

(ATTACHMENT 1) ACTION ON A REPORT FROM THE CHIEF ACCOUNTABILITY AND EFFICIENCY OFFICER (CAEO) REGARDING THE WORK ON THE LEAN/SIX SIGMA (LSS) INITIATIVES

Lean/Six Sigma (LSS) is a nationally recognized quality improvement method. The OAE has been working collaboratively with the Administration and the Chief Financial Officer to implement process improvements across the District as part of the Superintendent's LSS initiative. Members of the Administration and OAE have received valuable LSS training through the District's partnership with GE and SigMax Solutions. The report that follows provides an update on the status of several initiatives that have consumed a considerable amount of the OAE's time and resources. Each of these projects aligns with several of the OAE's Board directives. The LSS initiatives will help establish efficient, effective, and transparent processes, policies and procedures.

Educational Materials Inventory Management

Educational materials management, the process by which textbooks are purchased, inventoried and checked out, was identified by the Superintendent as a key area in need of process improvement. The CAEO is the Lean/Six Sigma project leader who has been working with the Administration to create a new process. The CAEO and LSS initiative have been designing a new process for educational materials management to meet the following goals:

- i. Ensure students have required materials at the start of the school year.
- ii. Create reports that allow regional specialists and principals to monitor inventory by school, grade, classroom, student, and required materials to hold the District to performance metrics.
- iii. Create effective procedures to manage millions of dollars of textbook inventory, improve accountability, and reduce losses.
- iv. Lower the District's total cost of textbook purchases by negotiating better pricing, utilizing materials throughout the District and establishing accountability for District assets to be returned.
- v. Ensure the process is easy to follow and easily implemented at schools.

Status

1. The CAEO has been working closely with the Chief Academic Officer and her staff on a new project design for Inventory Management. This project has been supported by the Superintendent's Office, Regional Specialists, Facilities and Maintenance, Department of Information Technology, Department of Research and Assessment and various schools in an effort to design an effective inventory management process with specific performance goals and metrics.
2. Phase one of the project is building a new inventory management process, including training and support, the circulation process (check-in/check-out), the inventory process, condition assessment, and monitoring. This electronic process and its associated procedure documentation have successfully passed pilots and are ready for implementation.
3. Version one of the inventory management process manual is available for review at the following link <http://mpsaccountability.milwaukee.k12.wi.us/mps/destiny/>
4. The CAEO has also designed a dashboard to help the District ensure that effective monitoring occurs and that District performance goals are achieved. The dashboard will allow the District to monitor the process across MPS regions with the ability to then further drill into schools, then by class and section, and finally to the individual students. This helps to ensure

that each student has the required materials. This dashboard is ready for initial implementation and pilot.

5. The OAE and LSS initiative have also assisted in recording millions of dollars in materials across MPS schools with bar-coding and entering materials into the District's inventory system. In addition, hundreds of thousands of dollars of savings have been realized by recapturing inventory and redistributing this inventory to other schools during the trial periods of the process.

Next steps: The CAEO will continue assistance by supporting C&I, regional specialists, and principals through the next phase of implementation of educational materials management. This will be a challenge as schools are faced with fewer resources; however once implemented educational materials management across the District will be more efficient.

Contract Management

The contracting process was identified by the Board, the Superintendent, and CAEO as a key area in need of process improvement and was selected as one of the initial projects under the Superintendent's LSS initiative. In June 2011, training in the LSS method was completed, and a review of the contracting process began. The OAE identified key process defects during its review, some of which were also identified in the FY11 Report on Internal Control provided by the District's external auditors Baker Tilley.

The OAE is helping the LSS project leader correct known contracting defects, streamline the contracting process, and to improve efficiency, effectiveness, and transparency of the contracting process. The improvements aim to reduce the number of payments to vendors not covered by District contracts or purchase orders thereby restricting the ability to make purchases outside of the District's policies and procedures. Further, the improvements aim to put internal controls and monitoring in place that will allow the District to seek Board approval for anticipated purchases or notify the Board when accumulated totals exceed bidding thresholds, thereby continuing to allow schools the autonomy to purchase according to their needs while adding better transparency and accountability.

Projects have been designed to meet the following goals:

- i. Leverage MPS' purchasing power by increasing the number of items available from approved vendors using the District's IFAS system, thereby reducing the number of direct pays, payments to vendors made in the absence of a District purchase order or contract,.
- ii. Shorten the procurement cycle by reducing the number of vendors providing frequently purchased items.
- iii. Rewrite procurement policies and procedures to incorporate recent Board changes and Board contract reporting requirements.
- iv. Implement the new IFAS contract module to take advantage of enhancements for ordering and reporting purchases.
- v. Train users to enhance their scopes of service, fee schedules and performance metrics on District contracts so vendors understand what is required.
- vi. Implement the IFAS Bid Online module to move the Division of Procurement closer to a paperless operation and to create greater transparency to the Board and public.

The OAE has worked with the Division of Procurement to improve the District's contracting process. The scope of such an undertaking is significant in a district the size of MPS and the project has been segmented into a multi-phase plan to reflect this. When possible, the OAE has implemented phases

concurrently to expedite improvements. The four phases of the Lean/Six Sigma contract project follows.

1. IFAS Contract Management Module

Phase one was completed in October 2011, with the installation and configuration of the IFAS Contract Management Module per Board directive. The new module provides the functionality to hold additional contract data such as the physical contract, bid award, Board approval date, RFP or bid reference number, contract award amounts, and the ability to track amendments. Phase two involves populating the module with previously untracked procurement and Board approval data. This newly captured data allows the District to move forward with improved monitoring capability.

2. Data Improvement and Monitoring

Phase two consists of improving data and developing new monitoring tools to increase detective internal controls in the contracting process. As a prerequisite to significantly improved monitoring ability, the OAE in conjunction with Division of Procurement have begun to correct defective data and enter absent data into the new contract module. This data improvement is approximately 60% complete. The development of the monitoring tools is 50% complete and will, for example, display data against key spending thresholds so further analysis and approvals can be obtained. The OAE is working on specifically improving the accumulated spending reports that are issued to the board and public to increase the transparency of individual spending patterns. Enhanced reports will be available for district use as early as May 2012 that will monitor and help identify when the totals of small purchases aggregate near or exceed bidding thresholds. This phase addresses cumulative vendor total reporting defects and bidding, pricing, and terms defects identified during the Lean/Six Sigma project by the OAE and the Administration, and also noted in the FY11 Report on Internal Control provided by MPS" external auditor Baker Tilley.

3. Reporting Facilities and Maintenance Activity

Phase three consists of satisfying Board directive to incorporate Facilities and Maintenance (F&M) contracts and purchase orders into the IFAS system and the development of reports that will help ensure contract compliance across all contracts district wide. The OAE has worked with the Office of Technology to bring F&M data into IFAS via a nightly system interface and this is 100% complete. The development of reports using this new data integration is 20% complete. This will address an F&M reporting defect identified during the Lean/Six Sigma project by the OAE and the Administration, also noted in the Baker Tilley FY11 Report on Internal Control.

Additionally, the OAE, the Director of Employee Benefits and Insurance, and the Director of Facilities and Maintenance Services have met and drafted an action plan to correct an issue regarding affirmative confirmation in the insurance review process. The existing procedure will be updated and meetings with the prime and sub insurance contractor will be held to incorporate a new affirmative confirmation in the process.

4. Purchasing Dashboard

Phase four consists of the piloting of several process improvements in 11 pilot schools over the next 60 days. The OAE has jointly worked with the Division of Procurement and the Office of Finance to collaborate with members of the Bookkeepers union to begin this rollout. The improvements include the implementation of an IFAS purchasing dashboard to make purchasing and vendor selection easier for end users. The OAE looks forward to working with these union members and the Administration to fine tune the new processes based on their feedback. Additional rollouts will be phased in with district-wide implementation expected to be completed by July 1, 2012.

Phase four considerations – One of the tools being considered for making improvements is Punch Out, an industry protocol for streamlining the procurement process between business entities. The District has previously utilized Punch Out for large material purchases such as office supplies, art supplies and technology. Punch Out lets users shop for their products at a vendor's website while allowing their purchasing data to be captured in IFAS. The OAE has also worked with textbook and library vendors to help them develop the electronic interfaces necessary to provide Punch Out functionality. The District is constantly weighing the benefits with using Punch Out with the inability of our District's smaller vendors to have both the financial and technological means to incorporate such a solution. The District does not plan on making Punch Out a requirement for all vendors as this may interfere with a small vendor's ability to compete, but will continue to consolidate accumulated purchases across schools and departments.

These improvements will seek to aid in the overall monitoring of purchases, but do NOT attempt to change the District's current policy that affords individual schools and departments autonomy in making purchasing decisions ("decentralized purchasing decisions"). The improvements will establish a competitive purchasing environment by

1. Accumulating small purchases across schools and departments
2. Beginning a competitive procurement process where these totals approach or exceed District thresholds
3. Creating blanket agreements through Board approval to establish District approved vendors

This will then be supported by a system of internal controls and monitoring reports that

1. Incentivize the use of the blanket agreements by their ease of use.
2. Seek Board approval for cumulative District vendor purchases exceeding District thresholds via a monthly Board cumulative purchase report while the District begins a competitive procurement process.
3. Seek Board approval for purchases not made under blanket agreements that exceed District thresholds via a traditional Board item.
4. Monitors and identifies cumulative District vendor purchases and historical spending that approach District thresholds to determine if a competitive procurement process is indicated.
5. Monitors cumulative department and school vendor purchases to ensure compliance with District policy and procedures.

Blanket agreements and approved vendors do not necessarily force schools or departments to make purchases from approved vendors, but they do afford them a simplified process if they decide to make purchases and provide

1. More transparency and accountability
2. Better pricing

3. Consistent contractual terms and conditions
4. Responsiveness to schools' needs

For example, the District's blanket agreement with Playworks to provide organized recess and coach mentoring, and the District's blanket agreement with Ricoh, to provide copiers and support, highlight MPS' success with this approach. In these instances the District was able to negotiate competitive pricing, standardize the terms of the conditions of the purchases, and approve them publicly through Board action.

The OAE's next steps:

1. Continue to support the LLS initiative to establish an efficient, effective, and transparent contracting process that meets the goals noted above.
2. Develop internal control and monitoring reports for the District that capture all District purchasing and contract information, including Facilities and Maintenance to enhance the Districts transparency to both the Board and public. .
3. Upon completion of the new process, update Administrative Policy 3.09 to incorporate the actions of the Board taken on September 24, 2009 and November 18, 2010 and
4. Enhance existing "How To" documents/manuals and make them available within the financial system to better communicate to employees how procurement for goods and services works at MPS.

OAE Recommendation

The OAE recommends that the Board:

1. Accept the Report from the CAEO Regarding the Work on the LSS Initiatives.
2. Direct the Administration and the OAE to develop and implement the following procedures and reports:
 - A. Develop procedures to limit and reduce the number of payments made directly to District vendors not covered by District contracts or purchase orders ("Direct Pays") for all goods and services.
 - B. Develop internal control and monitoring reports for the District that capture all District purchasing and contract information, including Facilities and Maintenance (F&M), to enhance the District's transparency to both the Board and public. These reports will specifically:
 - I. Identify where cumulative vendor payment totals approach or exceed \$50,000.
 - II. Include all contracts, purchase orders and payments made directly to vendors ("Direct Pays").
 - III. Produce yearly spending totals for purchases and contracts by school and/or department to monitor compliance.
 - IV. Further enhance the system of internal controls to prevent or detect violations of purchasing/contracting policies and procedures.

These enhanced reports and additional reports including F&M purchases should be included in the monthly contracting board reports no later than June 2012, with a status provided by the OAE in June of 2012.