisions from Risk Management. As discussed previously in this finding, insurance requirements can be a challenge in the contracting process. In addition to a re-evaluation of what insurance should be required, the City should have an escalation process for unresolved disagreements in this area. This would elevate to management the decision about what risks the City is willing to take on, balanced with the importance of a particular vendor or contract.

A Documented, Formal Process Would Promote Consistency and Timeliness

Clear processes with designated roles, workflows, and criteria promote timely decision-making and consistency. The City has a model for this in the early stages of a solicitation: the Procurement Prioritization Board (PPB). The City uses the PPB to ensure that highest priority RFPs are assigned promptly. The PPB tool for assessing RFP priority, process steps, assigned staff, and meeting schedule are all documented, making the overall process transparent for City staff.

The process for contract exceptions should similarly be documented, transparent, and consistent. Specifically, a formalized process should establish:

- When in a negotiation a contract should be escalated.
- Who is authorized to approve contracts with non-standard terms or insurance, including when department staff can authorize exceptions versus when the contract must be reviewed by the City Manager's Office
- Information that should be included by Purchasing, Risk Management, and the City Attorney's Office to inform the decision, including the risks associated with accepting the terms.
- What "extraordinary risks" (per the Municipal Code) are, and how they should be handled.
- Circumstances that would qualify a contract for the exceptions process. Finance staff shared concerns that, if a policy was publicized, department staff would be less willing to work with alternate vendors if their first-choice vendor would not agree to the City's terms and conditions.

Recommendation:

3: The City Administration, Finance Department, and City Attorney's Office should update and document the process to handle exceptions to the City's standard contract terms and conditions, including when contracts should be escalated, to whom, and what information is required.

Finding 2 Better Tracking of Strategic Procurements Would Help Purchasing Measure Progress and Performance

Summary

Purchasing's current tool for tracking strategic procurements does not consistently capture key milestones, limiting insight into project timelines and areas for improvement. Purchasing's internal log contains inconsistent and incomplete data, making it difficult to use for performance measurement or supervisory review. Other jurisdictions have implemented tracking systems and performance measures that support transparency and help manage procurements. To strengthen procurement operations and oversight, Purchasing should implement a workflow system and develop performance measures for strategic procurement cycle times.

Better Tracking of Strategic Procurement Projects Would Improve Performance Reporting and Oversight

It is difficult for Purchasing to measure performance and monitor progress of strategic procurements. Currently, Purchasing uses an internal projects log to record notes and keep a list of strategic procurements.[10] The internal log does not provide clear information about interim process milestones and status notes are manually entered in an inconsistent format across projects.

Consistent, complete tracking of milestones would allow for the development of strategic procurement performance measures, which Purchasing does not have.[11] Strategic procurements, primarily Requests for Proposals, typically include more stakeholders and can take a long time.

The need for procurement cycle time metrics was specifically outlined by the former mayor in October 2021, when he stated that this data would help assess how the City is measuring performance and how well it is doing against those metrics. In May 2022, the consultant report on the City's procurement function further noted that: "[Purchasing's key performance indicators (KPIs)] fail to account for the Strategic Procurement Team's work. By focusing entirely on

[10] This finding focuses on strategic projects because they are tracked manually by Purchasing, unlike tactical projects which are tracked through the City's financial management system.

[11] Finance only has one performance measure for procurement in the FY 2025-26 adopted operating budget, however it relates purchase orders processed within 90 days, which is the work of the Tactical Procurement team. Finance tracks some other high-level indicators, such as insurance clearance turnaround time and the cost of procurement as a percentage of dollars procured.

purchase orders, the KPIs miss [strategic procurement] processing and contract work."

Purchasing has posted timeline expectations for procurements as shown in Exhibit 6, but these are considered average timeframes and are not tracked as metrics.

Exhibit 6: Purchasing Has Timeline Expectations for Procurements

Finance-Purchasing Procurement Timelines

Estimated timeframes for processing a purchase request (from the time Finance-Purchasing receives complete documentation and required approvals) are as follows:

- Non-competitive purchase orders (≤$10,000) or three quotes/cooperative purchase orders: roughly 2-3 weeks.
- Requests for Quotes (≤$250,000): if award based on lowest price, roughly 4-6 weeks; if award based on best value, roughly 3-6 months.
- Requests for Bids (>$250,000, award based on lowest price) roughly 4-6 weeks.
- Requests for Proposals (>$250,000, award based on best value) roughly 6-9 months, order of assignment based on priority set by Procurement Prioritization Board.
- Council approval (> $350,000 for services; and > $1,430,000 for products), roughly 1-2 additional months.

*Timelines above assume successful bid processes, vendors are responsive with required documentation (insurance, CA SOS registration, etc.), and that there are no protests or changes to the City's standard terms and conditions.

Source: Finance Department's Intranet site.

Capturing And Reporting Metrics About Cycle Times for Strategic Procurements Would Help Purchasing Assess Performance

Purchasing's current internal log records when they were first notified of a procurement, when it was assigned to a staff member, and when the contract was awarded. But some dates are missing, and the data is inconsistently entered by staff, making it harder to rely on.

In addition to measuring the overall timeline of projects, tracking interim milestones would allow Purchasing to gain valuable insight into where delays occur and where improvements are possible. These dates are not universally tracked in the current log. For example, when scope review begins or when IT review is due are noted for some projects, but not others. Similarly, not all notes include the date that the RFP was posted online.

As such, the log does not allow for tracking timeliness data across key stages of the procurement process such as solicitation development, proposal evaluation, and contract negotiations. This information can inform future training needs and demonstrate when other departments are responsible for delays. For example,

during one procurement, Purchasing waited for six months while a department revised the scope of services. This can signal to Purchasing where and how departments may need additional guidance.

The format and use of the current log also hinders the ability of management to effectively monitor progress on individual procurements. Purchasing Division management affirmed that the current log did not accurately reflect staff's workload, and status notes were not clear enough to use for supervisory review.

Due to the complexity of many RFPs, status notes often contain a substantial amount of text in a small box. One project had the equivalent of five-and-a-half pages of text written into a single cell on the sheet, significantly diminishing usability.

Other Jurisdictions Have Metrics and Comprehensive Tracking

Some procurement functions in other jurisdictions have established performance metrics, dashboards, and tracking mechanisms.

- The City of San Diego measures cycle times for RFP completion and is creating a performance dashboard to show purchasing staff how long procurements take by team or department, offering insights into delays and improving transparency.
- The City of Long Beach has reports on performance metrics such as:
    - Cycle times: broken down into sections such as time it takes to draft a bid or RFP, how long bids are out for, and time it takes to evaluate.
    - Bidder participation levels: local, small, minority-owned, and women-owned.
    - Workload metrics: Outreach done to vendors, how many solicitations posted, value of solicitations.
- Santa Clara County reported tracking RFP turnaround time annually.
- San Mateo County is hiring a consultant to help develop performance metrics.

Some jurisdictions, including San Diego, San Mateo County, Long Beach, and San Francisco, also use systems to centralize requisitions or allow more streamlined communications between purchasing and department staff.

Other jurisdictions reported that their software systems have enabled or improved their ability to track and monitor progress. The City's current electronic procurement platform has been in place since November 2019. Although the platform includes several modules, Purchasing reports only used the bid solicitation module thus far. During the audit, Purchasing began testing the contract management module. Using the intake and procurement planning

modules would also be helpful for Purchasing. They could standardize department requests, track timeliness targets, and manage multi-step projects such as RFIs or pilot programs that later become competitive procurements. The platform also allows users to build templates and send automated reminders. The City should use the existing platform to better measure and report on procurement performance.

Recommendations:

4: To promote greater transparency and accountability in the strategic procurement process, the Finance Department should implement a project status tracker or workflow system that enables:

a. Tracking the timeliness of overall and interim milestones such as solicitation development, bid posting, vendor evaluation, and contract negotiations; and

b. Supervisory review of project progress.

This could include expanded use of the current electronic procurement platform.

5: The Finance Department should develop performance measures for strategic procurement projects including cycle times for key process milestones.

Finding 3 Purchasing Should Consolidate and Update Procurement Guidance for Departments

Summary

The City's procurement guidance is spread across over 100 separate links and documents, leaving City departments without a single, easy-to-navigate reference for policies and procedures. This fragmented setup makes it more difficult and time-consuming for staff. More than half of respondents to an auditor survey of department fiscal officers and contract managers said they needed more guidance, particularly as it relates to scope development. To better support City departments, Purchasing should consolidate all policies, templates, and reference material into a single user-friendly handbook and provide clearer scope-writing tools. Additionally, some sections of the City Policy Manual related to procurement have not been updated for many years and do not reflect current processes. They should be reviewed and updated to align, as necessary, with current practices, processes, and thresholds.

Enhancing Usability and Consistency Through a Procurement Manual

Half of City staff survey respondents said they needed more guidance from Purchasing on procurement requirements, which was the most commonly cited challenge about the difficulties they faced in the procurement process.

However, Purchasing's procurement guidance is extensive, spanning over 100 different links and downloadable files, meaning that the issue may be more about clarity than quantity. Information is stored on webpages across Purchasing's intranet site, making navigation difficult and time-consuming—particularly for newer staff or first-time users.

Exhibit 7 demonstrates a few examples of how the guidance from Purchasing is currently organized.

Exhibit 7: Fragmentation of Procurement Guidance Impacts Usability of Resources

Section of Procurement Guidance	Number of Unique Links
Tactical Procurement Guidelines	8 separate forms, templates, examples
Strategic Procurement Guidelines	12 separate forms, templates, examples
Purchasing Trainings	16 different trainings from 2022-2024 with slides and recordings for each
Consulting Services Resources	16 separate pages and trainings, including info about the electronic procurement platform

Source: Auditor analysis of Finance Department's Intranet page as of June 2025

The California Association of Public Procurement Officials (CAPPO)'s best practices recommend that procurement divisions maintain a comprehensive policy manual. Currently, Purchasing does not have a consolidated reference that outlines roles, procedures, and expectations across procurement types. To strengthen the procurement function and better support City departments, Purchasing should consolidate its policies, procedures, and reference material into a single, user-friendly handbook. This could help staff find relevant information, understand procedures, and complete procurements more consistently across departments.

A consolidated handbook which outlines thresholds, solicitation types, scope-writing guidance, and procedures would be a valuable reference for both new and experienced City staff. Purchasing Division management supported developing a consolidated handbook, and most Purchasing staff interviewed also expressed that better policies and procedures are needed.

Benchmark jurisdictions offer useful models:[12]

- San Mateo County's procurement handbook, co-developed with its County Attorney's Office, includes roles and responsibilities, solicitation types, procurement methods, workflow charts, and guidance around how to conduct each phase of a procurement, depending on the type.
- The City of San Diego's procurement manual provides staff with guidance on procurement laws, selecting appropriate procurement methods, developing scopes and specifications, and routing contracts for approval. It includes tools like a workflow chart and RFP project planner, while also addressing cooperative purchasing options and requirements such as living wage.

[12] The City has contract administration and management guidelines which establish procedures, responsibilities, and best practices for overseeing various agreements such as for consulting, excluding public works contracts, to ensure compliance and efficiency. This handbook could be referenced as an internal model.

Departments Need Assistance With Scope Development

Department fiscal staff report that developing the scope of work for a procurement as a challenge. Over half of respondents to an auditor survey reported that they found the scope of services/product specification(s) was difficult to develop or that they had difficulty filling out the required forms/documents correctly. Some respondents reported having both problems. Writing a clear and complete scope is a foundational part of a successful procurement, as it defines the City's needs, sets expectations for vendors, and serves as the basis for evaluating proposals.

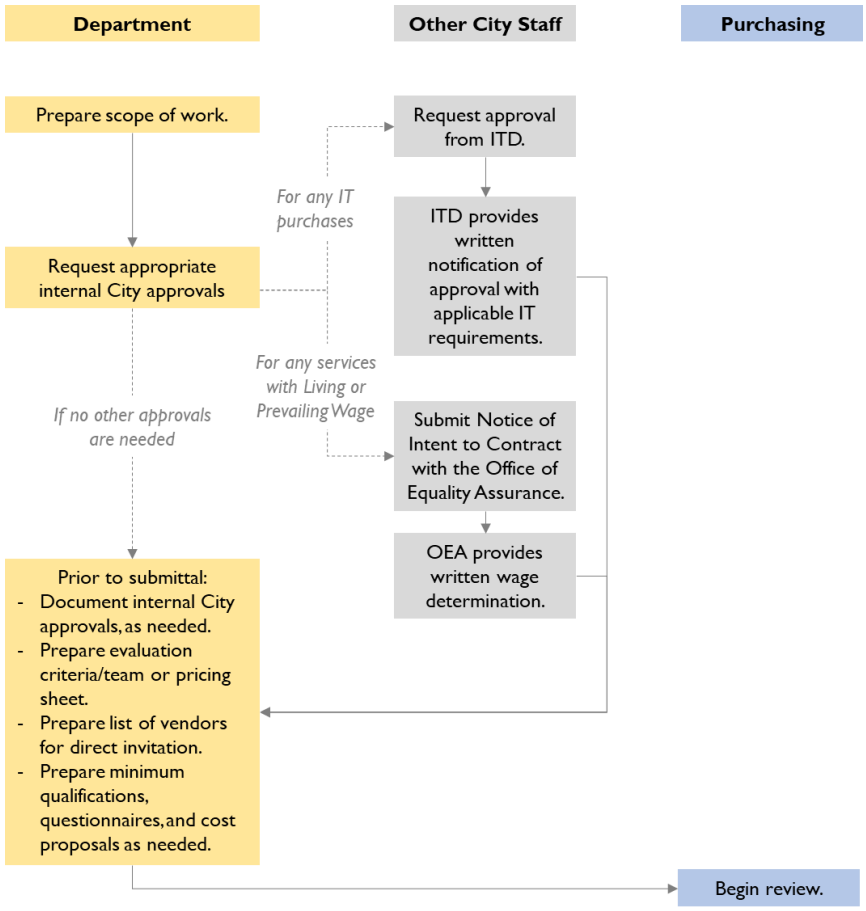
Purchasing staff also shared concerns in this area, noting that poorly written scopes require extra clarification and revision, which slows down the procurement timeline and reduces the quality of vendor responses if unaddressed. For Purchasing, the quality of the scopes they receive directly impacts how much time they will need to spend refining and finalizing it. One Purchasing staff member noted sometimes receiving scopes that were up to 50 pages long and far too specific. They shared that it would be more helpful if department staff organized what they wanted to purchase into "must, should, could, and want" categories to appropriately tailor the scope to their desired outcomes from the procurement.

In focus group meetings, department staff expressed the need for better guidance and standardized templates to support effective scope writing. Staff shared that unclear expectations, inconsistent examples, and a lack of user-friendly guidance often contributed to confusion or back-and-forth during the solicitation process. When asked why a procurement took longer than expected, one of the most prevalent reasons given by survey respondents was having to re-do forms, documents, or the scope of services after submitting to Purchasing for review.

One example of clear guidance, specific to scope development, is the City of Long Beach's RFP template and instruction document. This resource achieves, in one document, what can be gathered from 11 different files in the City's current guidance. It also addresses additional topics which the City's guidance does not, such as putting performance metrics into scopes and RFPs, details on contract management, and how to create a good proposer questionnaire.

Departments are meant to be highly involved at the outset of the procurement process, taking the lead in defining what they would like to procure and preparing the necessary documentation. Exhibit 8 outlines the steps required to initiate a competitive procurement, illustrating the front-loaded effort from departments in drafting a scope and completing required forms.

Exhibit 8: Process of Initiating a Competitive Procurement



Source: Auditor analysis of Tactical Procurement Guidelines, Strategic Procurement Guidelines

Purchasing is exploring some ways to support departments more effectively in this area. This includes working with the Information Technology Department to pilot generative AI tools to assist with scope writing.

The use of AI for scope writing was reported by benchmark jurisdictions as well:

- San Mateo County's electronic procurement platform has an AI scope of work assistant which management said provided about 60 to 70 percent of what was needed, such that the scope could be completed faster with finishing edits from staff.
- The City of San Diego's Purchasing staff uses AI for scope development and encourage department staff to use it as a tool for writing scopes and contract language.

Recommendations:

6: The Finance Department should develop a consolidated, user-friendly procurement handbook with up-to-date policies, procedures, instructions, and guidance regarding:

a. Roles and responsibilities of Purchasing and other department staff,

b. Procurement thresholds and types of solicitations, and

c. Step-by-step instructions for conducting procurements including how to complete templates and forms.

7: To better support City departments in their procurement efforts, the Finance Department should develop and disseminate guidance in the form of practical examples, standardized templates, and other tools or resources for creating clear and functional scopes of work.

The City Policy Manual's Section on Procurement Is Outdated in Some Places

The City Policy Manual serves as an internal administrative guide for City operations. There are multiple sections related to procurements. Some of these have not been updated for many years and do not reflect current processes.

The City Policy Manual complements the procurement requirements in the City's Municipal Code. For example, while the Municipal Code sets procurement thresholds, the City Policy Manual outlines how to process contracts within those thresholds.

Examples of areas where the City Policy Manual does not align with current processes include:

- *§5.1.3 – Source Selection Plan*: This policy references developing a Source Selection Plan for procurements over $1 million, but current procedures do not require that.
- *§5.1.7 – Procurement of Supplies, Materials, and Equipment*: This policy references outdated procurement thresholds ($100,000 versus the current $250,000) and does not account for the City using an electronic bidding platform.
- *§5.1.9 – Procurement of Information Technology*: This policy references receiving approval from the Information Technology Planning Board for procurements over $100,000, a board which is no longer active; it also does not address important topics like data security, cyber insurance, subscription models, or software-as-a-service.

As the City continues to modernize its procurement process, such as by introducing cooperative agreements, amending the Municipal Code, and beginning to create a procurement handbook, it should also conduct a timely review of the City Policy Manual to ensure alignment with current thresholds, policies, procedures, and technologies.

Recommendation:

8: To ensure that City policies are up-to-date and applicable to current operations, the Finance Department should work with the City Attorney's Office, the City Manager's Office, and the Information Technology Department to review and update the City Policy Manual to reflect current procedures, particularly relating to:

- **a. Section 5.1.1 Procurement and Contract Process Integrity;**
- **b. Section 5.1.3 Source Selection Plan;**
- **c. Section 5.1.4 Brand Name and Sole Source Procurements;**
- **d. Section 5.1.6 Procurements with Grant Funds;**
- **e. Section 5.1.7 Procurement of Supplies, Materials, and Equipment;**
- **f. Section 5.1.8 Procurement of Non-Professional Services; and**
- **g. Section 5.1.9 Procurement of Information Technology.**

Conclusion

An effective procurement process should balance risks with timeliness, provide clear guidance to staff, and have methods to track performance for continuous improvement. Currently, Requests for Proposals in the City often exceed timeliness expectations. The City should re-assess the competitive procurement threshold, insurance and contract requirements, and delegation of authority to departments to ensure these meet the City's desired approach to procurement risk. Additionally, Finance should improve tracking and accountability by implementing a better workflow system, developing performance measures, and ensuring staff have the guidance and support needed to complete their procurement duties.

RECOMMENDATIONS

Finding 1: Re-Assessing Risk Strategies in Key Areas Could Improve Procurement Timeliness.

Recommendation #1: To align the City's risk strategy with the business need of having timely procurements, the City Administration should re-assess policies for key areas, including:

a. Raising the competitive procurement threshold.

b. Establishing formal criteria for waiving certain types of insurance based on an assessment of the risk of the contract.

c. Developing a process to allow procurement of small-dollar software subscriptions without the need for City Attorney's Office review.

d. Granting approval authority to department heads for more low-risk contracts.

e. Examining the current standard contract terms and conditions.

Recommendation #2: The City Administration and the Finance Department should clarify and document rules for pilot programs including the allowed duration, maximum value, procurement types, and transition to a competitive procurement.

Recommendation #3: The City Administration, Finance Department, and City Attorney's Office should update and document the process to handle exceptions to the City's standard contract terms and conditions, including when contracts should be escalated, to whom, and what information is required.

Finding 2: Better Tracking of Strategic Procurements Would Help Measure Progress and Performance.

Recommendation #4: To promote greater transparency and accountability in the strategic procurement process, the Finance Department should implement a project status tracker or workflow system that enables:

a. Tracking the timeliness of overall and interim milestones such as solicitation development, bid posting, vendor evaluation, and contract negotiations; and

b. Supervisory review of project progress.

This could include expanded use of the current electronic procurement platform.

Recommendation #5: The Finance Department should develop performance measures for strategic procurement projects including cycle times for key process milestones.

Finding 3: Purchasing Should Consolidate and Update Procurement Guidance for Departments.

Recommendation #6: The Finance Department should develop a consolidated, user-friendly procurement handbook with up-to-date policies, procedures, instructions, and guidance regarding:

a. Roles and responsibilities of Purchasing and other department staff,

b. Procurement thresholds and types of solicitations, and

c. Step-by-step instructions for conducting procurements including how to complete templates and forms.

Recommendation #7: To better support City departments in their procurement efforts, the Finance Department should develop and disseminate guidance in the form of practical examples, standardized templates, and other tools or resources for creating clear and functional scopes of work.

Recommendation #8: To ensure that City policies are up-to-date and applicable to current operations, the Finance Department should work with the City Attorney's Office, the City Manager's Office, and the Information Technology Department to review and update the City Policy Manual to reflect current procedures, particularly relating to:

a. Section 5.1.1 Procurement and Contract Process Integrity;

b. Section 5.1.3 Source Selection Plan;

c. Section 5.1.4 Brand Name and Sole Source Procurements;

d. Section 5.1.6 Procurements with Grant Funds;

e. Section 5.1.7 Procurement of Supplies, Materials, and Equipment;

f. Section 5.1.8 Procurement of Non-Professional Services; and

g. Section 5.1.9 Procurement of Information Technology.

APPENDIX A

Audit Objective, Scope, and Methodology

The mission of the City Auditor's Office is to identify ways to increase the economy, efficiency, effectiveness, equity, and accountability of City government by assessing and reporting City operations and services. The audit function is an essential element of San José's public accountability and our audits provide the City Council, City management, and the public with independent analysis, reliable information, and recommendations for improvement of City operations and services. In accordance with the City Auditor's Fiscal Year (FY) 2025-26 Audit Work Plan, we have completed an audit of procurement. The audit was conducted in response to a request from the Mayor and a Councilmember.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objective of this audit was to assess the efficiency of the City's procurement processes for goods and services, not including public works projects. We sought to understand the relevant internal controls over procurement, and have performed the following to achieve the audit objective:

- To understand the procurement process, we:
    - Interviewed Finance Department, City Attorney's Office, and City Manager's Office staff about their roles and procurement requirements.
    - Reviewed the City's Municipal Code and City Policy Manual sections relating to procurement to determine current rules and requirements.
    - Interviewed staff in the Information Technology Department about the process for software procurements and analyzed data to understand trends in the timeliness of solicitations and negotiations for software procurements.
    - Assessed the guidance for cooperative agreements and how they align with the City's goals for competition and efficiency.
    - Evaluated Finance's guidance and templates for procurements to determine whether it was sufficient and effective to educate staff.
    - Reviewed entries into the Strategic Procurement team's internal log to assess the consistency, completeness, and record-keeping methods.
- To understand the experience of City departments with the procurement process, we:
    - Conducted a survey of fiscal officers and staff with recent strategic procurements, which received 85 responses across 17 departments. Approximately 145 staff directly received an email invitation to respond to the survey. The email requested recipients to forward the survey link to other colleagues who had completed procurements, so the exact number of recipients of the survey is not known.
    - Held three focus groups of survey respondents (14 staff in total) to ask more in-depth questions.

    - Interviewed select staff about their concerns and recent projects.

- Analyzed data on recent procurements to evaluate the timeliness of Requests for Proposal and the dollar value of purchase orders.
- To understand reasoning behind non-competitive awards, we reviewed a limited sample of sole source procurements that were approved in 2024.
- Researched authoritative standards to understand procurement best practices, including from the California Association of Public Procurement Professionals (CAPPO); the National Association of Procurement Professionals (NASPO); the states of California, Oregon, and Washington; and the federal government.
- Benchmarked to other jurisdictions: the City and County of San Francisco; the cities of San Diego, Los Angeles, Long Beach, and Milpitas; and the counties of Santa Clara, Los Angeles, and San Mateo.

We would like to thank the Finance Department, the City Attorney's Office, and the City Manager's Office for their time and insight during the audit process.

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: JOE ROIS
CITY AUDITOR

FROM: Maria Öberg

SUBJECT: See Below

DATE: August 11, 2025

Approved Date: 8/8/2025

SUBJECT: Response to the City Auditor on the Audit of Procurement: The City Should Review Its Risk Strategy, Performance Measurement, and Guidance to Improve the Procurement Process

BACKGROUND

The City Auditor conducted an audit of procurement processes overseen by the Finance Department. The Finance Department's Purchasing and Risk Management Division manages the centralized procurement of commodities, general services, and information technology Citywide. The objective of this audit was to assess the efficiency of the City's procurement processes for goods and services, not including public works projects.

The Purchasing and Risk Management Division continues to work diligently to improve and streamline procurement processes to better serve partner City departments while maintaining process integrity. The Division has implemented several key changes to accomplish this goal, including:

- Amendment to certain provisions of the Municipal Code in 2023to increase procurement thresholds and expand the use of cooperative procurement,
- Establishing guidelines for the use of cooperative procurement and the three-quote process,
- Amendment to the City Procurement Card Policy to streamline small purchases in 2024[1],
- Creation of a refreshed intranet site in June 2025 containing comprehensive guidelines, trainings, and workflows for various aspects of the procurement process, and
- Updating training sessions to enhance the skills of purchasing staff in the departments, both on procurement and insurance requirements.

[1] https://www.sanjoseca.gov/home/showpublisheddocument/17847/638617386034600000

The Division also works with City stakeholders regularly to identify procurement challenges, provide training, and further refine processes.

In addition to process refinement, the Division has worked to provide greater transparency and accountability in the procurement process. This includes (1) revised City Service Area Performance Measures that were first included in the 2025-2026 Operating Budget Document[2], (2) quarterly reports to the Public Safety, Finance and Strategic Support Committee, (3) refreshed reporting resources, such as the Financial Management System, for purchase requisitions, purchase orders, and contracts and (4) quarterly contract reports[3].

Recommendations were also made in Manager's Budget Addendum 27 (MBA 27) to amend specific provisions of the Municipal Code related to procurement. These recommendations aim to streamline the procurement process and reduce potential bottlenecks. A memo[4] and a draft ordinance[5] amending the Municipal Code to incorporate many of these recommendations (the "Ordinance to Amend Procurement Process") were introduced to the City Council for a first reading on June 17, 2025. The second reading is scheduled for August 12, 2025, and, if passed, the amendments will take effect 30 days later.

Under the proposed Ordinance to Amend Procurement Process:

1. Certain contracts would fall under the authority of the City Manager by increasing the maximum value thresholds, thereby reducing the number of contracts requiring City Council approval. These changes include:

    - For the leasing and purchasing of supplies, materials, and equipment, increasing the maximum value from $1,000,000 to $1,430,000;
    - Separating services, which have a maximum value of $350,000, into two categories—professional consulting services and general services—and raising the maximum value to $350,000 and $1,430,000, respectively; and
    - For all other types of contracts not specifically defined under Section 4.04.020(A)(3) of the Municipal Code, increasing the maximum value from $100,000 to $350,000.

2. The competitive procurement threshold would increase from $10,000 to $15,000, meaning purchases valued at $15,000 or less would not require a competitive procurement method.

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[2] https://www.sanjoseca.gov/home/showpublisheddocument/121196/638823120185130000 (pg. 324 & 507)
[3] https://www.sanjoseca.gov/your-government/departments-offices/finance/reports
[4] https://sanjose.legistar.com/gateway.aspx?M=F&ID=522b3f52-f8b7-4f4d-968c-10882a5b5b4e.pdf
[5] https://sanjose.legistar.com/View.ashx?M=F&ID=14271811&GUID=3E57D895-4851-4880-A4D7-D532DD3924B4

3. The informal procurement threshold would increase from $250,000 to $350,000, such that purchases up to $350,000, while still required to be competitive, would not trigger a formal procurement process.

4. The City Manager, along with other stakeholders, would be authorized to extend the term of a contract, regardless of its length, without prior approval from the City Council.

In addition to these proposed amendments, the Finance Department is committed to pursuing further opportunities for improvement. As reflected in MBA 27, these include:

- Exploring further increases to the competitive procurement threshold. While the threshold of $10,000 was adjusted to $15,000 to ensure compliance with prevailing wage requirements, staff will review the possibility of a higher threshold for procurements that are not subject to state registration for prevailing wage compliance.

- Expanding the informal procurement process. The informal procurement threshold was recommended to be raised to $350,000, while also directing the City Manager to develop more comprehensive guidance on best practices to use the informal process. For some types of procurements, clear guidance on the informal process already exists. For example, goods can be procured informally by asking three vendors to provide quotes and then accepting the lowest quote. For other types of procurements, such as professional consultant services, staff will develop guidance to ensure that more procurements can benefit from the informal process, where appropriate.

The Administration has reviewed the City Auditor's report titled "Procurement: The City Should Review Its Risk Strategy, Performance Measurement, and Guidance to Improve the Procurement Process," which contains three findings and eight recommendations. The Administration appreciates the work of the City Auditor's Office in the preparation of this audit report. The following are the Administration's responses to each of the City Auditor's recommendations, along with target dates for implementation.

RECOMMENDATIONS AND ADMINISTRATION'S RESPONSE

Recommendation #1: To align the City's risk strategy with the business need of having timely procurements, the City Administration should re-assess policies for key areas, including:
a) Raising the competitive procurement threshold.
b) Establishing formal criteria for waiving certain types of insurance based on an assessment of the risk of the contract.
c) Developing a process to allow procurement of small-dollar software subscriptions without the need for City Attorney's Office review.
d) Granting approval authority to department heads for more low-risk contracts.
e) Examining the current standard contract terms and conditions.

Administration Response 1: The Administration agrees with this recommendation.

Actions 1a: The Finance Department, in coordination with the City Manager's Office, has proposed raising the City's competitive procurement threshold from $10,000 to $15,000 through amendments to the Municipal Code. The new limit aligns with the threshold established by the State of California for registration of public works maintenance contracts to ensure compliance with prevailing wage requirements. This recommendation is reflected in the proposed Ordinance to Amend Procurement Process. Staff believes this threshold can be raised further, but additional analysis is needed to ensure that a higher threshold does not impair compliance with applicable state requirements.

Target Date for Completion 1a: December 31, 2025

Actions 1b: The Finance Department has revised internal procedures for waiving certain types of insurance, including auto and workers' compensation requirements, based on the scope of the contract for Finance-Purchasing procurements. Procedures for other types of engagements are currently under review. The Finance Department is currently reviewing risk assessment processes and will update insurance requirement procedures as appropriate. This will include a review of what types of insurance requirements may be waived under certain circumstances and for certain types of contracts.

Target Date for Completion 1b: March 31, 2026

Actions 1c: The Finance Department will coordinate with the City Attorney's Office, the City Manager's Office, and other stakeholders to review potential procedures for streamlining small software purchases. MBA 27 recommended that "software licensing and maintenance" be removed from the definition of "services" in the Municipal Code. This recommendation is reflected in the proposed Ordinance to Amend Procurement Process. In staff's experience, software licensing and maintenance more closely resemble a "good" than a "service". This may include revisions to the City's P-Card

Policy[6] so that departments can purchase small-dollar software subscriptions subject to Department Director approval.

Target Date for Completion 1c: March 31, 2026

Actions 1d: Once the competitive procurement threshold is raised to $15,000 as described in action 1a, the Finance Department will work with the City Attorney's Office and City Manager's Office to revise the P-Card Policy so that the limit for the purchasing of goods and services is aligned with the updated competitive procurement threshold. This will provide departments with significantly increased purchasing authority over the current $10,000 limit for goods and $1,000 limit for services. The Finance Department's Purchasing and Risk Management Division will continue to manage procurements and contracting procedures for commodities, general services, and information technology purchases above the competitive procurement threshold of $15,000. As indicated in 1a, the Finance Department will continue to analyze whether this threshold can be raised further.

Target Date for Completion 1d: March 31, 2026

Actions 1e: The Finance Department will work with the City Attorney's Office to review the City's current standard contract terms and conditions and make updates as appropriate.

Target Date for Completion 1e: March 31, 2026

Recommendation #2: The City Administration and the Finance Department should clarify and document rules for pilot programs including the allowed duration, maximum value, procurement types, and transition to a competitive procurement.

Administration Response 2: The Administration agrees with this recommendation.

Actions: The Finance Department has begun coordinating with the City Attorney's Office and Information Technology Department on a formalized process for pilot projects. A draft procedures document has been developed and will be finalized for Citywide use.

Target Date for Completion: December 31, 2025

[6] https://www.sanjoseca.gov/home/showpublisheddocument/17847/638617386034600000

Recommendation #3: The City Administration, Finance Department, and City Attorney's Office should update and document the process to handle exceptions to the City's standard contract terms and conditions, including when contracts should be escalated, to whom, and what information is required.

Administration Response 3: The Administration agrees with this recommendation.

Actions: The Finance Department will coordinate with the City Manager's Office and the City Attorney's Office to update and document the process for reviewing exceptions to the City's standard contract terms and conditions. This will include paths, processes, criteria, and required information for escalation requests.

Target Date for Completion: December 31, 2025

Recommendation #4: To promote greater transparency and accountability in the strategic procurement process, the Finance Department should implement a project status tracker or workflow system that enables:
a) Tracking the timeliness of overall and interim milestones such as solicitation development, bid posting, vendor evaluation, and contract negotiations; and
b) Supervisory review of project progress.

Administration Response 4: The Administration agrees with this recommendation.

Actions 4a-b: The Finance Department is working on developing a framework that will capture overall and interim milestones in the strategic procurement process, including requests for proposals and contract-related items. Once a framework has been finalized, Finance intends to utilize existing software tools for improved transparency and accountability. This may include SimpliGov (the City's electronic workflow system), Biddingo (the City's electronic procurement system), the City's purchase approval system, and other tools to ensure accurate and consistent attribution for strategic procurement items. Finance management will then utilize these tools in addition to existing methods to review project progress at regular intervals once put into place.

Target Date for Completion 4a-b: March 31, 2026

Recommendation #5: The Finance Department should develop performance measures for strategic procurement projects including cycle times for key process milestones.

Administration Response 5: The Administration agrees with this recommendation.

Actions: Once the framework described in actions 4a-b is in place, the Finance Department will develop performance measures based on the framework for strategic

procurement projects. These performance measures will include cycle times for key milestones. The current timeline for the completion of new requests for proposals is listed as six to nine months. Finance will review this timeline and other strategic procurement items to set standards accounting for staffing resources, required procurement procedures, and best practices.

Target Date for Completion 5: June 30, 2026

Recommendation #6: The Finance Department should develop a consolidated, user-friendly procurement handbook with up-to-date policies, procedures, instructions, and guidance regarding:
a) Roles and responsibilities of Purchasing and other department staff,
b) Procurement thresholds and types of solicitations, and
c) Step-by-step instructions for conducting procurements including how to complete templates and forms.

Administration Response 6: The Administration agrees with this recommendation.

Actions 6a-c: The Finance Department recently published a new purchasing intranet site for City staff use in June 2025. The new intranet site includes information on the roles and responsibilities of City staff, procurement paths and thresholds, and step-by-step instructions for required procurement process items. Finance will utilize the new purchasing intranet site as a tool for developing a consolidated, user-friendly procurement handbook for Citywide use.

Target Date for Completion 6a-c: June 30, 2026

Recommendation #7: To better support City departments in their procurement efforts, the Finance Department should develop and disseminate guidance in the form of practical examples, standardized templates, and other tools or resources for creating clear and functional scopes of work.

Administration Response 7: The Administration agrees with this recommendation.

Actions: The new purchasing intranet site, published in June 2025, contains scope of work development resources, including templates and recorded trainings. The Finance Department will develop additional resources for scope development, including examples and standardized templates for specific use cases (e.g., software, general services, commodities) to better support City departments. Finance has also piloted the use of Artificial Intelligence tools as a scope development resource and is exploring further opportunities for their use in the procurement process.

Target Date for Completion 7: March 31, 2026

Recommendation #8: To ensure that City policies are up-to-date and applicable to current operations, the Finance Department should work with the City Attorney's Office, the City Manager's Office, and the Information Technology Department to review and update the City Policy Manual to reflect current procedures, particularly relating to:
a) Section 5.1.1 Procurement and Contract Process Integrity;
b) Section 5.1.3 Source Selection Plan;
c) Section 5.1.4 Brand Name and Sole Source Procurements;
d) Section 5.1.6 Procurements with Grant Funds;
e) Section 5.1.7 Procurement of Supplies, Materials, and Equipment;
f) Section 5.1.8 Procurement of Non-Professional Services; and
g) Section 5.1.9 Procurement of Information Technology.

Administration Response 8: The Administration agrees with this recommendation.

Actions 8a-g: The Finance Department has reviewed Chapter 5.1 – Purchasing Procurement[7] and identified the following sections requiring updates: 5.1.1, 5.1.3, 5.1.4, and 5.1.7 - 5.1.13. Some sections have been identified for potential removal, such as 5.1.3 Source Selection Plan, as they have been superseded by current processes. Finance will work with relevant stakeholders to update and modify City Policy Manual sections as appropriate to reflect current City procedures.

Target Date for Completion 8a-g: June 30, 2026

CONCLUSION

The Administration appreciates the City Auditor's thorough review of the procurement process for goods and services. The Administration is committed to addressing these recommendations promptly to improve procurement efficiency, enhance the tracking of procurement progress and performance, and ensure sufficient guidance is provided to partner departments on procurement related items. Progress updates will be provided to the City Auditor's Office on a semi-annual basis.

/s/
Maria Öberg
Director of Finance

For questions, please contact Albie Udom, Deputy Director of Finance - Purchasing and Risk Management, at Albie.Udom@sanjoseca.gov.

[7] https://www.sanjoseca.gov/your-government/departments-offices/office-of-the-city-manager/employee-relations/city-policy-manual