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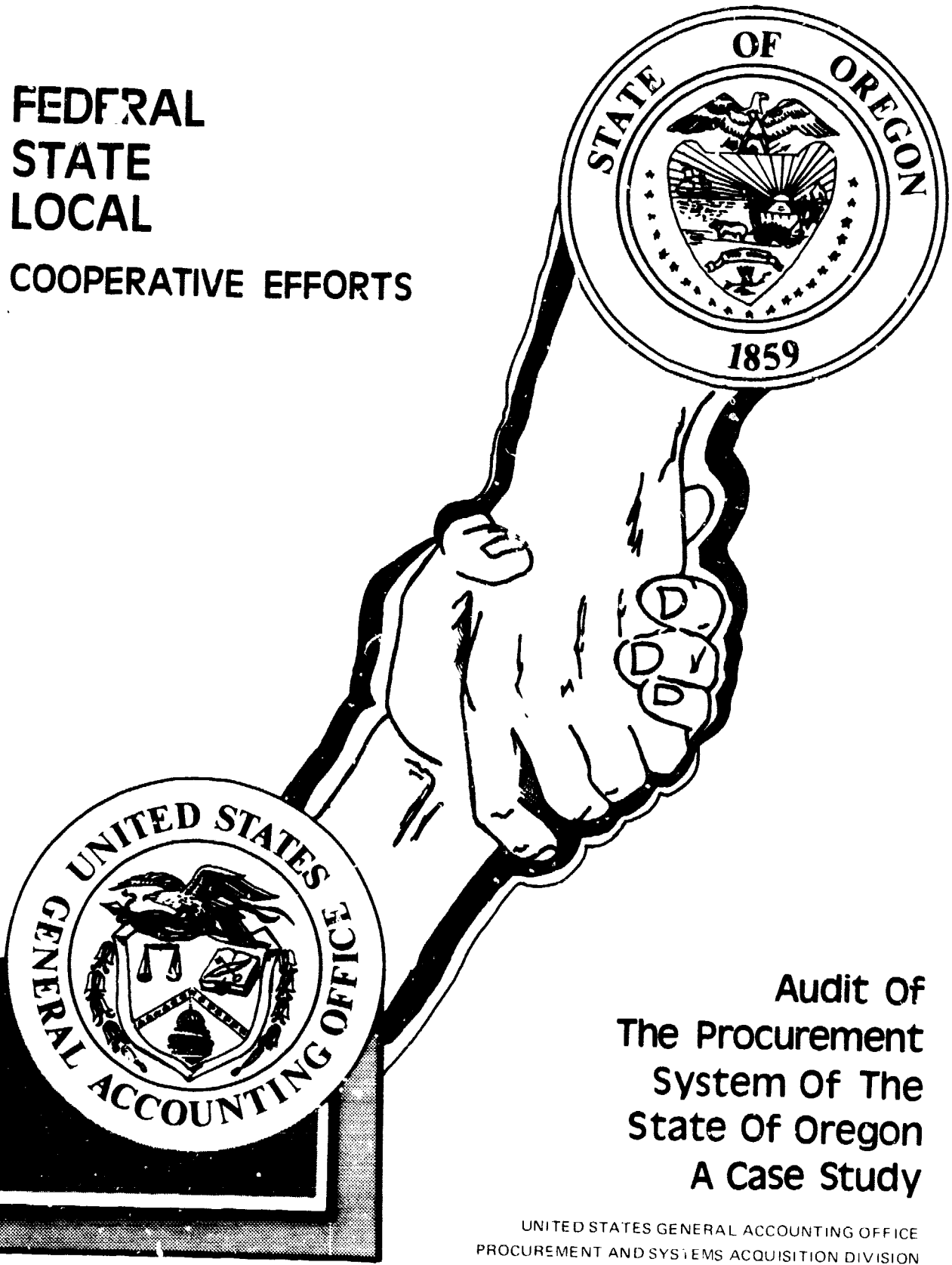
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Oregon's procurement policies and practices were reviewed, with an emphasis on procurements administered by the Oregon Department of General Services. Findings/Conclusions: General Services has recognized its need for the following kinds of information essential to requirements determination and planning: historical usage and future requirements, inventories of unused equipment, and lease versus purchase alternatives. General Services is aware of the goals of contracting and contract administration and is striving to increase competition and reduce prices. provide better assurance that quality levels are attained, and assure that items are provided on a more timely basis. Recommendations: General Services should: obtain better data for determining State agency requirements and for planning procurements; improve cooperative arrangements for purchasing for State and local governments and encourage cooperation among procuring local agencies; improve contracting methods and contract administration; and improve procurement by clarifying rules on delegation of purchasing authority. (RRS)

01183

FEDERAL
STATE
LOCAL
COOPERATIVE EFFORTS



Audit Of
The Procurement
System Of The
State Of Oregon
A Case Study

UNITED STATES GENERAL ACCOUNTING OFFICE
PROCUREMENT AND SYSTEMS ACQUISITION DIVISION

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FOREWORD

This case study reports the results of a GAO-Oregon Division of Audits review of Oregon's procurement policies and practices. We believe this study demonstrates benefits available to State and local governments through evaluation of procurement policies, procedures, and practices against established procurement principles.

Presently there is much interest in improving State and local procurement programs. Many State and local Governments are experiencing fiscal crises and need to conserve funds and increase productivity. An effective, efficient procurement program is one way State and local governments can stretch their own funds as well as Federal grant dollars which totaled about \$58 billion in fiscal year 1976.

STATE AND LOCAL PROCUREMENT

State and local government procurement has increased dramatically during the past decade, and it now exceeds that of the Federal Government. For example, from 1963 through 1973, Federal Government expenditures for goods and services increased from \$39 billion to \$54 billion--a 38 percent increase. In contrast, State and local expenditures for goods and services increased from \$25 billion to \$76 billion--or about 200 percent.

Despite this increase, there has been relatively little assessment of how efficiently and effectively State and local governments are spending grant moneys for procurement purposes. This study reports the results of such an assessment in Oregon.

COOPERATIVE EFFORT

This study is GAO's first cooperative audit of a State procurement system. It was made with the close coordination and cooperation of the Pacific Northwest Intergovernmental Audit Forum, 1 of 10 regional forums established to bring together representatives of Federal, State, and local audit organizations. Through the Forum, Oregon expressed a desire to participate with GAO in this venture. Oregon's Congressional delegation endorsed this audit as a positive step forward in Federal-State relations.

With rising costs and funding limitations currently affecting all governmental levels, cooperative efforts help avoid duplication in auditing programs of mutual interest. They also provide an opportunity for crosstraining staff

and sharing experiences necessary for evaluating management performance of efficient, economical, and effective programs. These performance audits go beyond the scope of traditional financial audits and require broader skills and training. We believe this study has given GAO and Oregon auditors new insight into the evaluation of procurement systems, and how to work together in planning and conducting performance audits. See appendix I for Oregon's comments on this review.

We have included audit guidelines as appendix II so that auditors as well as procurement managers can relate the material presented in the report to the basic guidelines used in the audit.

SCOPE OF AUDIT

This cooperative audit was directed at State procurement of goods and services in Oregon, and dealt only incidentally with procurement by counties, municipalities, or other governmental entities in the State. Since goods and services obtained with Federal grant funds are subject to the same policies and procedures governing all State agency procurements, we evaluated the procurement system as a whole rather than procurements made under specific grants.

The review was concerned primarily with procurements administered by the Oregon Department of General Services, which is the central authority for procuring goods and services used by State agencies. Limited work was also done at four State agencies, and a questionnaire was sent to 41 State agencies.

The review encompassed the major elements of program management including organization, policies, procedures, personnel, planning, management information systems, reporting, and internal review. We briefly examined each of these areas with more detailed work done only in those areas where we noted significant opportunities for improvement.

The basic procurement principles against which we measured the Oregon procurement system were derived from the Council of State Governments' report State and Local Government Purchasing (March 1975) and GAO's experience in auditing procurement operations.

REPORTING

Oregon's Division of Audits has issued a report to the Department of General Services on the results of our joint review. The report discussed areas of potential improvement and contains several recommendations for improving the State procurement system.

GAO is issuing this study to give the Congress, Federal grantor agencies, State and local governments, and other interested groups an example of the potential benefits of performance auditing at State and local levels. While it is not feasible to project the total dollar savings possible through improvement of the Oregon procurement system, our limited work indicated that significant savings could be realized in procuring many items for the State.



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GLOSSARY

Contract release order	The form for ordering items covered by price agreements previously established by the Department of General Services. See price agreement.
Definite quantity volume buying	Consolidation of user's requirements to (1) make a single bulk purchase, or (2) guarantee a minimum total purchase volume over a specific time at a pre-determined unit price.
Formal solicitation	General Services procedure for notifying prospective vendors that the State wishes to receive bids for providing goods and services. Each formal solicitation includes at least one newspaper advertisement, mailing of invitation for bid forms to vendors on applicable General Services bidders lists, receipt of sealed bids, and public opening of bids at a designated time.
Indefinite quantity buying	General Services' establishment of price agreements which guarantee no minimum volume nor any volume to the vendor. However, the invitation for bid form usually includes an estimated volume based on historical purchase levels. See price agreement.
Informal solicitation	The process of obtaining oral or written quotes from vendors without formal advertising and receipt of sealed bids. General Services' procedures usually involve phoning one or more vendors to obtain oral quotes or sending an invitation for bid to one vendor for submission of a return mail quote.
Price agreement	A contractual agreement established by General Services which allows designated State agencies and political subdivisions to order at a pre-determined unit price or at a specified percentage discount from the vendor's list prices during the period of the agreement (usually 1 to 2 years). Most price agreements allow changes in unit prices and discount percentages or substitution of updated price lists subject to General Services' approval, and may be canceled by either party with 30 days' written notice.
Purchase order	The form used to order goods and services not covered by a price agreement.

CHAPTER I

INTRODUCTION

The objective of a good procurement system is to obtain goods and services in the most efficient, effective manner at the lowest possible prices. This study evaluates Oregon's system in light of the essential functions of a procurement program, including determination of needs, contracting practices and procedures, and contract administration.

EFFORTS TOWARD MORE EFFECTIVE STATE AND LOCAL PROCUREMENT PROGRAMS

There are several significant efforts, which have been completed or are currently underway, with the objectives of improving State and local procurement practices. Some of these efforts are discussed below.

Report on State and local government purchasing

This report was published by the Council of State Governments in March 1975 and is the first comprehensive research effort of its kind dealing with State and local government procurement. It was prepared by the National Association of State Purchasing Officials, and Peat, Marwick, Mitchell & Co., with the financial support of the Law Enforcement Assistance Administration (LEAA). The report addresses the essential elements of the purchasing process, including planning and scheduling, specifications, competition, evaluation and award of bids, and inspection and testing procedures.

The report emphasizes the need for a strong central procurement authority at the State and local government level to assure that the principles of effective, efficient, and economical procurement are met. The report also states that delegations can and should be made when using agencies can more appropriately or better perform certain procurement functions and activities. The delegations, however, should be made formally by the central procurement authority in order to assure that proper controls can be established and accountability maintained.

Model procurement code

On February 26, 1975, LEAA awarded \$328,000 to the American Bar Association Fund for Public Education to finance the development of a model procurement code for

State and local jurisdictions. The project's primary objective is to develop, with the help of State and local governments, an overall proposed procurement system for States and localities adapted to meet today's requirements.

The code will consider:

- requirements for competitive bidding, including standards for sole source procurement;
- conflicts of interest and other ethical problems;
- change orders and contract modifications;
- disputes and remedies;
- procedures relating to weights and measures, standards, specifications, and testing; and
- warranties.

A preliminary draft of the code was presented for comment in June 1976.

Procurement standards for State and local governments

Standards for State and local government procurement under Federal grants are included in Attachment "O" of Federal Management Circular 74-7. These standards provide general guidance for grant-related procurements. A task force of interested Federal agencies, directed by the Office of Management and Budget, has been established to consider revisions to the attachment for the purpose of clarifying and amplifying the standards to better meet the needs of State and local governments.

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The results of our review are presented in chapters dealing with the essential functions involved in procurement. These functions are: requirements determination and planning (chapter 3), contracting and contract administration (chapter 4), and delegation of procurement authority (chapter 5). In addition, we have included background data on the Oregon procurement system in chapter 2 and information on the potential for cooperative purchasing between the State and local entities in chapter 6.

CHAPTER 2

BACKGROUND ON PROCUREMENT IN OREGON

Oregon's budgeted expenditures total \$3.8 billion for the 1973-75 biennium and \$5.2 billion for the 1975-77 biennium, of which about \$0.9 billion (22.7 percent) and \$1.1 billion (21.6 percent) are federally funded. Of these budgeted amounts, \$537 million and \$692 million, respectively, are specified for procurement of goods and services by State agencies.

Under Oregon statutes, the Department of General Services is responsible for, or delegates authority for, procurement of most goods and services needed by State agencies. In most cases, these goods and services are obtained through one of three methods:

1. Purchase orders issued by General Services based on agency requests.
2. Purchase orders issued by using agencies under authority delegated by General Services.
3. Contract release orders issued by using agencies against price agreements previously arranged by General Services.

The table below indicates the portion of expenditures made under General Services' purchase orders, agency purchase orders, and agency contract release orders during fiscal years 1974, 1975, and 1976.

Table I

<u>Fiscal year</u>	<u>Total purchases</u>	<u>General Services purchase order</u>	<u>Agency purchase order</u>	<u>Agency contract release order</u>
(millions)				
1974	\$ 97.8	\$45.3	\$31.5	\$21.0
1975	103.6	37.8	39.0	26.8
1976	<u>a/116.2</u>	47.6	35.5	33.1

a/For comparative purposes, this figure excludes a \$19.3 million State insurance agreement contracted by General Services once every 3 years.

The expenditures shown in table I involved some 70 State agencies, commissions, or other State entities. In addition, General Services allows counties, municipalities, school districts, and other local public agencies to use its price agreements; it also makes a few purchases at the request of these groups. These expenditures totaled only \$2.7 million, \$2.1 million and \$2.0 million in fiscal years 1974, 1975, and 1976.

Procurements administered by General Services during fiscal years 1974 and 1975 totaled \$201.4 million, or only about 38 percent of the \$537 million budgeted for procurement of goods and services during that biennium. The remaining funds involve several types of State agency procurements not reported to General Services, such as utilities payments, interagency purchases, personal-professional services contracts, and items costing \$25 or less.

PROCUREMENT STATUTES AND REGULATIONS

Effective January 1, 1976, a new public contracting law was enacted for the State and local governments in Oregon, repealing over 100 statutes and revising many others. According to the Oregon Attorney General, many repealed statutes were in conflict or required the use of archaic procurement practices. The new law also created a Public Contract Review Board to provide more detailed regulations.

The new Oregon procurement law appears to be a positive step toward improving procurement in the State. Among the statutes it eliminated, for example, were those allowing a discretionary preference for materials and supplies manufactured in Oregon. Under these statutes, an Oregon vendor could be awarded a contract even though his bid exceeded that of an out-of-State vendor by up to 5 percent.

Finally, the new law required the Oregon Attorney General to prepare a manual of model procedures as a guide for public contracting agencies throughout the State. The model procedures published to date, although not binding on the agencies, interpret statutory language and Public Contract Review Board regulations. They also offer specific guidance in complying with major provisions of the new law.

Procurement regulations are promulgated by both the Public Contract Review Board and the Department of General Services. The former apply to all governmental levels in the State, whereas the latter deal with procurement by State agencies. These rules cover various methods of acquiring goods and services, and other topics such as reporting and disposing of surplus and excess property.

CHAPTER 3

REQUIREMENTS DETERMINATION AND PLANNING

In determining requirements for goods and services and planning the most efficient, economical, and effective means for acquiring them, management must answer a number of questions, including:

- What is needed?
- How much or how many are needed?
- When is it needed?
- Is it already available in the form of unused equipment?
- Should it be purchased or leased?
- How should it be purchased (volume buying versus spot purchasing, etc.)?

To answer these questions, accurate information is needed on (1) historical usage and future requirements, (2) inventories of unused equipment, and (3) lease versus purchase alternatives.

OPPORTUNITIES TO IMPROVE REQUIREMENTS DETERMINATION AND PLANNING

General Services has recognized its need for the kinds of information essential to requirements determination and planning. Through a management information system and other means, it is obtaining some of this data. We identified a number of opportunities to improve requirements determination and planning by obtaining better data. These opportunities are discussed in the following sections.

Data on historical usage and future requirements

The use of personal experience and intuition in planning future acquisitions is impractical because of the diversity and volume of goods and services provided through General Services. Detailed historical data (e.g., the number, average, value, and total dollar amount of purchases of each commodity) and agency forecasts of specific future needs, estimated quantities, and required delivery dates are essential for orderly procurement planning.

Historical usage data

Historical information on the number and dollar value of purchases is summarized monthly; however, little use is made of the data in procurement planning. Purchase agents said that in many cases the data indicates usage for only broad commodity categories (e.g., hardware supplies) and purchase orders must be compiled and analyzed to obtain sufficiently detailed commodity usage data for specific items (e.g. electrical fittings).

Purchase agents told us that they generally lack enough time to compile and analyze purchase orders by hand. As a result, they lack adequate historical data for decisionmaking. For example, one purchase agent was unaware of the large number of lawn mowers and related equipment he was buying through separate purchase orders until it was pointed out during our review. He said that he should probably solicit a price agreement for these items. This would reduce the number of individual solicitations and purchase orders processed, and could eliminate the wide range of prices paid for such items, as shown in table II below. It could also result in lower unit prices because orders could be consolidated.

Table II

Lawn mower and related equipment purchases
made by General Services between April 1975 and March 1976

Total purchase orders: 37
Total units purchased: 90
Total dollar value: \$14,983

<u>Item</u>	<u>Unit price</u>	
	<u>High</u>	<u>Low</u>
Power mowers--19 inch	\$210	\$150
Power mowers--20 inch	230	89
Power mowers--21 inch (self-propelled)	394	185
Push mowers--18 inch	65	44
Weed Eaters (same model)	300	254

General Services obtains some additional historical usage data through periodic hand computation of the volume of agency purchases made under individual price agreements. This data is used to give vendors an idea of possible future sales volume when

soliciting updated price agreements, although no minimum quantity is guaranteed. To make definite quantity volume buying possible, General Services would need reliable information on agencies' forecast usage of various commodities.

Future requirements data

General Services obtains short range forecast data for a few commodities purchased on a scheduled basis every 2 to 12 months. Scheduled purchase commodities include items such as trucks, certain laboratory supplies, and some foodstuffs. For the vast majority of items, General Services does not obtain agency forecasts of future requirements, consolidate projected requirements among agencies, or determine where definite quantity volume buying is possible. As a result, we found that individual purchases are made as purchase requests are received from the various agencies, and opportunities to obtain volume discounts and to avoid price increases are lost. For example:

--General Services purchased identical video tape recorders requested by agencies on 10 separate occasions over a 12-month period. Prices for the 18 video recorders purchased ranged from about \$1,295 to \$1,400. Consolidating all requirements to obtain them at the lower price would have saved about \$700 in price fluctuations, and might have resulted in additional volume discounts.

Even though General Services does not consolidate requirements among the various State agencies, each agency could forecast and consolidate its own requirements. We noted, however, many instances where agencies failed to consolidate their requirements, resulting in fragmented purchase requests and loss of additional opportunities for economy.

For example:

--One agency submitted separate requests for five identical scientific research devices over an 11-month period. Prices ranged from about \$3,950 to \$4,500. If the purchases had been consolidated and made at the low price, the agency would have saved about \$1,900 in price fluctuations, and may have obtained additional volume discounts.

General Services could improve its requirements determination and planning by obtaining better historical and forecast usage data. Historical usage data could be provided at a more detailed commodity level. Forecast data might be summarized from budgetary information of each agency and updated forecasts obtained by querying agencies on their requirements for selected commodities.

Data on unused equipment

Before purchasing or leasing items, the central procurement authority should determine whether such items are already available as unused equipment. Equipment inventories and utilization information is needed to make this determination.

General Services obtains data on unused equipment only after State agencies report it as excess to their needs. General Services plays no role in the identification process and has issued no guidance to the agencies in carrying it out.

None of the State agencies included in our review had established adequate systems for periodically evaluating equipment utilization, identifying unused or under-used items, determining whether there are potential uses for the items within the agency, and reporting excess equipment to General Services on a timely basis. The agencies were relying on numerous departments and field locations to identify and report excess equipment, but had not provided guidelines to carry out this function.

We found numerous examples of unused or under-used items which were not reported to General Services for screening against current and future requirements. These items ranged from a \$72,000 mass spectrometer to several automotive tool sets valued at about \$200 each. Many of the items were idle or under-used from 1 to 3 years, while similar or identical items were being purchased by General Services and State agencies.

General Services could obtain better data on unused equipment by providing written guidelines to agencies for timely identification and reporting of such items. General Services could also review agencies' identification and reporting procedures and help them to correct any weaknesses identified, as discussed in chapter 5.

Data on leasing and purchasing alternatives

Before deciding whether to lease or purchase equipment, information on benefits, costs, and advantages and disadvantages of leasing and purchasing alternatives should be considered.

Lease versus purchase data

State agencies are required to prepare a detailed analysis of the comparative costs to lease or purchase using a standard form provided by General Services. However, agencies often request General Services' approval of the leasing alternative even though purchasing is shown to be far more economical.

Typically, agencies request more expensive leasing arrangements because of State budgetary constraints (i.e., lack of approved capital acquisition funds, but adequate funds for leasing services), or because of constraints on capital acquisitions imposed under Federal grants. Normally, General Services approves these requests without obtaining any specific information on the nature and extent of the constraints involved, or on possibilities of modifying or removing the constraints. For example, the possibility of the agency requesting a budget revision is not explored.

We noted many uneconomical leasing arrangements approved by General Services including:

--A body scanner (x-ray device) was approved for a 6-year lease/purchase contract at a total cost of \$654,841. Comparative analysis showed the direct purchase cost to be \$495,000, or \$159,841 less.

--Certain x-ray equipment with an estimated life of 7 years was leased for 5 years at a total cost of \$319,436. The equipment could have been purchased for \$212,957, or \$106,479 less than the contracted lease payments. At the end of the lease, the equipment could be purchased for 15 percent of the original list price.

General Services could improve its procurement planning by requiring better information on reasons behind agency requests for uneconomical leasing arrangements. In addition, General Services could strengthen its review of such requests and explore possible solutions. Good data on purchasing constraints and possible solutions could help General Services to assure that the principle of maximum economy in purchasing is not sacrificed unnecessarily.

Purchase alternatives data

Planning the best way to purchase a particular item requires good data on the benefits, costs, advantages, and disadvantages of various purchase alternatives, such as spot buying, indefinite quantity buying (price agreements), and definite quantity volume buying. According to a General

Services' official, only limited data on purchase alternatives is obtained, and in some cases purchase agents must rely solely on personal experience in choosing among alternatives.

As mentioned earlier, General Services makes only limited use of definite quantity volume buying due to:

- lack of centralized warehousing facilities;
- widely scattered locations of using agencies;
- doubt that definite quantity buys would result in lower prices than current indefinite quantity purchasing (price agreements) for some commodities; and
- lack of control over what agencies actually buy as opposed to what they might forecast, and resultant risk of overstocking.

Adequate information is not available to evaluate this situation. For example, data on potential definite quantity discounts for various commodities and reduced contracting costs resulting from consolidation of small orders is not available to compare with possible warehousing costs. General Services could improve its planning process by obtaining such data, and thereby help insure maximum economy of its operations.

RECOMMENDATIONS MADE TO GENERAL SERVICES

We noted a number of opportunities for General Services to obtain better data for determining State agency requirements and for planning procurements. We recommended that General Services:

- Expand and refine the existing management information system to provide greater detail data on individual commodity purchases.
- Establish a program to plan and schedule future requirements by utilizing agencies' forecasts of estimated needs or existing budgetary data or combinations thereof.
- Issue guidelines to using agencies to help them plan and schedule their own requirements and how to communicate these needs to central procurement in a timely manner.

- Conduct studies to evaluate the merits of alternative purchasing methods.
- Issue guidelines requiring agencies to identify and report their unused or excess property and its condition to General Services in a timely manner.
- Periodically review and inspect how property is used at agency sites.

CHAPTER 4

CONTRACTING AND CONTRACT ADMINISTRATION

Once a decision to acquire an item is made, the contracting and contract administration processes begin. These processes should:

- produce full and fair competition among all qualified vendors
- provide items of a quality suitable for their intended use
- secure needed items in time to facilitate agency programs, and
- assure that items specified are actually provided by the vendor.

General Services is aware of these goals and is striving to meet them. We found several opportunities for improvement.

OPPORTUNITIES TO IMPROVE CONTRACTING AND CONTRACT ADMINISTRATION

Improvements in contracting and contract administration procedures could increase competition and reduce prices, and provide better assurance that required quality levels are attained but not exceeded, that items are provided on a more timely basis, and that items received from vendors are the same as those contracted for.

Increasing competition

The degree of competition obtained depends largely on the solicitation method and the specifications used.

Solicitation methods

General Services, like other public contracting entities in Oregon, must follow the Public Contract Review Board's rules concerning solicitation of competitive bids. For items under \$5,000, bids may be obtained either through formal advertising or through solicitation of informal quotes. Formal solicitations are required for purchases of \$5,000 or more except in certain cases (e.g. emergency purchases).

1. Informal solicitations

If the item is \$500 or more, a minimum of three quotes must be documented; or if three quotes are not available, a record must be made of the actions taken to obtain quotes. For items less than \$500, competitive quotes are to be obtained where feasible.

In 1975, before the Public Contract Review Board regulations were issued, purchases between \$500 and \$4,999 often were made on the basis of a single quote. Our sample of 37 informal solicitations in this price range made during 1975 showed that competitive quotes were obtained in only 1 case.

In 1976 the procedures for obtaining competitive quotes on informal solicitations between \$500 and \$4,999 improved significantly. Our review of 33 such solicitations made during April and May indicated that in 21 of the cases (64 percent), a minimum of 3 competitive quotes were obtained or the effort made to obtain competitive quotes was documented. While this represents a major step in extending competitive practices to the lower value items, we believe even further improvement is possible. Also, while 3 quotes are required as a minimum, in only 1 of the 33 solicitations reviewed were more than 3 quotes obtained.

While competitive quotes are required where feasible on informal solicitations under \$500, General Services seldom obtains more than one quote. Our review of 64 such solicitations made in April and May 1976 showed that competitive quotes were obtained in only 2 instances. Purchase agents said that, under current workloads, they lack adequate time to call competing vendors for quotes on these items. While the dollar amount of such purchases may be relatively small, the economic benefits of increased competition often can justify the additional administrative time required. We noted several examples wherein significantly lower prices were realized when competition was obtained:

- Five weed-cutting machines were purchased directly from a given vendor without competing bids or quotes at a price of \$300 each. Later, through competitive bidding, two additional machines were purchased for \$254 each. Five firms submitted bids on this procurement, including the original supplier who bid \$15 less than his previous price.
- Six hundred boxes of ballpoint pens were ordered without competitive bids at a price of \$1.87 a box. About 2 months later, 840 boxes of the same pens were purchased competitively for 76 cents a box, a savings of \$932 for the quantity ordered.

--Agency purchase requests for a certain brand name power mower routinely were ordered directly from the statewide distributor without competition. However, when competitive bids were solicited on subsequent acquisitions, the distributor was the highest bidder. In one instance, the low bid was \$55 less than the distributor's bid for the same machine. In another instance, the distributor was the highest of eight bidders.

Increased competition on informal solicitations could be obtained by:

- assuring that at least three quotes are obtained for items between \$500 and \$4,999 whenever three or more vendors are available;
- obtaining more than three quotes when readily available and when it appears that additional competition could result in significantly lower prices; and
- providing clerical assistance to purchasing agents to get competitive quotes on items under \$500 when justified by potential savings.

2. Formal solicitations

General Services maintains lists of vendors interested in bidding on various commodities. Normally invitations to bid are sent to each vendor on the applicable list and also published in a newspaper.

We found that formal solicitation using bidders lists does not result in widespread competition. Our review of 12 formal solicitations during 1975 and 1976 showed that while invitations were sent to about 12.4 vendors per solicitation, only about 4.3 bids were received (35 percent response).

The procedures for establishing and maintaining bidders lists appear to be a major factor in the low response rate. The State could improve competition by seeking out additional vendors for the bidders list, rather than waiting for new vendors to request inclusion on bidders list, as now done.

We believe General Services could reduce unnecessary solicitation costs by subdividing bidders lists so that only vendors interested or able to bid on the specific items involved are solicited, and removing from bidders lists those vendors who seldom respond.

Specifications

We believe another factor that limits competition and bidder response in formal solicitations is the use of brand name specifications. Preparing specifications that promote maximum competition is difficult but essential to the contracting process. Types of specifications include design, performance, qualified products lists, and brand name designations.

Oregon statutes prohibit using brand name designations except where the Public Contract Review Board has exempted some products. The Board's rules state that, for other than exempted products, brand name designations should be used only "if there is no other practical method of specification, and should include an "or equal" designation. General Services rules also state that "brand name or equal" should be considered the least preferable description for agencies to use in submitting purchase requests.

Our review of 66 formal solicitations made during January-April 1976 as a result of agency purchase requests showed that 49 (74 percent) involved use of brand name or catalogue number designations. In addition, only 10 of the brand name solicitations included the "or equal" clause or other statements showing that using the brand name was not meant to restrict competition.

During our review, we noted several invitations for bids returned by vendors with statements such as:

--No bid. This item is not of our manufacture.

--No bid. We do not carry the brand specified.

Brand names and catalogue numbers used in formal solicitations are usually copied directly from agency purchase requests without modifications, except where the purchasing agent may insert "or equal." Purchasing agents said that they generally lack time to develop alternative item specifications. They also said that they do not add the "or equal" clause in most cases because standard language on the reverse side of the invitation for bid form states that other brands may be offered. Our review of the

standard language involved showed that the following clauses regarding the acceptability of alternative brands could appear contradictory and confusing to some vendors:

- "The identification of an item by propriety name, trademark, or copyright is not intended to be arbitrarily restrictive, but is intended to define the characteristics and specifications required."
- "Any exception to bid specifications and/or bid requirements is cause for bid rejection."

Better competition could be achieved by:

- Establishing procedures for developing and substituting alternative specifications for items requested by brand name or catalogue number wherever possible.
- Requiring agencies to designate two or more acceptable brands whenever alternative specifications cannot be developed.
- Including an "or equal" statement on the front of the invitation for bid whenever a brand name is used.

Insuring suitable quality levels

The procurement authority is responsible for insuring that items obtained are of a quality suitable for their intended uses. Items should be able to perform as required and should be as durable as necessary, but they should not include unessential frills or status features which can increase their costs.

In contracting, quality control depends on preparing suitable specifications for the items needed. General Services' ability to control item quality varies greatly. For items obtained under price agreements, General Services can control quality substantially since it prepares the specifications used in soliciting the agreements. However, for items requested by agencies, General Services has little or no control over quality since it generally uses the agencies' specifications. We noted opportunities to improve quality control of both types of items.

Price agreement items

Standard specifications have been developed for some price agreement items, such as vehicles, clothing, office supplies, and paint. According to a General Services official, many of the standard specifications were developed by committees which no longer exist. The one staff member currently working in this area noted that there are many price agreements for which standard specifications are needed to more adequately control the quality levels of items obtained by agencies.

Our review identified a number of price agreements allowing using agencies to choose one of several brands or models of functionally similar items. In such cases, there is no control over unnecessary and costly features that individual users may desire. For example, the price agreement for office furniture allows users to select from more than 100 styles of office chairs. We found that State agencies purchased many different styles of office chairs in 1975 at a wide range of prices as shown in table III.

Table III

<u>Type of chair</u>	<u>Number of styles purchased</u>	<u>Price range</u>
Fixed base, without arms	5	\$ 30 - \$ 96
Fixed base, with arms	7	52 - 177
Swivel base, without arms	15	50 - 130
Swivel base, with arms	17	59 - 324

Agency request items

A General Services official said that specifications for agency request items are set by the users and the need for specified quality is rarely questioned.

The report on State and Local Government Purchasing discussed on page 3 points out that cooperation of the central procuring authority and user agencies in determining suitable quality levels is essential. Yet it also notes that:

"Cooperation is often made difficult by an attitude concerning budgets which generally exists among using agencies. The agency point of view, oversimplified and perhaps overstated, is that it is authorized to spend to the limits of its budget. If funds permit,

it feels it should be able to buy the most expensive product. Purchasing's point of view, on the other hand, is to refrain from buying better quality or greater amounts than are actually needed. This difference in attitudes is a persistent undercurrent even in calm waters."

We noted instances where questionable features were specified by agency users. For example:

--In May 1976, General Services purchased a used 1975 automobile for an agency at a cost of \$4,250. Questionable features of this automobile included air conditioning, reclining drivers seat, tilting/telescoping steering wheel, AM/FM stereo radio, power door locks, and a number of appearance items such as a vinyl roof and custom upholstery. The basic functional features of the car--four-door, six passenger, power steering, power brakes, and automatic transmission--were available in a 1976 model covered by a price agreement for about \$900 less.

Agency users said that specifying brand names is the easiest way for them to get the quality level they want. Users at one agency indicated that they always get the items they want even if vendors offer lower priced alternatives. They said they do this by rejecting the low bid item for failing to incorporate some feature of the desired brand. Justifications for such rejections are required, but we noted that they are normally quite brief and insufficient to insure that suitable items are not disqualified.

General Services could obtain better assurance that necessary but not excessive quality levels are provided by:

- Increasing its efforts to develop standard specifications for all frequently used items covered by price agreements.
- Challenging agency requests whenever items of questionable suitability are specified.
- Requiring more complete agency justification for rejecting low-bid items.

Improving timeliness

An important goal of the contracting process is timely acquisition of items to facilitate agency programs. Excessive delays in the contracting process may disrupt agency operations and/or cause agency users to circumvent the central procurement authority in obtaining their requirements.

General Services uses one of three contracting methods to fill agency purchase requests: (1) formal advertised bidding, (2) return mail quotations, and (3) oral quotations. We found that the contracting method used has a major impact on the timeliness of the acquisition. For example, based on a sample of purchases made in 1976, the median time between receipt of the purchase request and issuance of the purchase order to the vendor was 37 days for formal bids, 18 days for return mail quotes, and only 5.5 days for oral quotes.

Return mail quotes and oral quotes can be used only for informal solicitations of items under \$5,000. Our analysis of a listing of all informal solicitations made during 1976 showed that the return mail method was used 52 percent of the time. We found no reason why the faster oral quote procedure could not have been used in many cases.

A sample of solicitations made in April 1976 showed that the return mail method was used mostly on items under \$500. Purchasing agents indicated that they lack time for obtaining oral quotes on these items, whereas return mail solicitations are processed by clerical staff and require little of the agents' time.

Some agencies responding to our questionnaire mentioned that they experience excessive delays in obtaining requested items when purchasing agents are away from their jobs. A General Services official told us that only one purchase agent is responsible for each commodity area and no formal backup system is available during vacations, illness, or other absences. He stated that reorganizing to form three- or four-member buyer teams responsible for broader commodity areas could provide the needed backup.

Improving the timeliness of contracting procedures could be achieved by:

- using the oral quote procedure on informal solicitations wherever possible, and
- reorganizing to provide backup systems so that processing purchase requests is not substantially delayed during the absence of any purchasing agents.

Insuring vendor performance

A major goal of the contract administration function is to insure that vendors provide goods and services according to the specifications and terms of the contract. This is essential if user agencies are to receive full value for their money.

Since General Services has no central receiving or warehousing space for commodities other than office supplies carried in its Central Stores operation, it has delegated responsibility for contract administration to the various State agencies. It has issued guidelines to the agencies requiring them to verify that items received from vendors are as specified on the purchase order, and to file reports of any unsatisfactory performance. A General Services official said that unless such reports or other complaints are received, it assumes that vendors are meeting contract specifications.

We noted that agencies visited during our review lacked detailed guidelines for their numerous field offices and departments to use in verifying that deliveries conform to specifications. General Services could help to assure vendor performance by providing guidelines, such as sampling and testing procedures to verify quantities and qualities, and accountability procedures to prevent pilferage and related problems.

RECOMMENDATIONS MADE TO GENERAL SERVICES

We made several recommendations to General Services in the areas of contracting and contract administration, which if adopted, would help realize the benefits outlined in this chapter. We believe that General Services should:

- Evaluate its contracting methods to identify ways of increasing competition for all procurements, including lower value items where possible.
- Establish a system of internal review whereby procurement management can assure itself that purchasing agents are obtaining and documenting competitive solicitations as required by Public Contract Review Board rules.
- Institute a program to update bidders lists by actively identifying and soliciting new sources of supply and removing vendors who repeatedly fail to submit bids.

- Challenge or reject agency requests for brand name products unless the use of brand name specifications is sanctioned by Public Contract Review Board rules. This probably will require expanding the General Services specification writing unit to assure that needed products are solicited by functional characteristics rather than by brand name.
- Seek better control over the quality of commodities by using more standard specifications, reducing the wide variety of brands and prices available for many price agreement items, and requiring agencies to fully justify their requests for products with questionable features or embellishments.
- Consider using more oral quotations than return mail quotes to reduce processing time when acquiring goods or services without formal competitive bidding.

CHAPTER 5

DELEGATION OF PROCUREMENT AUTHORITY

A strong central procurement authority does not require that one organizational element carry out all procurement functions. It does require that there be:

- A statutory basis for acquisition of all goods and services by the central procurement authority with no blanket exemptions for particular commodities or user groups.
- Proper delegation of authority with written guidelines to user groups where necessary.
- Adequate monitoring and review of all delegated activities to determine compliance with applicable procedures and assure overall program effectiveness.

OPPORTUNITIES TO IMPROVE DELEGATION OF PROCUREMENT AUTHORITY

While the General Services procurement system incorporates each of the above elements in varying degrees, we identified opportunities to strengthen these elements, thereby improving the overall basis for efficient, effective, and economical procurement. These opportunities are discussed in the following section:

Statutory exemptions

While Oregon statutes give General Services authority to procure most goods and services used in State operations, they exempt certain user groups and commodities. Exempted user groups are: the Legislative Assembly, the State courts and their officers and staffs, the Secretary of State's office (which includes the Division of Audits), and the State Treasurer's office.

The exempted user groups may choose to have General Services procure items for them or they may follow the same procedures as nonexempt groups which have been delegated authority by General Services, but they are not required to.

Since they are exempt General Services cannot review their procurement activities to assure that they adhere to sound procurement principles.

Commodity areas exempt from General Services authority are: school textbooks, liquor purchased for State liquor stores, and personal-professional services. These goods and services are procured independently of General Services under procedures adopted by the cognizant agencies.

Exemption of personal-professional services has created some confusion since no adequate definition has been developed to distinguish them from other, nonexempt services. For example, the State Executive Department (the agency responsible for approving personal-professional services contracts) has authorized one agency to contract for its own janitorial services up to \$2,500. Yet General Services considers janitorial services to be non-personal-professional and requires that all such services exceeding \$1,000 be contracted by its staff. Such jurisdictional problems could arise for other services that agencies may incorrectly classify as personal-professional.

Centralization of accountability and responsibility could be enhanced by bringing the exempted user groups and commodities under General Services authority wherever feasible. Then, in those cases where activities could be performed more efficiently or effectively by the groups involved, General Services could delegate the necessary authority but retain overall responsibility for assuring that the principles of the procurement program are upheld.

Guidelines for exercising delegated authority

General Services uses its delegated authority to avoid excessive workloads by permitting direct agency purchases of smaller value items. It also solicits price agreements for some frequently used items and allows agencies to make unlimited direct purchases under these agreements.

Guidelines for exercising delegated authority in effect during our review were promulgated by General Services in September 1974. In reviewing agencies' implementation of these guidelines, we noted several problem areas, including the following:

- Questionable dollar limitations. Sixty-one percent of the agencies responding to our questionnaire thought the limitations were unsatisfactory. Many agencies said that the \$200 limit for individual purchases of most items was too low.

--Inadequate definitions of items with higher limitations (i.e., greater than \$200). Since items such as "laboratory supplies" and "necessary automotive products" were not defined, some agencies used the higher individual purchase levels authorized for these consumables to obtain capital equipment items.

--Misinterpretation of delegated authority. One user group was given "unlimited" authority--for purchasing up to any dollar amount--but interpreted it to mean that it did not have to follow State purchasing laws for formal bidding, etc. As a result, it failed to formally advertise several larger solicitations.

--Lack of recordkeeping requirements. Specific documentation and filing requirements were not included in the guidelines, and some agencies were not keeping records in a form suitable for General Services' review.

In May 1976 General Services promulgated revised guidelines for delegated buying. The new guidelines should eliminate some of the problems noted during the review. For example, they increase the individual purchase authorization for most items to \$500. However, the new guidelines do not include commodity definitions and recordkeeping requirements. We believe these should be included in General Services' guidelines.

Some commodities for which special purchase authority is given--notably wood products, advertisements, and necessary automotive products--are still not defined. This could allow agencies to buy furnished wood products, for example, under the higher authority intended for wood-building materials. Adequate recordkeeping requirements still are not provided for. This will continue to hamper General Services' monitoring and review of delegated authority, as discussed in the following section.

Monitoring and reviewing delegated authority

General Services has established procedures for both continuous monitoring of purchase orders issued under agencies' delegated authority and for periodic reviews of purchasing operations at agencies. While this is an important and commendable step, we noted a number of opportunities to make improvements

in the (1) priority given to monitoring and review, (2) scope of the periodic reviews, and (3) followup efforts made to assure compliance and effectiveness.

Monitoring and review priority

Purchases made by State agencies, either directly or under price agreements, account for more than half of the dollar value of all purchases administered by General Services. This percentage could increase under the higher purchase authority delegated to agencies in May 1976. We believe the substantial volume of agency purchases requires that adequate priority be given to monitoring and reviewing delegated authority.

At present, General Services gives fairly low priority to monitoring and reviewing delegated purchasing activities. Only one staff member is assigned to agency reviews and another is responsible for monitoring agency purchase orders on a less than full-time basis. As a result, only about one-fourth of the State agencies can be reviewed during a given year. Also, some agencies--including the State's largest purchaser--have never been reviewed during the 5 years General Services has been making such reviews (fiscal years 1972-76).

The low priority given monitoring and reviewing is also reflected in the qualification requirements for the one full-time staff position involved. The agency review function is assigned to an entry-level staff position requiring no prior experience in the procurement field.

General Services could give higher priority to monitoring and reviewing delegated activities by assigning additional, more experienced staff to this area. This would enhance control over these activities by allowing more frequent and knowledgeable reviews of agency purchasing activities.

Scope of agency reviews

The scope of General Services' agency reviews is limited to certain aspects of purchasing procedures under the direct-buying authority delegated. Emphasis is placed on whether

dollar limitations are observed, whether price agreements are used, whether discounts are taken, and whether correct commodity codes are used on purchase orders. Other important factors in the total procurement process are covered only briefly or are not dealt with at all. These factors include:

- Extent of competition obtained by agencies in accordance with Public Contract Review Board rules.
- Adequacy of agency procedures for inspection and testing items received from vendors.
- Adequacy of agency procedures for identifying and reporting unused equipment.

Under the new Public Contract Review Board rules, agencies must obtain competitive quotes where feasible for items under \$500, and obtain and document at least three quotes (or the effort made to get quotes) for items costing more than \$500 but less than \$5,000. The scope of General Services' agency reviews does not include an evaluation of how agencies comply with these rules, nor an assessment of how much competition is being obtained.

General Services' review of agency compliance in obtaining and documenting informal bids is limited by the lack of rules covering agency recordkeeping. Agencies are not required to document informal bids on their purchase orders or to file the purchase orders in a manner that facilitates review. Some agencies covered in our review had recordkeeping procedures that would make adequate reviews very difficult and time consuming.

General Services' reviews do not include evaluating agency inspection and testing programs to insure that items received meet specifications. This appears to be an important omission since General Services has no central inspection and testing program and relies on user agencies to perform this function. The report on State and Local Government Purchasing indicates that most agencies simply assume that items conform to specifications, but that large numbers of nonconforming deliveries have been uncovered after State and local governments established their own inspection programs.

The scope of General Services' reviews also fails to include evaluating agency procedures for identifying and reporting unused equipment. As with inspection and testing, General Services relies on the agencies to carry out this function. However, as pointed out in chapter 3, agencies reviewed have failed to establish adequate procedures for identifying and reporting unused equipment, and some equipment has remained idle and unreported for extended periods.

General Services could improve its control over procurements made under delegated authority by incorporating all major aspects of the procurement process. In particular, evaluating agency procedures for obtaining competition, inspecting and testing deliveries, and identifying and reporting unused equipment could help assure effectiveness of the overall procurement program.

Followup efforts

After deficiencies in agencies' procurement operations are identified, effective followup is required to make sure they are corrected. General Services' followup efforts are limited to subsequent reviews, which means that often more than 2 years will elapse before General Services knows if an agency complied with its recommendations.

We found that a number of deficiencies identified in earlier General Services reviews were still occurring at agencies visited. Deficiencies we noted included failure to:

- observe dollar limitations for delegated purchases,
- use price agreements when appropriate,
- assure that price agreement discounts are received from vendors,
- document informal bids, and
- file purchase orders numerically to facilitate General Services review.

Many of the problems we observed appeared to be due to the decentralized structure of the agencies involved. With many people in different locations or departments issuing purchase orders, different practices and interpretations of procedures have evolved. General Services lacks a followup program to determine how unacceptable practices and procedures can be corrected, and to assist the agencies in making improvements.

A more effective followup program could eliminate longstanding deficiencies in agency procurement operations. General Services could conduct training sessions for agency personnel to improve compliance with recommendations and assure a more effective procurement program overall.

RECOMMENDATIONS MADE TO GENERAL SERVICES

To improve procurement under delegated authority, we recommend that General Services:

- Seek the necessary statutory authority for ultimate accountability and responsibility to acquire all goods and services, including personal services.
- Clarify existing rules on delegation of purchasing authority to prevent misinterpretations and to insure compliance with procurement laws and regulations.
- Strengthen management control over delegated purchasing activities by broadening the scope and increasing the priority and timeliness of agency field reviews.

CHAPTER 6

COOPERATIVE PURCHASING

This chapter discusses opportunities for General Services to cooperate with governmental subdivisions, such as counties, municipalities, school districts, and other local governmental entities, to achieve greater economy in purchasing at all levels in the State.

Cooperative purchasing refers to a variety of arrangements whereby two or more governmental entities buy under the same contract or purchase agreement to obtain lower prices through volume purchasing. General Services allows local entities to buy under the same price agreements it establishes for State agencies. While this apparently has helped some local entities to buy certain items more economically, we believe General Services could save more at both the State and local levels.

OPPORTUNITIES TO IMPROVE COOPERATIVE PURCHASING

General Services could improve its cooperative arrangements for purchasing common State and local requirements (e.g., police cars, paper, paint, etc.). It could also encourage cooperation among local entities in procuring items only they require.

Cooperating to meet common requirements of State and local entities

General Services allows counties, municipalities, and other local entities to buy under most of the price agreements it establishes for State agencies. The dollar value of local purchases under price agreements is summarized in table IV below.

Table IV

	<u>Purchases</u>		
	<u>1974</u>	<u>1975</u>	<u>1976</u>
	(000 omitted)		
Multnomah County ^{a/}	\$ 625	\$ 463	\$ 598
City of Portland	635	229	221
Other counties	467	577	324
Other cities	220	231	221
School districts	146	113	92
Other public agencies	171	69	206
	<u>\$2,264</u>	<u>\$1,682</u>	<u>\$1,662</u>

a/ Multnomah County includes much of the metropolitan Portland area.

Use of State price agreements has saved more on local purchases of some commodities. For example, Multnomah County began buying vehicles under State price agreements after an audit report showed that not using a price agreement for 1974 model police cars cost the county \$15,000 in higher prices. Despite the savings, we noted that:

- Price agreements are not always used by local entities even when the economic advantage is apparent.
- General Services does not encourage widespread use of price agreements by local entities.
- Price agreements are not always the most desirable form of cooperative purchasing.

City of Portland and Multnomah County purchasing officials said they used the State price agreements whenever there is an economic advantage. Yet at the City of Portland we noted instances where savings through State price agreements were not obtained.

For example, the City

- bought five 1976 automobiles for \$456 more than the cost of nearly identical models available through a price agreement; and
- purchased two calculators for \$685 while the State price agreement cost of the same machines was \$595, or 13 percent less.

Although General Services allows local governmental entities to use State price agreements, it does not actively encourage them to do so. According to a General Services official, it does not encourage local entities to use price agreements that would increase the agency's heavy workloads.

We believe another factor limiting widespread use of price agreements is the requirement that all local entities--except the City of Portland and Multnomah County--send requests for price agreement items to General Services, which in turn issues orders to vendors. A General Services official said the requirement is intended to prevent numerous small quantity orders to vendors by allowing General Services to consolidate orders where possible, or to refuse an order it does not consider a reasonable size. A Multnomah County purchasing official said that some smaller governmental units have complained

about the additional effort and delay involved in ordering price agreement items through General Services.

According to the report on State and Local Government Purchasing, price agreements are not the most desirable arrangement in many cases because they are:

"...permissive-type arrangements whereby a third-party agency, such as a local government, can use a contract, such as a State's, if, when, and how it chooses. The State contract prices become, in effect, ceiling prices against which non-state agencies can bargain. Such practices place the successful bidders, who have won State contracts in open competition, in the position of having their contract prices presented as targets for others to negotiate with or play against."

The publication points out that more acceptable arrangements have been used in some recent State-local cooperative programs. These arrangements require the local entity to estimate its requirements and commit itself to order accordingly. This allows the State procurement authority to combine its forecast requirements with those of the local entity to obtain volume savings on definite quantity contracts.

General Services could improve its cooperative arrangements for purchasing common State and local requirements by:

- Surveying major local requirements to determine commodities which could be included in definite quantity contracts.
- Combining local survey results with State agencies' forecasts and obtaining State and local agreement to enter definite quantity contracts.
- Actively encouraging local entities to use State price agreements where definite quantity contracts are not feasible.
- Developing procedures whereby entities can place orders directly with price agreement vendors as long as they avoid excessive use of small quantity orders.

Encouraging cooperation among local entities

Some items routinely purchased by local entities are not required at the State level or are required infrequently and in limited quantities. While State-local cooperative buying is not feasible for such items, the State can encourage local entities to cooperate for greater economy. This could help conserve local funds as well as State funds to local entities.

An example of the potential for cooperative buying among local entities is the purchase of school buses. A total of 388 school buses were purchased by Oregon school districts in 1975. Overall cost figures were not available, but we estimated that the total cost of the buses exceeded \$4.3 million. A State Department of Education official said that the school districts seldom cooperate with each other in purchasing buses. He indicated that although the State provides recommended bus purchasing guidelines, each district prepares its own specifications and solicits its own bids.

The 388 buses purchased in 1975 represented 10 different makes (chassis types) and 9 different body types with an unknown but potentially large number of chassis-body combinations. Twenty-three different carrying capacities were purchased, ranging from 12-passenger to 84-passenger buses. The most common capacity was 66-passengers, accounting for 214 (55 percent) of the purchases.

A limited review of bus purchases during 1975 indicated an example of school districts paying different prices for similar buses. In this instance, the prices paid by five school districts for buses of the same size (66-passenger), year, make, and body style ranged from about \$10,300 to about \$13,500.

The opportunity for savings by consolidating school bus requirements among the 315 Oregon school districts and purchasing in volume appears significant. General Services could encourage local entities to look for opportunities to save money through cooperative purchasing. It could also advise and assist local entities in developing standard specifications for major commodities purchased under cooperative arrangements.

RECOMMENDATIONS MADE TO GENERAL SERVICES

We recommend that General Services:

- Promote, design, and administer a cooperative purchasing program with other public bodies in Oregon.
- Promulgate guidelines and instructions for local entities governing their duties and responsibilities in the cooperative program.
- Survey local governments to determine their major requirements and combine these requirements with forecasts of State needs in scheduling and planning future procurements.
- Assist and encourage local governments to cooperate among themselves in the acquisition of goods and services not required at State level.

Clay Myers
SECRETARY OF STATE



SALEM, OREGON

October 28, 1976

Mr. R.W. Gutmann, Director
Procurement and Systems Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Gutmann:

Working with the General Accounting Office on a cooperative review of the State of Oregon Department of General Services procurement activities has been a pleasant and rewarding experience for the State of Oregon. Our Audits Division Staff and I are extremely grateful for the opportunity to have worked with GAO. Further, the professional exchange and training between the state and federal auditors is a plus for all of us.

This review benefits all state agencies, and, in turn, the Federal Government, because it evaluates the State's purchasing policies. These policies cover the procurement of goods and services exceeding 350 million dollars annually. A good share of those are federal dollars made available to the state.

This is an excellent Review. It was only with the outstanding cooperative efforts of our staff, the staff of GAO and the people at the Department of General Services that it was possible. I am hopeful that this is just the beginning of many other such cooperative efforts.

Sincerely,


CLAY MYERS

CM:lv

GUIDELINES FOR AUDIT
OF
STATE AND LOCAL
PROCUREMENT ENTITIES

I. INTRODUCTION

The objective of a good procurement system is to enable goods and services to be obtained in the most efficient, and effective manner at the lowest possible prices. The purpose of this audit is to evaluate how well the procurement entity is carrying out the functions which are essential to meeting this objective. These functions include determining requirements and planning, contracting, contract administration, and delegating procurement authority. In addition, the audit addresses cooperative purchasing between State and local entities.

How effectively the above functions can be carried out depends on a strong central procurement authority--the concept of a central procurement authority does not mean that central purchasing must carry out all functions, but rather that there should be a centralization of responsibility and accountability.

These guidelines are meant to give the user a general area of inquiry; they do not include every audit step that may be necessary to completely satisfy each area of inquiry.

II. PROCUREMENT SYSTEM BACKGROUND

A. BUDGETARY AND FINANCIAL DATA

1. Determine the total budget of the State or local body--including the amount of Federal funds involved--for recent budget periods (e.g. at least the two or three most recent periods).
2. Determine what portion of the budget was earmarked for goods and services during these periods.
3. Determine the dollar amounts of goods and services obtained by the procurement entity (e.g. Department of General Services, etc.) during these periods.
4. Determine the dollar amounts of goods and services procured by groups which have been delegated purchasing authority by the procurement entity during the periods in question.

B. PROCUREMENT STATUTES, REGULATIONS, AND PROCEDURES

Review all applicable procurement statutes, regulations, and procedures to determine the nature and extent of the authority and responsibility vested in the procurement entity and user groups. This review should cover such items as:

1. Is there clear statutory authority for the procurement entity to obtain all goods and services for all users, or are there exemptions for specific commodities or user groups?
2. Is the procurement entity given authority to delegate procurement functions to user groups?
3. Are major procurement principles, such as obtaining competition, limiting use of brand names, prohibiting local vendor preferences, etc., addressed by the statutes?
4. Are there any legislative initiatives underway which would substantially modify existing procurement statutes?
5. Does the procurement manual and/or other regulations and procedures cover the major procurement functions of requirements determination, contracting, contract administration, and delegation of procurement authority?
6. Are any efforts to revise existing regulations and procedures planned or underway?

C. ORGANIZATIONAL STRUCTURE

1. Determine the position of the procurement entity within the overall organization of the State or local body, and its relationship to other units in the overall organization.
2. Determine the organizational structure of the procurement entity under audit.

D. PERSONNEL

1. Determine the number of personnel involved in each functional area of the procurement entity (e.g. specifications, contracting, etc.) their job classifications, general duties, and qualifications, and authority to obligate their governmental unit.

2. Determine the rate of turnover of key procurement personnel, such as purchasing agents.
3. Determine whether there is an active program for training and development of key personnel.

E. MANAGEMENT INFORMATION

1. Determine whether the procurement entity obtains information on historical usage of goods and services, future needs, equipment inventories, and other data for procurement management.
2. Determine how this information is compiled, summarized, and used.

F. ACCOUNTING AND INTERNAL REVIEW

1. Determine whether the accounting systems of the procurement entity allow it to identify which procurements involve Federal funds.
2. Determine the nature and extent of any internal reviews of the operations of the entity or user groups which have been delegated purchasing authority.
3. Determine what actions have been taken to implement recommendations made by internal auditors.

III. REQUIREMENTS DETERMINATION AND PLANNING

In determining requirements for goods and services and in planning the most efficient, economical, and effective means for acquiring them, management must answer a number of questions, including:

- What is needed?
- How much or how many are needed?
- When is it needed?
- It is already available in the form of unused equipment?
- Should it be purchased or leased?
- How should it be purchased (volume buying versus spot purchasing, etc.)?

To answer these questions, accurate information is needed on historical and forecast demand for goods and services, inventories of unused equipment, and lease versus purchase alternatives.

A. INFORMATION ON HISTORICAL AND FORECAST DEMAND

1. Determine if the management information system provides adequate information on historical and forecast demand. Adequate information would include data on the dollar volume and purchase quantities or number of purchases for specific items and for broad commodity groups.
2. If the management information system provides adequate data on historical and forecast demand, determine if the data is effectively used to estimate total requirements and to plan procurements. For example, are forecasts from various user groups consolidated and used as a basis for definite quantity volume buys?
3. If the management information system does not provide adequate data on historical and forecast demand, (determine what other methods are used to plan procurements (e.g. periodic manual review of purchase orders)), and evaluate the effectiveness of these methods.

B. INFORMATION ON INVENTORIES OF UNUSED EQUIPMENT

1. Determine if the procurement entity obtains information on inventories of unused equipment.
2. Determine if purchasing agents routinely screen information on unused equipment prior to making purchases.
3. Determine what role the procurement entity plays in the identification of unused equipment. Some considerations are:
 - a. Does the procurement entity evaluate equipment use at agencies and identify unused items itself or does it rely on the agencies to identify and report unused equipment?

- b. If the procurement entity relies on user agencies, has it provided them with adequate guidelines for periodically evaluating equipment use, identifying unused items, and reporting such items?
- c. Does the procurement entity review the agencies' compliance with the guidelines?

C. INFORMATION ON LEASE VERSUS PURCHASE ALTERNATIVES

1. Determine how the procurement entity identifies opportunities for acquiring items through leasing rather than purchasing.
2. Determine what type of evaluations are made for lease versus purchase alternatives, and who makes these evaluations (e.g. procurement entity or user agency).
3. Determine the adequacy of lease versus purchase evaluations.
4. Determine if the results of the evaluations are used to select the most economical acquisition method. If the most economical methods are not always selected, determine why (e.g. budgetary constraints on capital acquisitions, or Federal grant constraints).

IV. CONTRACTING

Once a decision to acquire an item is made, the actual contracting begins. This process should:

- Produce maximum competition among all qualified vendors.
- Provide items of a quality suitable for their intended use.
- Secure needed items in a timely manner to facilitate agency programs.

A. ASSURING MAXIMUM COMPETITION

The procurement entity is responsible for insuring maximum competition in order to provide goods and services at the lowest possible prices.

1. Determine the extent (frequency or dollar value of purchase) to which the procurement entity uses the following methods to obtain bids from vendors:
 - a. Formal solicitation (usually involves advertisement in at least one newspaper or trade paper and formal bid opening procedures, and may involve use of bidders lists.)
 - b. Informal solicitation of oral or written quotes.
 - c. Negotiation (may be with one or more potential contractors.)
 - d. Other methods.
2. Determine the specific procedures used in each of the above methods.
3. Evaluate the degree of competition obtained under each solicitation method:
 - a. Obtain summary data indicating the average number of vendors solicited and average number of bids received for each solicitation method.
 - b. Obtain data on the distribution of solicitations and responses (if already summarized, or available from a contract log) such as:

Number of cases

Solicitations

Responses

Only 1
2-3
4-10
11-50
Over 50

- c. Select a sample of purchase transactions (representing a range of dollar values and commodity types) and schedule data such as:
 1. Purchase transaction number.
 2. Description of item/service purchased.

3. Solicitation method (i.e. formal, oral quote, etc.).
4. Number of sources solicited, and responding and their quotes.
5. Vendor selected and dollar value of order.
6. Date requisition received by purchasing office.
7. Date of solicitation.
8. Date of purchase order.
9. Date item/service received and conformance with terms of purchase (if available in files.)
10. Comments and evaluation (note any irregularities and interesting or unusual features of the purchase request, solicitation, bid evaluation and award, purchase order, or product delivery.)

(Note: some of the above data will be used in evaluating other aspects of contracting and contract administration.)

4. For negotiated or single-source solicitations, determine how the procurement entity assures itself that vendor prices are reasonable (e.g. comparative price analysis or cost and pricing data.)
5. If instances of inadequate competition are observed, some causes might include:
 - a. Inadequate procedures for identifying new vendors and adding them to bidders lists, or other problems.
 - b. Overly restrictive specifications (i.e. excessive use of brand names, vendor catalogue numbers, or other specifications that tend to limit competition to a particular brand or supplier.)
 - c. Failure to obtain competition on informal solicitations due to a lack of time or the attitude that competition is not warranted for lower value items.

B. ASSURING SUITABLE QUALITY LEVELS

The procurement entity is responsible for insuring that the quality level of items obtained is suitable for the intended use. Items should be able to perform as required and be as durable as necessary but should not include unessential frills or status features which can increase their cost. Control over quality levels depends on preparation of suitable specifications to describe the needed items.

1. Determine the respective roles of the procurement entity and user groups in the preparation of specifications.
2. Determine the extent to which the procurement entity:
 - a. develops new specifications by itself;
 - b. relies on users' specifications; and
 - c. uses existing Federal, State, or local specifications.
3. Determine whether the procurement entity has a standardization and cataloging program which adequately controls the types and quality levels of items provided to agency users. Relevant questions would include:
 - a. To what extent does the procurement entity challenge the type and quality level of items requested by user agencies?
 - b. How does the procurement entity prevent the purchase of a wide range of quality levels (i.e., different styles, models, brands, and prices) to meet similar needs of agencies?
4. If the procurement entity establishes standing agreements, such as term contracts, etc., for agency use in obtaining common items, determine whether:
 - a. agencies make full use of such agreements, or avoid using them at their discretion; and

- b. the agreements effectively limit the variety of types and quality levels of items a user may select.

C. ASSURING TIMELY PROCUREMENTS

An important goal of the procurement entity is timely acquisition of items to facilitate agency programs. Excessive delays in the contracting process may disrupt agency operations and/or cause agency users to circumvent the central procurement authority in obtaining their requirements.

1. Review any data maintained by the procurement entity on the average time lapse between receipt of an agency purchase request and issuance of a purchase order to the vendor for each of the major solicitation methods (see IV.A.1. p. 39).
2. If the procurement agency does not maintain such data, develop it from information compiled under IV.A.3.C. (see p. 39).
3. Identify reasons for any excessive time lapses associated with the various steps in the procurement process.

V. CONTRACT ADMINISTRATION

A major goal of the contract administration function is to insure that vendors provide goods and services in accordance with the specifications and terms of the contracts. This is essential if user agencies are to receive full value for funds expended.

- A. Determine the role of the procurement entity in carrying out the contract administration function.
 1. Does the procurement entity conduct centralized receiving, inspecting, and testing of goods, or are user agencies expected to perform these functions?
 2. Has the procurement entity provided adequate guidelines to those who are responsible for these functions? Adequate guidelines should include procedures for sampling and testing to verify quantities and qualities, and accountability procedures to prevent pilferage and related problems.

- B. If feasible, determine through on-site observation how effectively the procurement entity and/or user agencies are carrying out the receiving, inspecting, and testing functions.
- C. Determine whether using agencies request assistance from the procurement entity in handling problems with delivery schedules or nonconforming deliveries, and the adequacy of such assistance. If possible obtain user agencies' views on the assistance provided by the procurement entity.
- D. Determine whether the procurement entity effectively monitors user complaints to take appropriate action (e.g. removal from bidders lists) against vendors who fail to meet contract terms.

VI. DELEGATION OF PROCUREMENT AUTHORITY

The concept of the strong central procurement authority does not imply that the procurement entity must actually carry out all procurement functions. Rather it means that there should be:

- A statutory basis for acquisition of all goods and services by the procurement entity with no blanket exemptions for particular commodities or user groups.
- Proper delegation of authority from the procurement entity to user groups where necessary, with written policies and procedures for exercising the delegated authority.
- Adequate monitoring and review by the procurement entity of all delegated activities to determine compliance with applicable procedures and assure overall program effectiveness.

A. STATUTORY BASIS FOR CENTRAL PROCUREMENT

1. Determine what commodities and/or user groups are exempted from the procurement entity's authority.
2. Determine the rationale, if any, behind these exemptions, and the major barriers to removing them. Delegated authority from the procurement entity to user groups may be appropriate because:
 - a. The user group can more readily carry out the procurement function because

- of its special expertise, capabilities, or staff resources (e.g. purchases involving sophisticated technology, or special commodity experience).
- b. The procurement entity can avoid unnecessary processing of numerous small value purchases.
 - c. The user may be able to purchase goods and services more effectively at field locations.
3. Determine if any problems arising from exemptions have been documented (e.g. unsound procurement practices of exempted groups, loss of opportunities for lower prices through consolidation, etc.).
 4. Consider visiting user groups with significant levels of exempted procurements to make limited evaluations of their purchasing operations in accordance with the concepts presented in this guideline.

B. PROPER USE OF DELEGATED AUTHORITY

Determine whether the procurement entity has given user agencies adequate guidelines for exercising delegated authority. If possible, obtain views of user agencies on the adequacy of the guidelines (e.g. the suitability of delegated dollar authority, etc.).

C. MONITORING AND REVIEWING

1. Determine if the procurement entity has provided adequate capability for monitoring and periodic review of user agencies' procurement operations.
 - a. Determine whether staffing is sufficient for conducting reviews annually or biannually.
 - b. Determine whether review staff has sufficient experience in procurement operations to evaluate user agency performance.

2. Determine whether adequate guidelines have been provided for conducting user agency reviews. Guidelines should cover all major aspects of the procurement function presented in this guideline where applicable to the user agencies.
3. Determine whether adequate followup procedures exist to evaluate agency compliance with review, and recommendations and/or assist agencies in solving procurement problems.

VIII. COOPERATIVE PURCHASING

The preceding sections deal with evaluating the procurement entity's effectiveness in carrying out the essential functions of the procurement process. This section is aimed at evaluating opportunities for cooperation among States and governmental subdivisions to achieve greater savings at all levels of government.

- A. Determine whether the procurement entity participates in any cooperative purchasing efforts with other Federal, State, or local entities.
 1. Determine the extent of such purchasing (i.e. dollar value).
 2. Determine the specific nature of the cooperative arrangements.
- B. Determine what action the procurement entity has taken to foster or encourage increased cooperative purchasing arrangements.
- C. Determine what problems confront the procurement entity in implementing cooperative purchasing arrangements with other governmental units (e.g. legal constraints, smaller units' fear of domination by larger procurement entity, etc.).
- D. If possible, identify specific examples of potentially significant opportunities for greater economy through cooperative purchasing. Examples of common requirements which are purchased independently in a range of prices might include vehicles (e.g. police cars, school buses, trucks, etc.), consumable supplies (paper, paint, etc.), office furniture and machines, etc.