Higher Education

Pitfalls in Procurement

August 2015
Agenda

1. Introduction
2. Setting the Scene
3. SCM Challenges/Pitfalls
4. SCM as a Strategic Enabler
5. SCM Focus Areas
6. Activity
7. Conclusion
Introduction
“A function that ensures that goods and services are delivered to the right place, in the right quantity, with the right quality, at the right cost and at the right time.”

“SCM has a direct link to long term quality service delivery, human capital development and associated socio economic growth”.

Supply Chain Management
Setting the scene
Setting the Scene – Why is this focus necessary?

Auditor General and External Audit

- The Auditor-General has developed a checklist which is used to audit key areas within universities. Procurement is one of these areas.

- Universities are not obliged to comply with the requirements of the PFMA (Public Finance Management Act of 1999). However, some university councils have decided to adopt the principles of the act, as it results in effective management of finance and supply chain management.

- It is therefore important that the university clearly adopts a procurement policy which stipulates the procurement requirements, as the policy is used by the Auditor-General to express an opinion.
Some of the Challenges
Common Audit Findings in the Industry

- Lack of Declaration of Interest resulting in university staff doing business with the university.
- Lack of effective vetting of suppliers to ensure the following:
  - Tax matters are in order
  - Validating BBBEE level of contribution.
  - Validating company details

- Proof of the required number of quotations not always available.
- Lack of mandatory supporting documentation. (Tax Clearance and BBBEE certificates)
- Cannot locate signed SLA and contract documentation.
- Lack of evidence for approval to deviate from normal procurement procedures.

- Lack of identifying contracts to be establish that will reduce the workload on the day-to-day procurement (Quotations).
- Contracts not monitored effectively to establish expiry date that is required to plan the tender process and avoid the use of expired contracts.
- Performance of contracts not monitored effectively due to a lack of appointed contract owners.

- Lack of evaluating and monitoring supplier performance.
- Implement supplier development programmes to support enterprise development.

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Current Challenges

Current challenges preventing effective and efficient procurement

• Lack of standardised processes and procedures – impacts efficiency/compliance
• Absence of a clearly defined SCM policy – impacts guidance and direction
• Lack of monitoring and management of performance – buyers and suppliers
• Poorly defined supplier database / management systems
• Limited SCM skills and expertise – shared functions as opposed to dedicated
• Stability in leadership of Procurement to lead the department
• Lack of adherence to the principles of Demand and Acquisition Management within the broader University – SCM often used as a “buying department”
Supply Chain Management as a Strategic Enabler
The objectives of SCM

- The objective of SCM is to **support the organisation** to meet its mission and **strategic objectives**.
- SCM should therefore be **aligned in meeting these objectives**, whilst ensuring that it is done in a **fair, equitable, transparent, cost-effective and competitive** manner, as required by **Section 217 of the RSA Constitution**.
- Procurement is essential for a university in **meeting its value chain**

<table>
<thead>
<tr>
<th>Input: Students</th>
<th>GET STUDENTS</th>
<th>SKILL STUDENTS</th>
<th>PLACE STUDENTS</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Recruitment</td>
<td>Right courses</td>
<td>Job Placement</td>
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<td></td>
<td>Funding</td>
<td>Right standards</td>
<td>Entrepreneurial support</td>
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<td></td>
<td>Support</td>
<td>Right teachers</td>
<td>Education support</td>
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<td></td>
<td>Foundation Skills</td>
<td>Right delivery vehicles</td>
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<td>Right Attitudes</td>
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Procurement Focus Areas
**Strategic Focus Areas for SCM**

**SCM focus:**
- Foundation for Strategic Objectives of an efficient and effective SCM Department
- Basis for our discussion/initial exploration into the University’s strategic focus for SCM
Activity
**Strategic Focus Areas for SCM**

**Activity 1:**
- For each of the areas, identify 2 areas of concern specific to your institute.
- Write each of these areas on a separate “sticky note” that is provided and place it under the relevant SCM focus area.

**Activity 2:**
- Vote to prioritise the determine the most important SCM focus area.
Outcome
**Strategic Focus Areas for SCM**

**SCM focus:**
- Outcome of votes by participants for areas of concern
Prioritisation Results

Outcome of prioritised SCM Focus Areas that need to be addressed:

Prioritised Focus Areas

- Procurement Plan
- Policy, Process, SoPS and DoA
- Data Analysis
- Establishment of Contracts
- Supplier Performance
- Monitoring of Emergency Orders
- Project Management of Bid Committees
- Buyer Specialisation
- Centralised Procurement
- Product Catalogue
- Buyer Performance

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Areas of Concern for each SCM Focus Area

Participants identified areas of concern for each of the SCM Focus Areas that are particular to their own institutions. These are included in the table below:

<table>
<thead>
<tr>
<th>SCM Focus Area</th>
<th>Areas of Concern</th>
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</table>
| Procurement Plan     | • Most universities do not have a Procurement Plan  
• Demand planning should be linked to Procurement Planning  
• Ideally faculties and departments should at budgeting stage specify their procurement requirements.  
• Strategic sourcing and budget should form part of the procurement plan. |
| Policy, Process, SoPS, and DoA | • It took 2 and half years (of blood, sweat and tears) to get the Procurement Policy through Senate and Council  
• Non-compliance with existing policy and procedures  
• Role of Council in SCM needs to be defined  
• Communication is key! - communicate policy and procedures; communicate responsibility of all individuals in the organisation  
• SCM polices and procedures are important for governance and value for money  
• Streamlined procurement process with optimum efficiency at Specification, Evaluation and Adjudication  
• User department procuring goods and services without following policy  
• IT Commodities procurement are usually non-compliant  
• Proper clearly written policy and procedure guidelines are lacking  
• Suppliers supply services without an order based on a decision of senior manager  
• Consistent application of policy/procedures across the institution - setting the tone at the top  
• 3 quotes are not always obtained  
• The role of Council vs Management in SCM needs to be considered` |
### Areas of Concern for each SCM Focus Area

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| **Data Analysis** | • Conflict of Interest - Section 38 must be considered  
| | • Consequences for non-compliance. Holding people accountable for their actions  
| | • Data analysis needs management commitment to action and drive change  
| | • Data analysis is lacking in Higher Education. Must be focussed in order to understand the spend patterns.  
| | • Can be used to educate Councils/EMS to understand issues in procurement  
| | • ITS should present at next conference in system capabilities  
| | • Data analysis not widely used  
| | • Institutions requiring more to be done regarding Management Information Systems  
| | • Only used once a year during the audit  
| | • Should be used to detect fraud  
| **Establishment of Contracts** | • There needs to be awareness of what is on contract  
| | • Establishment of contracts could save money  
| | • Establishment of contracts can remove most of repetitive purchases (via 3 quotes) and promote strategic sourcing  
| | • Contract Management contributes to value enhancement in the institution  
| | • There should not be open ended contracts  
| | • Contracts must be used that are unbiased. The vendors contract should not be accepted without legal review  
| | • Enforcing penalty clauses on non-performance/under performance in terms of the agreement should be implemented  
| | • Before payments are made to suppliers, their performance must be measured against the contract they entered into  
| | • Establishment of contracts will prevent people buying from suppliers that are not on the preferred vendor list. |
## Areas of Concern for each SCM Focus Area

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| Supplier Performance             | • User department instruct the buyer to use the supplier they recommend because it is the only supplier who gives that particular service - this results in lack of monitoring of supplier performance  
• When implementing supplier performance you need to ensure unbiased evaluation?  
• Lack of performance evaluation  
• All dimensions must be evaluated  
• Managing supplier performance and limiting familiarity  
• Supplier performance would help if there was a good integration tool, which talks to the product catalogue in both choosing and counselling suppliers  
• Establish and monitoring of contracts with suppliers  
• Proper process/protocol over Supplier Database amendment  
• SMME development is a challenge and must be considered  
• Universities need to implement a Supply development training programme  
• Implement enterprise development as part of Supplier development |
| Monitoring of Emergency Orders   | • Consequences for non-compliance. Holding people accountable for their actions  
• Emergency orders occur mainly due to lack of planning by end users  
• Emergency orders mostly leads to transgression of policy  
• The use of "once off" suppliers for emergency procurement should be discouraged  
• Non-compliance to the policy - users claiming that they were not aware of the process to follow.  
• Universities need to monitor emergency procurement |
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| Project Management of Bid Committees   | • Tender committees should be trained  
• Project management of committees needs to be emphasised.  
• Outsourcing of tenders should be considered  
• Bid specifications committee are essential to ensure value for money is achieved.                                                                 |
| Buyer Specialisation                   | • Business units with specialised buyers will result in more efficiency. Commodity management will add overarching strategic procurement  
• Buyer specialisation in small SCM departments can become a challenge  
• There should be some qualifications/training for specialisation in buying  
• Buyer specialisation if not managed could result in collusion with suppliers  
• Universities tend to employ buyers with general knowledge. It is difficult for these buyers to understand items required by academics such as chemicals consumables. This results in specification not being met  
• End users don’t always know what they want. This results in specifications not being up to standard. If there was Buyer Specialisation they could advice the end users  
• Agree that buyer specialisation is important (commodity focus)  
• Rotation of buyers on a regular basis to ensure backup in case absence is important |
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<tbody>
<tr>
<td>Centralised Procurement</td>
<td>• Registering new suppliers without contracts for same services/goods for which there are already tenders in place</td>
</tr>
<tr>
<td></td>
<td>• Purchasing Power - better governance and control</td>
</tr>
<tr>
<td></td>
<td>• Establishment of contracts</td>
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<tr>
<td></td>
<td>• Purchasing is becoming more complex and onerous and this function needs to be more specialised within the areas</td>
</tr>
<tr>
<td></td>
<td>• Ensuring buy in to policy and procedures across the institution</td>
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<tr>
<td></td>
<td>• Economy of scale and more efficiencies achieved</td>
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<tr>
<td></td>
<td>• Centralised procurement will reduce corruption</td>
</tr>
<tr>
<td></td>
<td>• Will result in improved efficiency</td>
</tr>
<tr>
<td>Product Catalogue</td>
<td>• No comments received</td>
</tr>
<tr>
<td>Buyer Performance</td>
<td>• Buyer performance management should be introduced</td>
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</tbody>
</table>