

# Understanding Procurement Risk Management

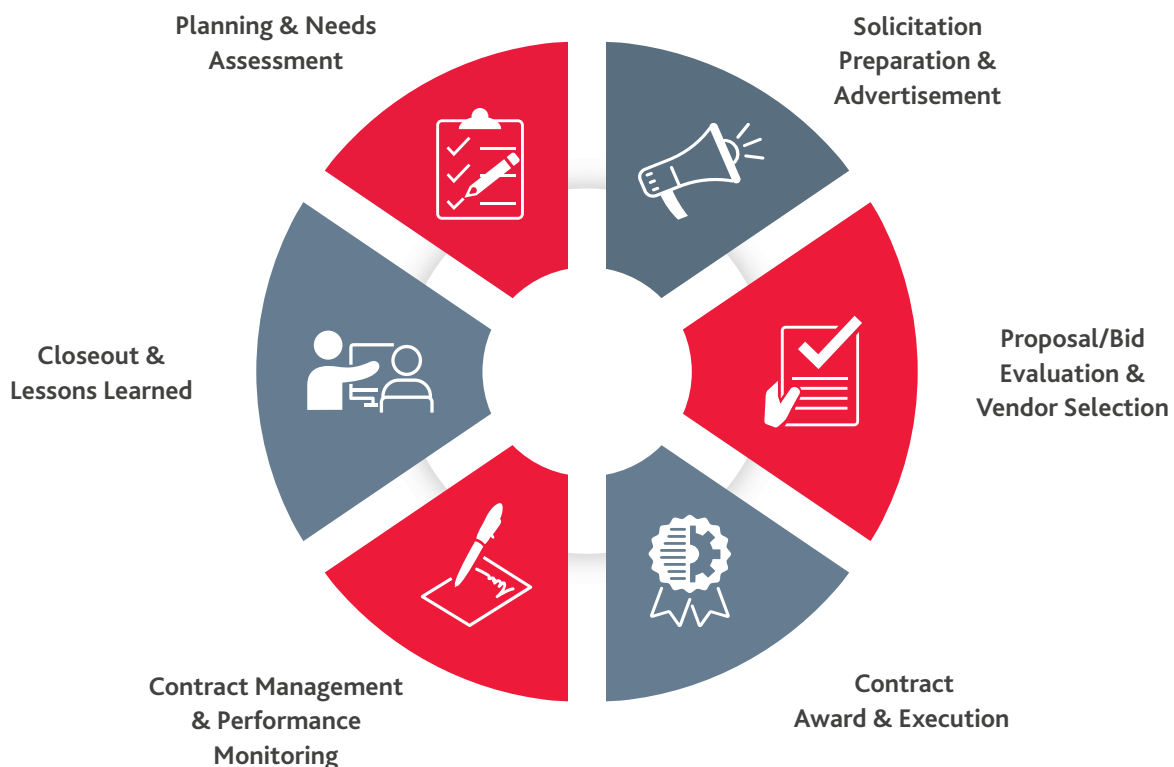
BEST PRACTICES FOR STATE AND  
LOCAL GOVERNMENTS

In today's intricate fiscal landscape, procurement for state and local governments has evolved beyond simple acquisition. It now serves as a strategic function that balances regulatory compliance, fiscal discipline, access, and innovation. This article provides a detailed exploration of procurement processes, key considerations for management, best practices, and risk management, offering valuable insights for CFOs, controllers, business managers, and procurement officers.

# What Does the Procurement Cycle Look Like?

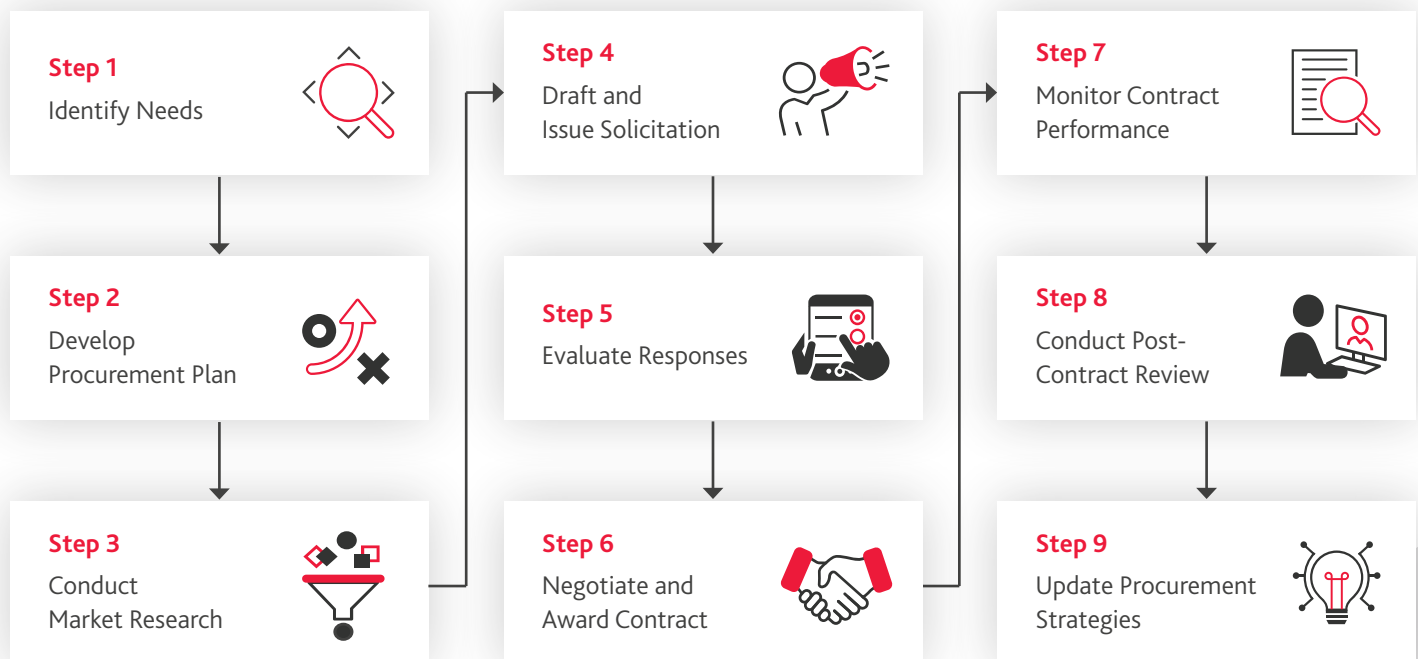
The procurement cycle to purchase or obtain goods and services for state and local governments is a multifaceted journey that requires careful planning and execution at every stage. From initial planning and needs assessment to the final closeout and lessons learned, each phase is critical in making sure procurement activities align with strategic goals and deliver value to the community.

This section outlines the key considerations at each stage of the procurement process, providing a comprehensive framework for effective management. By focusing on activities like confirming funding sources, drafting solicitations, evaluating proposals, awarding contracts, and monitoring performance, government entities can navigate the complexities of procurement with confidence. These considerations are designed to maintain fairness, transparency, and compliance while prioritizing best value and sustainability. Through diligent attention to these aspects, procurement professionals can enhance their strategies and contribute to the successful achievement of organizational objectives.



# Procurement Process for State and Local Governments

The diagram above depicts the entire procurement cycle for an individual transaction from the initial award through the procurement closeout and lessons learned. However, this relates to an individual procurement – the process is much more complicated and there are some additional steps that are just as important including monitor contract performance, conduct post-contract review, and update procurement strategies. A structured procurement process is essential for achieving strategic alignment and fiscal responsibility.



**STEP 1: IDENTIFY NEEDS**

The procurement journey begins with identifying the specific needs of the government entity. This involves a thorough assessment of requirements to make sure that procurement aligns with the organization's strategic objectives. Engaging stakeholders early in the process can help clarify needs and set the stage for successful procurement.

**STEP 2: DEVELOP PROCUREMENT PLAN**

Once needs are identified, the next step is to develop a procurement plan. This plan should align with the strategic objectives and budget so that procurement activities support broader organizational goals. A well-crafted procurement plan serves as a roadmap, guiding the entire process and helping to manage resources effectively.

**STEP 3: CONDUCT MARKET RESEARCH**

Conducting market research is crucial to understanding the vendor landscape. This step involves identifying potential vendors, including diverse suppliers and cooperatives, to establish a competitive and inclusive procurement process. Market research helps uncover opportunities for cost savings and innovation.

**STEP 4: DRAFT AND ISSUE SOLICITATION**

With market insights in hand, the next step is to draft and issue a solicitation. Whether it's a Request for Proposal (RFP), Invitation for Bid (IFB), or Request for Quotation (RFQ), the solicitation must include a clear scope and evaluation criteria. This allows vendors to understand the requirements and can provide accurate and competitive responses.

**STEP 5: EVALUATE RESPONSES**

Evaluating responses is a critical phase where the best value approach is applied. Using a scoring matrix helps objectively assess each proposal, bid or quote against predefined criteria. This provides transparency and fairness in the selection process, leading to the best possible outcome for the government entity.

**STEP 6: NEGOTIATE AND AWARD CONTRACT**

After evaluating responses, negotiations with the selected vendor begin. This step involves finalizing terms and confirming proper documentation and notice of the award. Effective negotiation can lead to better contract terms and conditions, benefiting both the government and the vendor.

**STEP 7: MONITOR CONTRACT PERFORMANCE**

Monitoring contract performance is essential to making sure deliverables are met and payments are made according to the contract terms. Tracking risk indicators and maintaining open communication with vendors helps mitigate issues for project success.

**STEP 8: CONDUCT POST-CONTRACT REVIEW**

Once the contract is completed, conducting a post-contract review provides valuable insights. This step involves evaluating vendor performance and identifying lessons learned. Such reviews are crucial for continuous improvement and enhancing future procurement activities.

**STEP 9: UPDATE PROCUREMENT STRATEGIES**

The final step is to update procurement strategies based on data and insights gained from the post-contract review. This continuous improvement approach helps procurement processes remain effective and responsive to changing needs and market conditions.

By following these nine steps, state and local government CFOs and procurement officers can streamline procurement processes, achieve strategic alignment, and meet fiscal responsibility. Embracing these best practices will lead to more efficient and effective use of public funds, ultimately benefiting the communities they serve.



# Key Considerations in the Procurement Process

The following demonstrates the stages of the procurement process, the related activities, and key considerations for management:

Stage	Activities	Key Considerations
1. <b>Planning &amp; Needs Assessment</b>	<ul style="list-style-type: none"> <li>▶ Identify need</li> <li>▶ Confirm funding source (local, state, federal grant?)</li> <li>▶ Conduct market research</li> </ul>	<ul style="list-style-type: none"> <li>▶ Align purchase to strategic goals</li> <li>▶ Comply with budget and grant restriction</li> <li>▶ Define clear, justifiable specifications (avoid bias toward vendors)</li> </ul>
2. <b>Solicitation Preparation &amp; Advertisement</b>	<ul style="list-style-type: none"> <li>▶ Draft RFP, IFB, RFQ, or sole source justification</li> <li>▶ Define evaluation criteria</li> <li>▶ Publish solicitation</li> </ul>	<ul style="list-style-type: none"> <li>▶ Choose correct method (competitive sealed bid, RFP, RFQ)</li> <li>▶ Meet minimum public notice periods</li> <li>▶ Include clear, measurable requirements and scoring</li> </ul>
3. <b>Proposal/Bid Evaluation &amp; Vendor Selection</b>	<ul style="list-style-type: none"> <li>▶ Receive and log bids/proposals</li> <li>▶ Conduct public bid openings (for IFBs)</li> <li>▶ Score based on predefined criteria</li> <li>▶ Handle protests or challenges</li> </ul>	<ul style="list-style-type: none"> <li>▶ Maintain fairness, transparency, and documentation</li> <li>▶ Avoid conflicts of interest</li> <li>▶ Prioritize "best value" when allowed, not just lowest price</li> </ul>
4. <b>Contract Award &amp; Execution</b>	<ul style="list-style-type: none"> <li>▶ Issue award notice</li> <li>▶ Negotiate final terms, if applicable</li> <li>▶ Execute contract (legal review as needed)</li> <li>▶ Report award (public disclosure)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Make sure contract includes all critical clauses: performance standards, insurance, indemnity, data security, amongst others</li> <li>▶ Verify funding availability</li> <li>▶ Confirm Board/Council approvals, if required</li> </ul>
5. <b>Contract Management &amp; Performance Monitoring</b>	<ul style="list-style-type: none"> <li>▶ Monitor milestones and deliverables</li> <li>▶ Approve invoices</li> <li>▶ Address underperformance or changes</li> </ul>	<ul style="list-style-type: none"> <li>▶ Establish a single point of contact</li> <li>▶ Document performance issues</li> <li>▶ Use payment retainage or liquidated damages, if built into contract</li> </ul>
6. <b>Closeout &amp; Lessons Learned</b>	<ul style="list-style-type: none"> <li>▶ Verify final deliverables</li> <li>▶ Close out contract financially and legally</li> <li>▶ Conduct vendor performance evaluations</li> <li>▶ Capture lessons learned for future procurements</li> </ul>	<ul style="list-style-type: none"> <li>▶ Confirm all obligations met before final payment</li> <li>▶ Record vendor evaluations to inform future procurements</li> <li>▶ Update procurement policies if issues arise</li> </ul>

# Other Key Strategic Considerations Throughout Procurement

Strategic considerations extend beyond the immediate transactional aspects. These considerations encompass a broader spectrum of questions that make sure the procurement process not only meets immediate needs, but also aligns with overarching goals and values. Addressing these critical questions is essential for fostering a procurement environment that is compliant, equitable, transparent, and resilient. By focusing on regulatory compliance, risk management access, transparency and public trust, best value, sustainability and resilience, and technology enablement, governments can enhance their procurement strategies to deliver long-term value and maintain public trust.

This section explores these key strategic considerations, providing a framework for thoughtful and effective procurement practices.

Area	Critical Questions
<b>Regulatory Compliance</b>	▶ Are we following local/state procurement laws and grant requirements (e.g., Uniform Guidance if federal funds are involved)?
<b>Risk Management</b>	▶ Have we assessed vendor financial stability, cyber risks, and operational risks before making an award?
<b>Access</b>	▶ Are solicitations open and accessible to small, minority, and women-owned businesses?
<b>Transparency and Public Trust</b>	▶ Is the process open, documented, and defensible if challenged or audited?
<b>Best Value</b>	▶ Are we getting the best combination of price, quality, and service, not just selecting the lowest price?
<b>Sustainability and Resilience</b>	▶ Are we considering long-term value, sustainability factors, and supply chain stability in our selection?
<b>Technology Enablement</b>	▶ Are we using eProcurement tools to improve efficiency, documentation, and vendor engagement?

# How Often Should Procurement Policies and Procedures be Reviewed?

Procurement policies should be formally reviewed at minimum every two to three years. Interim updates may occur more frequently, especially when regulations change, audit findings arise, or new technologies are implemented. Proactive management oversight makes sure policies remain current, enforceable, and aligned with strategic goals.

## Procurement Risk Management Checklist

Effective procurement requires a robust risk management strategy. The following checklist outlines key risk categories, areas of concern, and best practice risk mitigations:

### 1. Compliance Risk

- ▶ **Key Risk Areas:** Inadequate competitive bidding; missing federal documentation
- ▶ **Best Practice Mitigation:** Train staff on requirements under the Uniform Guidance (2 CFR 200) and state laws; use standardized checklists; conduct pre-issuance legal reviews

### 2. Financial Risk

- ▶ **Key Risk Areas:** Vendor overcharges; contract overruns
- ▶ **Best Practice Mitigation:** Include cost control clauses; milestone payments; regular audits

### 3. Operational Risk

- ▶ **Key Risk Areas:** Vendor non-performance; supply delays
- ▶ **Best Practice Mitigation:** Prequalify vendors; build performance benchmarks and termination clauses

### 4. Reputational Risk

- ▶ **Key Risk Areas:** Conflicts of interest (COI); favoritism; transparency concerns
- ▶ **Best Practice Mitigation:** Publish solicitations, bids, and awards publicly; require COI disclosures

### 5. Strategic Risk

- ▶ **Key Risk Areas:** Misalignment with goals (e.g., sustainability)
- ▶ **Best Practice Mitigation:** Include evaluation criteria for strategic priorities; monitor key performance indicators (KPIs) after award

### 6. Cybersecurity Risk

- ▶ **Key Risk Areas:** Vendor access to sensitive systems/data
- ▶ **Best Practice Mitigation:** Require minimum cybersecurity standards; conduct IT security reviews pre-award

By embracing these best practices and considerations, state and local governments can streamline procurement processes, mitigate risks, and enhance public trust, ultimately benefiting the communities they serve.

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