
Secretary of State

State of Oregon

DEPARTMENT OF ADMINISTRATIVE SERVICES

Statewide Purchasing and Price Agreements



Audits Division

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Auditing for a Better Oregon

The Honorable John Kitzhaber
Governor of Oregon
State Capitol
Salem, Oregon 97310

Jon Yunker, Director
Oregon Department of Administrative Services
155 Cottage Street NE
Salem, Oregon 97310

In September 1993, the Audits Division presented a list of 37 potential audits to the Joint Legislative Audit Committee. Included in that list was an audit of price agreement contracts. We began audit work in late 1995. However, due to allegations of inequitable treatment in the awarding of custodial product price agreements, the audit was postponed until after the allegations were investigated. In February 1997, the Audits Division resumed audit work on price agreement contracts.

This report encompasses our review of selected activities of the Transportation, Purchasing and Print Services Division at the Oregon Department of Administrative Services. The objective of our audit was to identify opportunities to improve oversight of purchasing activities with emphasis on the management of price agreements.

We conducted our audit in accordance with generally accepted government auditing standards. In this regard, our audit procedures included inquiry of department personnel, inquiries of purchasing personnel at other state agencies, and examination of records and documentation related to price agreements.

OREGON AUDITS DIVISION

John N. Lattimer
Director

Fieldwork Completion Date:
April 9, 1997

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SUMMARY

BACKGROUND

State government is one of Oregon's largest buyers of goods and services provided by private vendors. Through its Purchasing Operations program, the Oregon Department of Administrative Services (department) serves as the central purchasing authority for state government. The program provides technical consultation and training to state and local governments and to contractors on purchasing laws, rules, policies and processes.

AUDIT PURPOSE

The objective of the audit was to identify opportunities to improve the department's oversight of statewide purchasing activities with emphasis on the management of price agreement contracts.

AUDIT RESULTS

This audit identified opportunities to improve the Purchasing Operations program at the department. Our report recommends that the department consider increasing its monitoring of statewide purchasing activities, obtaining and generating better management information, updating and expanding its purchasing policies and procedures, and improving its documentation of contract administration over price agreements. During our review, we also identified additional areas that warrant discussion and have included those items in the Other Matters section of the report.

INTRODUCTION

ORGANIZATION AND FUNCTIONS

The Transportation, Purchasing and Print Services Division (division) of the Oregon Department of Administrative Services is responsible for directing large-scale and large-volume product and service procurements for state agencies, as well as for numerous public agencies, through competitive bidding processes. The division's mission is to improve government by providing services that are best managed centrally.

Through its Purchasing Operations program, the division serves as the central purchasing authority for state government. This program provides technical consultation and training to state and local governments and to contractors on purchasing laws, rules, policies and processes. The Purchasing Operations program includes 15 employees who are responsible for administering goods and services contracts, authorized by Oregon Revised Statutes, Chapter 279, including price agreement contracts.

The division currently administers about 600 price agreement contracts. The division evaluates competitive bids and enters into a price agreement contract with a selected vendor who agrees to supply specified goods or services at a stated price or price formula during the contract period. The department establishes price agreements so that state agencies and public agencies can take advantage of the volume purchasing power of the state as a whole, reduce paper work, achieve continuity of product availability among agencies, secure a source of supply, reduce inventory, and reduce lead time for ordering. The term of price agreement contracts including renewals is up to five years.

Related to price agreements, purchasing staff responsibilities include:

- Determining the need for a specific product or service and then preparing price agreement requirements documents for that product or service;
- Performing competitive bidding procedures for awarding price agreements;
- Entering into price agreement contracts with vendors;
- Monitoring and managing price agreement contracts;
- Providing procurement guidance to other state agencies; and
- Maintaining policies and procedures pertaining to price agreement contracts.

By purchasing items on price agreements, state agencies and other public agencies save work effort by not having to solicit bids and price quotes from vendors. The division maintains an information system, Vendor Information Program, which gives state agencies on-line access to price agreement contract information. Each of the division's purchasing staff have been assigned commodity areas and are responsible for entering, monitoring, and managing price agreement contract information on the on-line system.

LAWS AND REGULATIONS

Oregon Revised Statutes, Chapter 279, and Oregon Administrative Rule 125-310-300 include provisions governing price agreement contracts. These statutes and rules authorize the division, through the Department of Administrative Services, to create price agreement contracts to help fulfill the department's statutory responsibilities of (1) purchasing or providing for the acquisition or furnishing of all supplies, materials, equipment and services other than personal services and (2) prescribing the time, manner, and form of making requisitions by state agencies for supplies, materials, equipment and services other than personal services.

**SCOPE AND
METHODOLOGY**

In September 1993, we presented a list of 37 potential audits to the Joint Legislative Audit Committee. Included in that list was an audit of price agreement contracts. We began audit work in late 1995 but postponed the audit until after we investigated allegations of inequitable treatment in the awarding of custodial product price agreements. We resumed the price agreement audit in February 1997. The objective of the audit was to identify opportunities to improve the division's oversight of statewide purchasing activities with emphasis on the management of price agreement contracts. To accomplish this objective, we:

- Reviewed relevant Oregon Revised Statutes, Oregon Administrative Rules, and provisions of the Attorney General's Model Public Contract Rules Manual;
- Interviewed department purchasing staff and purchasing staff from six other state agencies;
- Obtained and reviewed written purchasing policies and procedures maintained by the department and other state agencies;
- Gained access to price agreement contracts using the division's Vendor Information Program (VIP) system;
- Reviewed purchasing documentation; and
- Reviewed various other documents and information maintained by the department and by other entities.

We limited our audit procedures to purchasing and price agreement activities performed by the division. Although we made inquiries of other state agencies' procurement practices, we did not perform an examination of their purchasing records.

We performed the audit in accordance with generally accepted government auditing standards. Our conclusions are presented in the AUDIT RESULTS section of this report.

AUDIT RESULTS

Our review identified opportunities to improve the oversight of statewide purchasing and management of price agreement contracts. We found that no single entity is responsible for planning, managing, and monitoring all statewide purchasing activities. We also found that the Transportation, Purchasing and Print Services Division (division) at the Oregon Department of Administrative Services (department) needs to update and expand its purchasing policies and procedures and improve its documentation of its contract administration over price agreements.

MONITORING OF STATEWIDE PURCHASING ACTIVITIES

Purchasing activities are decentralized with state agencies and no single state entity monitors all of the state's purchasing activities. The division participates in the contract administration of all purchases exceeding \$50,000 and maintains information to monitor purchases made from price agreement contracts. The division does not monitor purchases of goods that are less than \$50,000 and not made from price agreements.

The division recently delegated more purchasing responsibility to state agencies without increasing its monitoring of state agency purchasing activities. In 1990, the delegated purchasing authority was increased from \$15,000 to \$25,000 and in January 1997 it was increased to \$50,000; agencies can let contracts up to this amount for goods and services without contacting the division and going through the competitive bidding process. Division staff stated that they increased the delegated authority to \$50,000 so purchasing staff could focus their efforts on larger purchases and to allow state agencies to manage the contracting of smaller purchases. Thus far, the division has not provided training in contract administration to state agencies to help them manage their additional contracting responsibilities.

Oregon Revised Statutes, Chapter 279, authorizes but does not specifically require the division to manage and monitor statewide purchasing activities. The division follows the department's philosophy of being a service-oriented entity rather than a regulatory entity and has mainly provided purchasing guidance. Consequently, the division does not monitor compliance with purchasing laws requiring state

agencies to purchase goods and services that are on price agreements.

The National Association of State Purchasing Officials (NASPO) recommends that statutes require client agencies to adhere to procurement law and to central purchasing rules, policies and procedures when delegation is extended. Further, NASPO recommends that statutes direct the central procurement office to monitor all delegated purchasing activities. Inefficient purchasing practices and noncompliance with laws, such as state agencies circumventing the use of price agreements in order to use a preferred vendor, could perpetuate when statewide purchasing activities are not monitored. Although the current law gives them the authority to monitor compliance with laws and regulations, division staff stated that they have too few staff to perform additional monitoring activities. Division management stated that the 15 purchasing employees spend about 40 percent of their work effort on purchasing activities related to price agreement contracts. Moreover, they stated that within the last 18 to 24 months the division has had a turnover of about 73 percent in purchasing staff responsible for managing price agreement contracts.

**AVAILABILITY OF
MANAGEMENT
INFORMATION ON
PURCHASING ACTIVITIES**

Limited statewide management information is available on what is being purchased, by whom, and at what cost. The division currently has the ability to generate management information on statewide purchases exceeding the delegated purchasing amount of \$50,000 and purchases made from price agreements. The division does not obtain or maintain information on purchases below \$50,000 that are not made from price agreements.

Specific to price agreement contracts, we found that the division has limited management information available to determine if it has the right mix of contracts and whether it is managing these contracts effectively and efficiently. For example, the division does not maintain information on when it is cost-effective to establish price agreements or on how much individual agencies are purchasing and paying for similar goods not purchased from price

agreements. The division needs specific management information to adequately plan and manage its purchasing activities and evaluate whether it is providing the most cost-effective purchasing services. Since the division is operating with limited resources, management decisions on the allocation of resources should be made using the best information available or obtainable.

The division does maintain some information that could help them manage and analyze price agreement purchases, however, turnover and limited resources have prevented division staff from fully utilizing this information. The quarterly price agreement usage reports received from vendors could be a better management tool if they were reformatted, reviewed and analyzed more thoroughly by division staff, and periodically verified against agencies' records. We found very little review or analysis done on these reports by division purchasing staff. We also noted the usage reports did not separately identify state agency purchasing information; this information was combined with purchasing information on other public entities such as school districts. Division staff stated that they were in the process of implementing new requirements for these reports and intended to hold the vendors accountable for complying with the new requirements.

PURCHASING POLICIES AND PROCEDURES

Written policies and procedures for price agreement contracts need to be updated and expanded to reflect current processes. The division's existing policies and procedures are generally dated between 1989 and 1991 and do not address specific procedures that purchasing staff should perform to renew and manage price agreement contracts. Insufficient procedures may prevent purchasing staff from performing certain tasks timely and efficiently. Up-to-date and comprehensive policies and procedures provide ongoing guidance and consistency in purchasing practices, especially when there is high turnover in purchasing staff.

The policy manual should include the provisions of the purchasing statutes, the rules and policies established to carry out these provisions, and the purposes and objectives of the purchasing program. The procedures or operations manual should establish and describe in detail all of the

internal procedures of the purchasing process to assist staff in conducting day-to-day operations.

The National Association of State Purchasing Officials recommends the following procurement activities be included in procedures manuals:

- Detailed description of the procurement process including time frames and steps performed by the division and other state agencies;
- Description of advisory committees and the procedures involved in selecting them and for acting upon their recommendations;
- Job descriptions of purchasing personnel;
- Contract administration, including expediting and enforcing provisions for price reductions, handling requests for price increases, and vendor adherence to contract terms and conditions;
- Procedures for handling protests of vendors and complaints from user agencies or the public; and
- Responsibilities of user agencies, including record-keeping, contract administration, in-house testing of products, and reporting vendor performance.

MANAGEMENT OF PRICE AGREEMENT CONTRACTS

During our review, we found little evidence that purchasing staff is performing cost-effective management of its price agreement contracts. Further, we found that the division's written policies and procedures do not provide guidance for cost-effective contract management. Ongoing contract administration helps to ensure efficient and economic utilization of price agreements and ensure that price agreements meet state agency purchasing needs. Purchasing management stated that they interact frequently with staff to provide guidance and determine whether staff is cost-effectively managing their price agreements. They stated that contract management tends to occur at an oral level and is not always documented.

Contract management includes all procedures and decisions to cost-effectively manage price agreement contracts. Adequate planning and scheduling, timely access to pertinent purchasing data, sufficient management information, comprehensive purchasing policies and procedures, and communication and feedback from user agencies all contribute to cost-effective contract management. In addition to improving upon performing and documenting these contract management practices, the division should consider the following:

Contract Decisions. The division could improve its documentation to support price agreement contracting decisions. We reviewed a current price agreement contract for purchase of computers, and found little evidence of procedures the division performed in deciding to renew versus rebid the contract. As of May 1997, six revisions had been made to the contract during the three-year contract period; three revisions for contract changes and three revisions for contract renewals, two for 12 months and one for six months. The latest revision occurred in December 1996 when the contract was renewed and extended for six months without changing product specifications or pricing and without completing an analysis of the market place.

Contracting decisions to renew a price agreement should consider the market place and type of commodity. A market place review should be made to determine whether there are other sources for the product and whether a rebid of the price agreement contract would foster competition and result in a better price. The type of product also plays a role in contract decisions. Certain commodities such as fuses or tires, being relatively stable in both price and specification, lend themselves to price agreements extending up to the five-year maximum contract period. High technology items, such as computers, are considered volatile commodities where changes in both price and technology tend to occur on a frequent basis. A contract period shorter than the five year maximum may be more appropriate for volatile commodities.

Contract Revisions. When revising or renewing price agreement contracts, the division does not always verify the accuracy of product information. During our review of the computer price agreement, we noted the computers on

the price agreement were outdated and overpriced. We contacted a manufacturer's representative in March 1997 and learned that the three computers specified in the price agreement contract were not and had not been available for over a year. According to the division, a new employee did not verify the accuracy of the product information prior to renewing the price agreement contract. The employee relied on the vendor to comply with contract requirements and provide accurate product information. By not updating price agreement information, the on-line system did not reflect current product specifications and pricing. State agencies accessing the on-line system may be misinformed and may not make cost-effective purchasing decisions. Although the price agreement information on the on-line system was outdated, state agencies were able to purchase an up-to-date computer product at a lower price using this price agreement.

Contract revisions are made when a contract is renewed, specifications or prices change, or when items are added or deleted. Standard contract language requires vendors to promptly notify the division of price changes with justification for upward price changes. Vendors must also obtain prior approval from the division for changes in product specifications. The vendor is responsible for notifying the division and the division is responsible for revising price agreement information on the on-line system. Further, it is the purchasing staff's responsibility to be familiar with their assigned commodities and to ensure the accuracy of price agreement information. State agencies should be able to rely on the division's on-line system for current price agreement information.

Vendor Performance. Opportunities exist for the division to improve vendor performance on price agreement contracts. Currently, the division does not monitor vendor practices to ensure vendors comply with price agreement contracts, deliver conforming goods in a timely manner, and provide timely price and specification changes to the division. By performing some monitoring activities, the division could provide some level of assurance that vendors are complying with contract requirements on the approximately 600 price agreements that the division administers.

In addition, the division may not always actively involve other state agency staff in evaluating vendor performance prior to contract award, rebid, or renewal. The division reviews the current contract file, which usually contains only performance issues submitted to the division by other state agencies. The division may not always seek input from state agencies to determine if agencies are aware of any potential performance issues or if they resolved poor vendor performance issues on their own. By not seeking input from state agencies, the division may contract or continue to contract with a vendor who is not providing the best service available. Division staff stated that they rely on state agencies to inform the division of poor vendor performance issues.

RECOMMENDATIONS

The division should consider the following opportunities to improve statewide purchasing and its management of price agreement contracts:

1. Monitor state agency purchasing, including periodic reviews or audits of state agency procurement activities.
2. Provide state agencies training on contract administration.
3. Obtain, create, maintain, and evaluate management information on statewide purchasing activities.
4. Improve the division's documentation of its contract management practices.

5. Update and expand purchasing policy and procedures to provide more comprehensive guidance to purchasing staff in performing and documenting cost-effective contract management.
6. Exercise contract authority by monitoring and enforcing vendors' compliance with contract requirements. For widely used and high value products, consider soliciting state agency input on vendor performance prior to awarding these price agreement contracts.

OTHER MATTERS

Based on our review and interviews with purchasing staff at six state agencies, we identified opportunities for the division to improve its purchasing services to state agencies. **We recommend** that the division:

- Clearly define and communicate to other state agencies the division's role in statewide purchasing activities. Some agencies' expectations of division activities differ from that of the division.
- Publish the division's newsletter, "Exchange Link," more frequently. Although referred to as a quarterly newsletter, it has been published only about twice each year for the past few years. The newsletter informs state agencies of the division's recent purchasing activities and of some new price agreement contracts. Consider using E-mail to provide more frequent updates to agencies regarding new price agreements.
- Perform a customer survey targeted at state agency purchasing staff. Solicit information on how the division can improve its purchasing services and activities.
- Provide more frequent and detailed training to agency staff on contract administration and purchasing laws and regulations. Agency purchasing staff may need additional guidance in these areas due to the recent increase in delegated purchasing authority. State agency staff stated that they received little purchasing training and would like the opportunity for more.
- Consider making certain price agreements optional. Most state agencies felt price agreements were very beneficial in saving time and work effort. However, they want a more flexible purchasing process, which allows for timeliness and product volatility. Specifically, they want to purchase low-value items, such as rubber stamps, on a moment's notice, rather than buying on price agreement. They also do not want to be limited to price agreement products when purchasing specialty or highly volatile products, such as computers.

REPORT DISTRIBUTION

This report is a public record and is intended for the information of the Oregon Department of Administrative Service's management, the governor of the state of Oregon, the Oregon Legislative Assembly, and all other interested parties.

COMMENDATION

The courtesies and cooperation extended by officials and employees of the Oregon Department of Administrative Services during the course of the audit were very commendable and sincerely appreciated.

AUDIT TEAM

Joel Leming, CPA, Audit Administrator
Mary E. Wenger, CPA
Tomas Flores
Darcy Johnson

AGENCY’S RESPONSE TO THE AUDIT REPORT

September 2, 1997

John N. Lattimer, Director
Secretary of State Audits Division
255 Capitol Street NE, Suite 500
Salem, OR 97310

Dear Mr. Lattimer:

The Department of Administrative Services is pleased to respond to recommendations contained within the Statewide Purchasing and Price Agreement audit.

- (1) *Monitor state agency purchasing, including periodic reviews or audits of state agency procurement activities.*

As part of its Senate Bill 139 implementation strategy, the Transportation, Purchasing & Print Services Division (TPPS) will establish a limited-duration Contract Administration Compliance Coordinator position that will perform such monitoring.

- (2) *Provide state agencies with training on contract administration.*

TPPS Purchasing will not only establish a contract administration training curriculum, but will add three limited-duration trainer positions to its existing Outreach & Training unit to allow this new contract administration training emphasis to reach all contracting officials.

- (3) *Obtain, create, maintain and evaluate management information on statewide purchasing activities.*

TPPS Purchasing will obtain, create, maintain and evaluate management information, especially on price agreement usage and on high-value bids and contracts that it, by statute or by rule, is obliged to centrally manage.

- (4) *Improve TPPS Purchasing's documentation of its contract management practices.*

TPPS will regularly measure state and public agency use of, and satisfaction with, price agreements in place. TPPS Purchasing will direct all price agreement vendors to regularly submit usage data. Vendor failure to submit required data will be considered a contract breach.



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- (5) *Update and expand purchasing policy and procedures to provide more comprehensive guidance to purchasing staff in performing and documenting cost-effective contract management.*

A TPPS Purchasing employee has been assigned to update Purchasing rules, policies and procedures.

- (6) *Exercise contract authority by monitoring and enforcing vendors' compliance with contract requirements. For widely used and high value products, consider soliciting state agency input on vendor performance prior to awarding these price agreement contracts.*

TPPS Purchasing will implement this recommendation.

Sincerely,

A handwritten signature in black ink that reads "Jon Yunker" with a long horizontal flourish extending to the right.

Jon Yunker
Director

C: Cam Birnie
Rob Rickard